OFFICE OF INSPECTOR GENERAL

AUDIT OF THE INTER-AMERICAN FOUNDATION'S FINANCIAL STATEMENTS FOR FISCAL YEARS 2012 AND 2011

AUDIT REPORT NO. 0-IAF-13-003-C
November 15, 2012

WASHINGTON, DC

Office of Inspector General

NOV 15 2012

MEMORANDUM

TO: IAF President and CEO, Robert N. Kaplan

FROM: AIG/A, Timothy E. Cox

SUBJECT: Audit of the Inter-American Foundation's Financial Statements for Fiscal Years 2012 and 2011 (Audit Report No. 0-IAF-13-003-C)

With this memorandum, the Office of Inspector General (OIG) transmits the audit report prepared by the certified public accounting firm of Brown & Company, CPAs, PLLC, on the financial statements as of September 30, 2012 and 2011, of the Inter-American Foundation (IAF). OIG contracted with this independent auditor to audit the financial statements.

The independent auditor expressed an unqualified opinion on IAF's fiscal year 2012 audited financial statements and notes. The report states that the financial statements presented fairly, in all material respects, IAF's financial position, the net cost of operations, the changes in net position, and budgetary resources for the years ended September 30, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

The report contains no material weaknesses or significant deficiencies in IAF's internal control over financial reporting and no instances of noncompliance with selected provisions of applicable laws and regulations.

We reviewed the audit report and found it to be in accordance with auditing standards generally accepted in the United States; generally accepted government auditing standards issued by the Comptroller General of the United States; and the Office of Management and Budget Bulletin 07-04, Audit Requirements for the Federal Financial Statements, as amended.

In connection with our contract, we reviewed the independent auditor's related audit documentation. Our review was different from an audit; in accordance with the auditing standards discussed above, our review was not intended to enable us to express, and we do not express, an opinion on IAF's financial statements. Also, we did not express conclusions on the effectiveness of IAF's internal control or on IAF's compliance with other laws and regulations.

The independent auditor was responsible for the attached auditor's report dated November 1, 2012 and the conclusions therein. Our review disclosed no instances where the independent auditor did not comply, in all material respects, with the auditing standards discussed above.

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
http://oig.usaid.gov

The Office of Inspector General appreciates the cooperation and the courtesies extended to our staff and the staff of Brown & Company, CPAs, PLLC, during the audit. If you have questions concerning this report, please contact Rohit Chowbay at (202) 712-1317.

INTER-AMERICAN FOUNDATION

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Fiscal Years Ended September 30, 2012 And 2011

INTER-AMERICAN FOUNDATION
FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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Inter-American Foundation
An Independent Agency of the U.S. Government

PERFORMANCE AND ACCOUNTABILITY REPORT (PAR)

Message from the President

The Inter-American Foundation (IAF), an independent foreign assistance agency of the United States government, promotes and invests in citizen-led development in Latin America and the Caribbean to help communities thrive. Created in 1969, the IAF responds to innovative, participatory and sustainable self- help development projects proposed by grassroots groups and organizations that support them. The IAF encourages partnerships among community organizations, businesses and local governments directed at improving the quality of life for poor people and strengthening their capacity to engage as citizens in their communities. To contribute to a better understanding of the development process, the IAF shares its experiences and the lessons it learns with its grantee partners.

The IAF is governed by a nine-person board of directors appointed by the President of the United States and confirmed by the U.S. Senate. Six members are drawn from the private sector and three from the public sector. The board is assisted by an advisory council. A president, appointed by the board, serves as the Inter-American Foundation's chief executive officer, managing a staff of 47 employees based in Washington, D.C. The IAF is organized into five offices: Executive, including the president and general counsel; Program; Operations; External and Governmental Affairs; and Evaluation. An organization chart can be found on page 8.

Despite positive macroeconomic performance in some countries, poverty, glaring inequality and social exclusion persist and, together with chronic violence and insecurity, are at the root of the most serious challenges the United States faces in our relations with the countries of the region. In this context, and consistent with the Presidential Directive on Global Development, the IAF contributes to U.S. foreign policy objectives by providing its specialized expertise, experience and programmatic focus on citizen-led community development so that poor and marginalized groups have an opportunity to participate in local economic growth and engage in civic life. The IAF coordinates with and complements other U.S. government agencies and mobilizes local and international private contributions, including from local partners and community beneficiaries of the IAF's assistance.

The IAF is effective for the following reasons:

- It is responsive to the challenges, priorities and solutions emerging directly from organized poor communities, who demonstrate their ownership and responsibility towards improving their circumstances.
- It is results-oriented, investing modest grants to support projects that yield high returns and help communities manage risk, and strengthening the capacity of local groups to continue working after the IAF's support ends.

- It insists that communities show leadership and that they commit their own resources to ensure that projects are effective and sustainable. On average, they provide about $130,000 for every $100,000 contributed by the IAF.
- It is efficient and operates with minimal bureaucracy.
- It has the flexibility to adjust quickly to changing conditions and continue engagement at the community level even when bilateral relations are strained.

In 2012 the IAF invested in 58 new grants and 68 supplemental grants to organizations in 18 countries. Many of these grants directly benefit African descendants, indigenous communities, persons with disabilities and disadvantaged women and youth, providing opportunities for these historically excluded groups to participate more fully in economic and civic life. Application of the Grassroots Development Framework (GDF), the IAF's analytical tool for ensuring that investments contribute meaningfully to real community development results, allows the agency to choose higher-impact projects and assess how its investments yield long-term development benefits that extend far beyond the grantees' immediate objectives.

Effective community development requires citizens themselves to play a protagonist role. All IAF grantees are required to contribute to their projects in cash or in kind, as the IAF's experience shows that community groups are more likely to succeed if they have a stake in the outcome. The IAF also expects grantees to mobilize additional resources and collaborate with their local and central governments, local businesses and other organizations so that progress continues after IAF funding ceases. As a result of these efforts, counterpart resources committed in 2012 totaled $23.3 million, more than matching the IAF's investment of $16.3 million.

As a small agency with relatively limited resources, the IAF can only achieve impact at scale by working in partnership with and inspiring others who can invest in helping poor communities thrive. One example, created by the IAF ten years ago, is the RedEAmérica network of corporate foundations in the region. Today, that network has grown to 70 dues-paying members supported by over 350 corporations in 11 countries. When the IAF invests in citizen-led development efforts with RedEAmérica members, they commit to providing more than double the IAF's contribution. More important is the fact that RedEAmérica members or their parent corporations continue to invest in grassroots development on their own, applying tools created with the IAF to select projects and track results. In 2012, the IAF and RedEAmérica renewed their mutual commitment to expand and strengthen RedEAmérica over the next five years. The time is ripe for the IAF to approach other private partners as well to increase the leverage of its appropriation and draw more resources into effective citizen-led community development investments.

The Presidential Directive on Global Development calls for coordination among U.S. agencies. The IAF has taken concrete steps in the last two years to do so and will continue to deepen and broaden efforts in FY13 and beyond. The IAF's specialized expertise and assistance complements the efforts of other agencies and increases the return on the total U.S. investment, ensuring that more poor and marginalized communities will benefit. The IAF collaborates with the U.S. Department of State and others to advance important foreign-policy priorities through the Partnership for Growth (PfG), and broader regional initiatives and projects such as the Inter-American Social Protection Network (IASPN), the Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equity (JAPER) and the Americas Partnership on Social Inclusion and Equality (APSIE).

ANNUAL PERFORMANCE REPORT (APR)

Accomplishments of the Annual Performance Measures for FY 2012

In FY 2012 the Inter-American Foundation received an appropriation of $22,500,000 for program and program support activities, which was supplemented by $7,500,000 for development grants from the Social Progress Trust Fund, by $183,897 in carry-over funds and by $1,054 in donations from external sources. The total budget authorized for FY 2012 was $30,184,951.

Goal One. Fund effective development projects that improve the quality of life as evidenced by measurable indicators.
Performance Measure: Grants funded in the fiscal year that target a better quality of life for beneficiaries as evidenced by measurable indicators.

FY-09 Results	FY-10 Results	FY-11 Results	FY-12 Target	FY-12 Results	FY-12 Rating	FY-13 Target	FY-14 Target
118	121	94	103	126	Over target	75	75

Data Source: IAF official budget records, annual reports and submissions to OMB and Congress.

The IAF responded to the best of the approximately 600 proposals it received in FY 2012 by awarding 58 new grants to grassroots and nongovernmental organizations. The IAF also provided additional funding to 68 organizations funded in prior years that show promise in exceeding their objectives.

New grantees include organizations that are conducting conservation and community tourism programs in protected areas. Several organizations are helping communities mitigate the effects of climate change through prevention activities and more diversified agricultural production. Some are fostering pride in cultural heritage through revitalizing traditional crafts. Others are helping women and young adults participate in community development planning and improve their microenterprises as a source of income. Communities will have access to subgrant funds supporting their enterprises and other development initiatives. Many grantee partners are focusing on market access.

Goal One. Fund effective development projects that improve the quality of life as evidenced by measurable indicators.
Performance Measure: Percentage of grantees whose funding ends in the prior fiscal year that met or exceeded outcome goals specified for each project.

FY-09 Results	FY-10 Results	FY-11 Results	FY-12 Target	FY-12 Results	FY-11 Rating	FY-13 Target	FY-14 Target
73%	86%	86%	80%	75%	Under target	80%	80%

Data Source: IAF official budget records, annual reports and submissions to OMB and Congress.

Of the 72 grantee partners whose funding ended in fiscal 2011, 75 percent (54 grantee partners) reported meeting or exceeding the goals specified for each project. Those who fell short of their goals cited staff changes, conflict in the communities served, or their partners' lack of cooperation as reasons.

Goal Two: Stimulate and encourage broader participation in the development process and broader engagement in democratic practices.
Performance Measure: Grants awarded to groups and organizations of the marginalized and disenfranchised, including African descendants, indigenous peoples, persons with disabilities, women and young people.

FY-09 Results	FY-10 Results	FY-11 Results	FY-12 Target	FY-12 Results	FY-11 Rating	FY-13 Target	FY-14 Target
81	79	70	72	71	On target	53	53

Data Source: IAF official budget records, annual reports and submissions to OMB and Congress.

Seventy-one grants and supplemental awards were made to groups and organizations of the marginalized and disenfranchised, including African descendants, indigenous peoples, people with disabilities, women and young people for a total value of $10,528,356.

- Twelve new and supplemental grants, valued at $1,904,169 were awarded to organizations serving African descendants in Brazil, Colombia, Ecuador, Peru, Belize, the Dominican Republic, and Haiti.
- The IAF's long history of support for indigenous peoples continues with new and supplemental awards, valued at $4,623,225 that are reaching 33 organizations in Bolivia, Brazil, Peru, Mexico, Ecuador, El Salvador, Nicaragua, and Honduras. A grant to the Universidad de la Cordillera in Bolivia will work in various countries with the Network of Observatories Against Racism in Latin America to develop the members' skills to document racism and work to eliminate it.
- The IAF funded 14 new and supplemental awards to organizations working with young people on job training skills, environmental planning, local development, and sports and cultural activities for a total of $2,024,570.
- The IAF awarded 10 new and supplemental grants totaling $1,569,242 to organizations focused on supporting women as they increase their productivity, expand small businesses, defend themselves from gender violence, and work to protect the environment.
- The IAF has a long-term commitment to support organizations that work with persons with disabilities (PWD). This year it awarded one new grant and one supplemental grant to organizations supporting the inclusion of PWDs.

Goal Three: Draw more resources into grassroots development. Performance Measure: Total committed dollar amount of in-kind and cash counterpart mobilized by grantees.							
FY-09 Results	FY-10 Results	FY-11 Results	FY-12 Target	FY-12 Results	FY-12 Rating	FY-13 Target	FY-14 Target
$21.6m	$19.2m	$20.3	$21.5	$22m	Above target	$13.1m	$13.1m
Data Source: IAF official budget records, annual reports and submissions to OMB and Congress.							

IAF grantees will mobilize resources valued **at more than $22 million** for grants awarded in 2012. For every dollar of an IAF award, grantees are contributing $1.38. These amounts are verified by data verifiers and auditors during the grant period. Over its 40 years, the IAF's investment of $700 million in grant funds has generated counterpart resources worth $1 billion.

Goal Four: Further the understanding and effectiveness of grassroots development by disseminating the IAF's experiences and approach and funding research. Performance Measure: Funded fellowships supporting doctoral research on related topics that adds to the body of knowledge related to grassroots development.							
FY-09 Results	FY-10 Results	FY-11 Results	FY-12 Target	FY-12 Results	FY-11 Rating	FY-13 Target	FY-14 Target
15	15	15	15	16	Above target	15	15
Data Source: IAF official budget records, annual reports and submissions to OMB and Congress.							

The IAF awarded 16 Grassroots Development Fellowships in 2012 for field research conducted by Ph.D. students who have advanced to candidacy in U.S. universities. The Fellows were selected on the strength of their academic record, their proposals and their potential contribution to grassroots development.

A unique feature of the IAF program is the mid-year meeting that gives Fellows an opportunity to share the results of their work with each other, with the IAF and with the Academic Review Panel that selected them. The meeting of the 2010-2011 cycle resulted in the decision of nine Fellows to present their work in **two back-to-back panels titled "Re-Assessing the Role of the Grassroots at the Bicentennial," which were scheduled at the Congress of the Latin American Studies Association (LASA)** held in May 2012. The IAF assisted with filing the application under its sponsorship and with coordination, but the panels were otherwise organized by the Fellows. Kevin Healy, IAF representative for Bolivia and an internationally recognized scholar in his own right, served chair for both sessions; two members of the IAF's Academic Review Committee joined the panels as discussants.

In 2012, the IAF invited Fellows to submit manuscripts to **its second juried competition**. The anonymous peer review by members of the Academic Review Committee resulted in the selection of two articles for publication in the 2012 journal.

Goal Five: Build upon and enhance current efficiency measures. Performance Measure: Reduction in the portion of IAF's budget spent on program support.							
FY-09 Results	FY-10 Results	FY-11 Results	FY-12 Target	FY-12 Results	FY-11 Rating	FY-13 Target	FY-14 Target
26.6%	27.9%	30.5%	30%	29.6%	Met target	30%	30%
Data Source: IAF official budget records, annual reports and submissions to OMB and Congress.							

Taking into account total program costs, including grantee counterpart resources, drops this portion to 17 percent in FY 2012. Applying guidelines of the American Institute of Certified Public Accountants (AICPA) Guide for Not-for-Profit Organizations to calculate the IAF's overhead expenditure yields a figure of about 13 percent, which is highly competitive with private foundations and other not-for-profit organizations.

It is important to note that the IAF operated below its already-lean structure of 47 staff positions during 2012. While delays in filling vacancies resulted in a small savings, they also left the IAF understaffed. This deficiency was compounded by the departure of two senior employees whose many years of experience at the IAF and elsewhere in the US government had allowed them to assume multiple functions. Achieving full staffing in FY 2013 is essential to achieving program goals.

Most administrative and technical functions continued to be outsourced in 2012 through longstanding inter-agency agreements with the Bureau of the Public Debt (BPD) of the U.S. Department of the Treasury and the National Business Center (NBC) of the Department of the Interior. Outsourcing has streamlined operations, lowered overhead and brought a depth of expertise to these functions that the IAF could not otherwise afford. BPD continued to provide services related to procurement, accounting, the budget, travel and information technology (IT); NBC continued to provide payroll and human resource services that included timekeeping, processing and reporting personnel actions, and to manage online applications such as the Federal Personnel and Payroll System (FPPS) and Employee Express. Since FY 2009, the IAF has participated with NBC in E-Gov initiatives to improve personnel operations, and since FY 2010, employees have accessed their files through the eOPF project that converted all records in (OPF) to electronic format.

Thanks to BPD and IPP's excellent technical support during the pilot period in 2011, the Internet Payment Platform (IPP) proved very efficient. Under its agreement with IAF, BPD's IT support included security, network administration and help-desk services. The data center at the IAF's offices has six servers that are maintained remotely through a VPN connection by IT specialists at BPD's facility in West Virginia.

The IAF continued to use the Central Contractor Registration, the sole repository for pertinent data for all USG suppliers. Integration allows BPD and the IAF to more efficiently maintain current data related to suppliers. The IAF is supporting the Financial Management Line of Business (FMLOB) Initiative by using BPD's Oracle Federal Financials System and related accounting and procurement services and BPD has been reporting FMLOB metrics for IAF for the past three years. The Oracle platform provides real-time, user-friendly financial reports. Since FY 2005, the IAF has been using Gov-Trip, the government-wide E-Gov Travel system integrating online booking with the automated authorization and vouchering process allowing travelers to attach receipts electronically.

A modest portion of program support funds is invested in staff development, including through online training, workshops and seminars, and BPD and NBC's on-site classes. IAF subscribes to the Small Agency Council's training program offering, for a $2,000 annual fee, between 25 and 30 courses each year through the Graduate School of the U.S. Department of Agriculture.

Volunteer internships offer work experience to qualified undergraduate and graduate students from across the country, who assist employees in IAF's various offices. The IAF approved six internships in FY 2012.

In FY 2009, the IAF transitioned to General Services Administration's Federal Technology Service (GSA/FTS) Networx and WITS3 new government-wide telecommunications contracts. This resulted in a savings of 35 percent in expenditures for domestic and international telephone services in 2012.

In April 2012, the IAF relocated its office from Arlington, Virginia, to Washington, D.C. Per IAF's cost-benefit analysis, the reduction in rental space from 18,000 square feet to 14,332 square feet will result in a net savings of $1 million over ten years. The IAF also upgraded its infrastructure in its new facility by procuring a new Voice Over Internet Protocol phone system (VOIP), which is expected to improve international communications, and new audiovisual equipment, which should allow for the use of a single space for multiple meetings.

The IAF continues to receive unqualified audits of its financial statements, internal controls over financial reporting, and its compliance with relevant federal laws and regulations. I am pleased to introduce the IAF's FY 2012 financial statements, which reflect the IAF's mission and core principles, including prudent stewardship of resources and transparency of our operations.

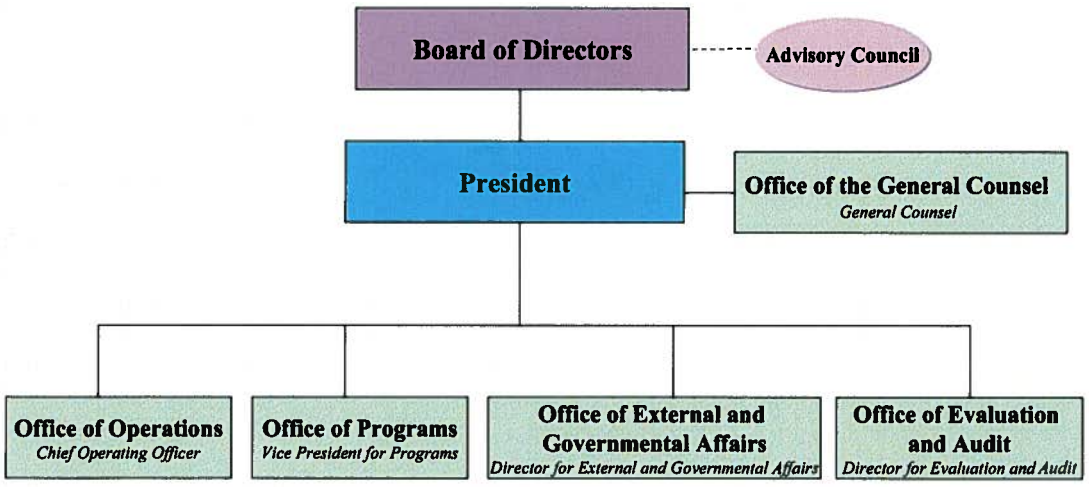
The financial statements and performance results data are complete, reliable and in accordance with the Office of Management and Budget (OMB) requirements and in conformity with generally accepted accounting principles. The IAF has appropriate management controls in place to ensure that all internal controls are operating in accordance with applicable policies and procedures and are effective in meeting the requirements imposed by Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA).

Signed:

/s/
Robert N. Kaplan
President and CEO

Inter-American Foundation

as of January 1, 2012



MANAGEMENT DISCUSSION AND ANALYSIS

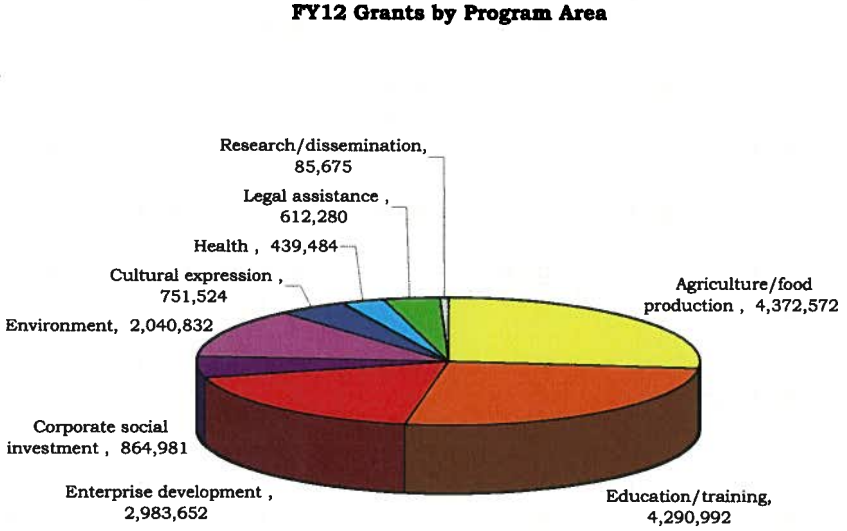
The Inter-American Foundation (IAF) is a resourceful, agile, cost-effective agency efficient in its operations, innovative and effective in its grassroots development programs. The IAF learns from its experience, and uses the lessons learned to improve its own grant making decisions and to advance the knowledge and success of development practitioners, donors, and policy makers.

Mission and Organizational Requirements

The Inter-American Foundation funds self-help and participatory development efforts in ways that support democracy and strengthen the bonds of friendship and understanding in the Western Hemisphere. The IAF supports initiatives proposed by the organized poor in Latin America and the Caribbean to improve their quality of life. IAF staff, representing the American government and people, maintain a supportive relationship with the grantees and their beneficiaries during the course of projects and, frequently, beyond. The IAF's experiences are documented and shared with a broad and diverse audience.

The IAF vision is a Latin America and the Caribbean region of thriving communities where people direct their own lives as individuals and citizens. The IAF will continue to respond to the best ideas from the region, empowering people by strengthening a vast infrastructure of community groups and nongovernmental organizations that has become a highly effective and transparent channel for productive foreign assistance. Because a broader resource base is crucial to an expanded IAF program, the IAF will seek additional resources from various sources. The IAF will build on its well-documented record of drawing local government, businesses, corporate foundations and transnational communities into grassroots development. Through disseminating the lessons of its investment to other donors, to policymakers and to American taxpayers, the IAF can continue to lead the development community toward a better understanding of the importance and effectiveness of citizen-led community development in which the organized poor play a leading role.

The FY 2012 funding actions are divided among primary program areas as follows:



FY12 GRANTS FUNDED BY PRIMARY PROGRAM AREA		
Program Area	IAF $	Funding Actions
Agriculture/food production	4,372,572	46
Education/training	4,290,992	32
Enterprise development	2,983,652	21
Corporate social investment	864,981	5
Environment	2,040,832	10
Cultural expression	751,524	4
Health	439,484	3
Legal assistance	612,280	4
Research/dissemination	85,675	1
* Total	16,441,992	126

FY 2013 PERFORMANCE MEASURES

Mission: *Promoting and investing in grassroots development to help communities thrive.*

Vision: *Thriving communities throughout Latin America and the Caribbean, where people direct their own lives as individuals and citizens.*

Strategic Goal One: *Support the coordinated efforts of the poor to improve their material circumstances, strengthen their organizations, and enhance the social and economic environment for community-led development.*

Problem/need/challenge addressed: Thriving communities depend on their citizens' capacity to engage each other in public and private association and to shape and respond to economic and social opportunities. IAF promotes grassroots development through initiatives conceived, led and implemented by community-based organizations of the poor and closely-linked support organizations, often nongovernmental organizations (NGOs). Communities that have the capacity to take the lead in thinking and working through their own development challenges form the democratic foundation that is the region's best hope for lasting peace, security, and economic progress.

By supporting these efforts of the organized poor, the IAF materially advances U.S. strategic interests in the region. By being careful to base our investments on evidence about what works in grassroots projects, we are adding to an empirically grounded body of knowledge about how to address these challenges more effectively.

Contributing IAF programs: Grants for projects, support for exchanges and interaction among partner communities and organizations, and investment in producing new knowledge about what works in community-led development — all closely linked to a sophisticated monitoring and evaluation system that measures results and helps partners adapt strategically to changing circumstances.

Contributing external U.S. government programs: The IAF consults with the respective U.S. Embassy as part of the approval process for new grants each year. The IAF is also participating in and developing inter-agency initiatives involving the Department of State, USAID, the Department of Housing and Urban Development, and the Environmental Protection Agency.

Lead persons/positions: The Vice President for Programs and the Director of Evaluation lead a Washington-based team and a network of skilled in-country consultants (enabling the IAF to perform its grant making and evaluation functions in the most cost-effective manner).

Strategy and key measures: The IAF identifies and supports the best ideas for improving standards of living and enhancing civic participation in democratic processes and institutions. Significantly, these ideas come from the communities themselves, and local civil society organizations supporting these communities. We also seek promising new ways to generate knowledge and transformative results for our partner organizations and their communities. We continually sharpen our funding criteria to implement this strategy and align our evaluation system with our evolving needs.

IAF helps improve the material conditions and associative capacity of communities by supporting projects in a diverse array of thematic areas: income generation; small business development; community-based natural resource management; water supply and sanitation; sustainable agricultural development; improved access to domestic and foreign markets; enhanced public security and

community resilience in contexts of chronic violence; improved housing and nutrition; cultural expression and identity; collaborative linkages between rural and urban communities; and others.

Before funding begins, all IAF-supported organizations identify specific indicators that are measured periodically — usually, twice a year — to provide empirical evidence of results generated. In addition, the IAF offers its partners support for mid-course learning activities, to enable partners to reflect on the progress of their initiatives and identify and respond to challenges and opportunities not evident before the projects began. The IAF conducts ex-post evaluations of a subset of its projects, revisiting the participating communities five years after project completion, to assess evidence of long-term impacts.

Finally, IAF is engaging with funding partners — public and private and in the United States and abroad — to channel greater and more sustainable flows of financial support to strong projects throughout the region.

> **Performance Measure 1.1:** Funding actions in the fiscal year that enhance communities' capacities to design and execute development projects and materially improve the quality of life of beneficiaries, as evidenced by measurable indicators.
>
> **Performance Measure 1.2:** Percentage of projects ending in FY 2012 that met or exceeded outcome goals specified for each project.
>
> **Performance Measure 1.3:** Specific accomplishments reported by grantee partners active in FY 2012, evidenced by measurable indicators, that improved the quality of beneficiaries' lives, changed the social and economic contexts in which they act, or enhanced their communities' capacity to take the lead in their own development.

Strategic Goal Two: *Promote the social inclusion and civic participation of traditionally marginalized groups.*

Problem/need/challenge addressed: Members of traditionally marginalized groups — including women, African descendents, indigenous peoples and people with disabilities — are disproportionately represented among the poor in Latin America and the Caribbean. They, as well as people with LGBT identity, are also are most likely to be excluded from the civic life of their communities.
Contributing IAF programs: Grants for projects, support for exchanges and interaction among partner communities and organizations, and investment in producing new knowledge about what works best in promoting greater and more effective participation of traditionally marginalized groups.
Contributing external U.S. government programs: The IAF consults with the respective U.S. Embassy as part of the approval process for new grants each year. The IAF will undertake an initiative involving the Department of State (Americas Partnership on Social Inclusion and Equality), to promote social inclusion in six countries. This will result in an inter-agency transfer of $400,000 to the IAF.
Lead persons/positions: The Vice President for Programs and the Director of Evaluation lead a Washington-based team and a network of skilled in-country consultants, enabling the IAF to perform its grant- making and evaluation functions in the most cost-effective manner.
Strategy and key measures: The IAF makes a deliberate effort to identify and work with communities of traditionally marginalized groups and with the associations and networks that represent their interests. Special outreach helps bring new ideas from these groups into our program pipeline. The IAF also

supports conferences, exchanges, collaborative analytical efforts and other measures to help these communities network and learn from each other.

> **Performance Measure 2.1:** Funding actions in the fiscal year that enhance the opportunities for traditionally marginalized groups to become effective actors in the design and execution of projects that improve their quality of life and their participation in the development process.
>
> **Performance Measure 2.2:** Events, exchanges and other knowledge-generation efforts to enhance the participation of traditionally marginalized groups in the development process and contribute to what is known about how these groups can most effectively take action to improve their quality of life.
>
> **Performance Measure 2.3:** Specific accomplishments, reported by project partners active in FY 2012, evidenced by measurable indicators, that improved the quality of life of traditionally marginalized groups and their opportunities to participate in the development process.

Strategic Goal Three: *Make knowledge-generation and knowledge- management an integral part of our work, informing new approaches for smarter investments by IAF and others.*

Problem/need/challenge addressed: The economic, social, political and technological contexts in which our community-based partners live and work are changing at unprecedented speed. Consequently, the need for careful, continuous attention to the generation, distribution and application of new knowledge about community-led development is more important now than ever before.

The IAF was created in 1969 to be agile and innovative, helping to identify, test, and reflect upon changing opportunities for community-led development. As part of every funding action, we will define *what* we hope to learn, *why* those lessons are important, and *what evidence* we will capture and use to produce new knowledge about the development process. In this more rigorously empirical approach to our grantmaking, every funding action will explore a hypothesis about what works, what doesn't work, and why.

Contributing IAF programs: Grants for projects, IAF fellowships for field work by Ph.D. candidates at U.S. universities, support for exchanges and interaction among partner communities and organizations, and investment in producing, sharing and using new knowledge about what works in citizen-led development.

Contributing external U.S. government programs: The IAF consults with the respective U.S. Embassy as part of the approval process for new grants each year. The IAF is also participating in and developing inter-agency initiatives involving the Department of State, USAID, the Department of Housing and Urban Development, and the Environmental Protection Agency.

Lead persons/positions: The President takes a direct role in setting the knowledge agenda. The Vice President for Programs and the Director of Evaluation lead a Washington-based team and a network of skilled in-country consultants to identify and take action on knowledge generation opportunities. The Director of External and Government Affairs leads a team that manages the IAF's Ph.D. fellowship program and interacts with other knowledge partners.

Strategy and key measures: The IAF's core strategy for knowledge generation is to ensure that each funding action has a knowledge generation strategy and component embedded in its design, to support real-time reflection during project implementation on what works and why. Additional support for what

we are calling learning enhancement measures enables partners to reflect at mid-course about emerging dynamics and lessons not identified at the time of project design.

Our distinctive Grassroots Development Framework uses a well-established system of concrete indicators and frequent visits by contracted data verifiers to collect evidence throughout each project on progress toward results. This effort, managed by the IAF's Office of Evaluation, is supplemented by Project Histories compiled after funding ceases and by an ambitious program of ex-post evaluations of projects five or more years after completion to assess the long-term impact of our investment.

A complementary strategy relies on the extraordinary capacity of our partners to teach and learn from each other — the best teacher for a farmer is a similarly situated farmer who has been successful. The IAF invests considerable resources in meetings, exchanges, workshops, and other events that enable our partners to share what they are learning about citizen-led development. This is a particularly cost-effective method for rapidly spreading the word about new knowledge on Next/Best Practices. By supporting these efforts *to help good ideas go viral*, the IAF multiplies its development impact far beyond our limited capacity to intervene directly.

Another complementary strategy is the exploration of new uses of media to identify and distribute new knowledge. The IAF's new website (www.iaf.gov) is designed to promote the electronic distribution, among our partners and far beyond, of new knowledge about what works best. Moreover, the IAF has initiated new partnerships with: a) a network of more than 3,000 ethnic media outlets in the U.S. and abroad that is dedicated to bringing the voices of the marginalized — ethnic minorities, immigrants, young people, the elderly — into the national discourse and developing similar capacities on other countries; and b) another media partner committed to enabling participating communities to use *radionovelas* and other public-interest radio programming more effectively. The IAF is also putting low-cost video equipment in the hands of grantee partners, to enable them to document visually what they are accomplishing, and offering continued support for current and new partners in Latin America attempting to apply other new media tools in service of community-led development.

The IAF's Grassroots Development Fellowships support cutting-edge field research by Ph.D. candidates in U.S. universities, contributing to the cadre of specialists in development and increasing exposure to grassroots development as they become professionals and assume leadership roles throughout the region.

Finally, the IAF is engaged in an ongoing series of discussions with other thought leaders in the areas of community-led development and the related field of asset-based community development (ABCD). In FY2013, we will continue a series of focused interactions with the Kettering Foundation, the Coady International Institute, and the ABCD Institute at Northwestern University. This working collaboration focuses on rethinking the logic of how communities thrive. In FY2013, we will engage corresponding Latin American thought-partners in this effort.

> **Performance Measure 3.1:** Funding actions, events, conferences, exchanges, and other efforts that directly enhance the opportunities for generating and disseminating new knowledge about development and for promoting interactive learning among IAF partners in the region and other development actors and thought leaders.
>
> **Performance Measure 3.2:** Publications and other media products, including ex-post assessments of IAF grants, that effectively distribute to strategically targeted audiences new knowledge about citizen-led development.

Performance Measure 3.3: Funded research and knowledge- generation activities, including fellowships in support of doctoral research that adds to the body of knowledge related to citizen-led development.

Performance Measure 3.4: Institutional knowledge-management assessment completed and plan for upgrading approved and ready for implementation in FY 2014.

Strategic Goal Four: *Increase awareness, understanding and support for the IAF and its programs among key audiences in order to draw more resources into grassroots development.*

Problem/need/challenge addressed: A broader resource base is crucial to the IAF's vision of increased support for grassroots development. In order to attract additional resources in support of its mission and program, the IAF must increase the degree to which its work is recognized, understood and adequately resourced.
Contributing IAF programs: Grants for projects, IAF fellowships for field work by Ph.D. students at U.S. universities, evaluation and research initiatives, media initiatives, publications and diverse external engagement with partners, donors and other key constituencies.
Contributing external U.S. government programs: The IAF is participating in and developing inter-agency initiatives involving the Department of State, USAID, the Department of Housing and Urban Development, and the Environmental Protection Agency. Expanded partnership efforts will be ongoing throughout the planning period.
Lead persons/positions: The Director of External and Government Affairs provides overall strategic guidance and leadership for this goal, coordinating the involvement of the IAF President, the Vice President of Programs, the Director of Evaluation, and their respective teams.
Strategy and key measures: The IAF will take advantage of opportunities to increase its visibility and strengthen its position as an effective and experienced leader in grassroots development. It will pursue partnerships with key private foundations, private-sector firms and other U.S. government agencies interested in grassroots development. The IAF will offer its capabilities, expertise and operational efficiencies to allow partners to invest resources efficiently and effectively through the IAF, rather than bearing the cost of operational inefficiencies associated with unilateral investment. This increased awareness of the IAF, its demonstrated results and its value proposition should increase the number of partners and volume of resources available. The IAF will also continue to expand opportunities in the Latin American business sector through RedEAmérica, the IAF-initiated network of corporate foundations that currently represents more than 360 Latin American companies committed to investing in grassroots development. Lastly, the IAF will continue to require grantee partners to contribute counterpart funding toward their projects and encourage them to obtain additional support for their efforts from local government, businesses and philanthropic institutions.

Performance Measure 4.1: Metrics on visits to the IAF website and utilization of associated online information and resources.

Performance Measure 4.2: External speaking engagements or participation of IAF staff in public forums.

Performance Measure 4.3: Media coverage, press releases and grantee project recognition.

Performance Measure 4.4: Total committed dollar amount of in-kind and cash resources contributed or mobilized by grantees.

Performance Measure 4.5: Funds secured as a result of private-sector, inter-governmental or individual donation, investment or other sponsorship of IAF activities.

Strategic Goal Five: *Modernize and strengthen our operations.*

Problem/need/challenge addressed: Feedback from the Grantee Perception Report conducted at the end of 2011 suggests there may be opportunities to streamline our process for approving and monitoring grants and to reduce the administrative burden on our grantees while maintaining prudent controls and appropriate accountability. The IAF operates a grants-management system that has served the agency for many years but does not offer many of the integrative and analytic features available on the market today. Other IT capabilities also require significant upgrading to make the IAF more cost-effective. Meanwhile, as a small agency, we must continually adjust to retirements and transitions of staff and loss of institutional knowledge.
Contributing IAF programs: Inter-agency agreements, formal training and cross-training of staff, IT development.
Contributing external U.S. government programs: Bureau of Public Debt (BPD), Department of Treasury (accounting, procurement and travel services); National Business Center (NBC), Department of the Interior (personnel services); General Services Administration.
Lead persons/positions: The Chief Operating Officer provides overall leadership and operational support, in close collaboration with the President and the Vice President for Programs.
Strategy and key measures: The IAF will conduct a thorough review of its grant approval, monitoring and evaluation process to identify opportunities to improve effectiveness and reduce the administrative burden on our grantee partners, while maintaining prudent controls and appropriate accountability. The IAF will also assess its legacy grants- management system in order to determine the best course of action to increase functionality and user-friendliness, enhancing its ability to generate more useful analytical reports that can support evidence-based decision-making and operational transparency. We will continue outsourcing to specialized government agencies many support services, including procurement, accounting, travel, human resources, payroll, and equal employment opportunity. We will review these contracts in detail for more efficient and effective ways of conducting operations to assure the best value to the agency. The IAF will procure information technology infrastructure services that will no longer be provided by BPD in FY 2013. Finally, we will revise our system of performance evaluations and augment our teamwork and backstopping arrangements.

Performance Measure 5.1: Metrics associated with elapsed time from receipt of proposal to definitive decision on funding.

Performance Measure 5.2: Design completed for a re-engineered system for approving, monitoring and evaluating grants approval supported by a versatile grants-management system, ready for operation in FY 2014.

Performance Measure 5.3: New performance evaluation system designed and ready to implement in FY 014.

Performance Measure 5.4: Back-up and cross-support arrangements defined and implemented.

FY 2014 PERFORMANCE MEASURES

Mission: *Promoting and investing in grassroots development to help communities thrive.*

Vision: *Thriving communities throughout Latin America and the Caribbean, where people direct their own lives as individuals and citizens.*

Strategic Goal One: *Support the coordinated efforts of the poor to improve their material circumstances, strengthen their organizations, and enhance the social and economic environment for community-led development.*

Problem/need/challenge addressed: Thriving communities depend on their citizens' capacity to engage each other in public and private association and to shape and respond to economic and social opportunities. IAF promotes grassroots development through initiatives conceived, led and implemented by community-based organizations of the poor and closely-linked support organizations, often nongovernmental organizations (NGOs). Communities that have the capacity to take the lead in thinking and working through their own development challenges form the democratic foundation that is the region's best hope for lasting peace, security, and economic progress.

By supporting these efforts of the organized poor, the IAF materially advances U.S. strategic interests in the region. By being careful to base our investments on evidence about what works in grassroots projects, we are adding to an empirically grounded body of knowledge about how to address these challenges more effectively.

Contributing IAF programs: Grants for projects, support for exchanges and interaction among partner communities and organizations, and investment in producing new knowledge about what works in community-led development — all closely linked to a sophisticated monitoring and evaluation system that measures results and helps partners adapt strategically to changing circumstances.

Contributing external U.S. government programs: The IAF consults with the respective U.S. Embassy as part of the approval process for new grants each year. The IAF is also participating in and developing inter-agency initiatives involving the Department of State, USAID, the Department of Housing and Urban Development, and the Environmental Protection Agency.

Lead persons/positions: The Vice President for Programs and the Director of Evaluation lead a Washington-based team and a network of skilled in-country consultants (enabling the IAF to perform its grant making and evaluation functions in the most cost-effective manner).

Strategy and key measures: The IAF identifies and supports the best ideas for improving standards of living and enhancing civic participation in democratic processes and institutions. Significantly, these ideas come from the communities themselves, and local civil society organizations supporting these communities. We also seek promising new ways to generate knowledge and transformative results for our partner organizations and their communities. We continually sharpen our funding criteria to implement this strategy and align our evaluation system with our evolving needs.

IAF helps improve the material conditions and associative capacity of communities by supporting projects in a diverse array of thematic areas: income generation; small business development; community-based natural resource management; water supply and sanitation; sustainable agricultural development; improved access to domestic and foreign markets; enhanced public security and community resilience in contexts of chronic violence; improved housing and nutrition; cultural expression and identity; collaborative linkages between rural and urban communities; and others.

Before funding begins, all IAF-supported organizations identify specific indicators that are measured periodically —usually twice a year — to provide empirical evidence of results generated. In addition, the IAF offers its partners support for mid-course learning activities to enable partners to reflect on the progress of their initiatives and identify and respond to challenges and opportunities not evident before the projects began. The IAF conducts ex-post evaluations of a subset of its projects, revisiting the participating communities five years after project completion, to assess evidence of long-term impacts.

Finally, IAF is engaging with funding partners — public and private and in the United States and abroad — to channel greater and more sustainable flows of financial support to strong projects throughout the region.

> **Performance Measure 1.1:** Funding actions in the fiscal year that enhance communities' capacities to design and execute development projects and materially improve the quality of life of beneficiaries, as evidenced by measurable indicators.
>
> **Performance Measure 1.2:** Percentage of projects ending in FY 2013 that met or exceeded outcome goals specified for each project.
>
> **Performance Measure 1.3:** Specific accomplishments reported by project partners active in FY 2013, evidenced by measurable indicators, that improved the quality of beneficiaries' lives, changed the social and economic contexts in which they act, or enhanced their communities' capacity to take the lead in their own development.

Strategic Goal Two: *Promote the social inclusion and civic participation of traditionally marginalized groups.*

Problem/need/challenge addressed: Members of traditionally marginalized groups — including women, African descendents, indigenous peoples and people with disabilities — are disproportionately represented among the poor in Latin America and the Caribbean. They, as well as people with LGBT identity, are also are most likely to be excluded from the civic life of their communities.
Contributing IAF programs: Grants for projects, support for exchanges and interaction among partner communities and organizations, and investment in producing new knowledge about what works best in promoting greater and more effective participation of traditionally marginalized groups.
Contributing external U.S. government programs: The IAF consults with the respective U.S. Embassy as part of the approval process for new grants each year. The IAF will undertake an initiative involving the Department of State (Americas Partnership on Social Inclusion and Equality), to promote social inclusion in six countries. This will result in an inter-agency transfer of $400,000 to the IAF.
Lead persons/positions: The Vice President for Programs and the Director of Evaluation lead a Washington-based team and a network of skilled in-country consultants, enabling the IAF to perform its grant- making and evaluation functions in the most cost-effective manner.
Strategy and key measures: The IAF makes a deliberate effort to identify and work with communities of traditionally marginalized groups and with the associations and networks that represent their interests. Special outreach helps bring new ideas from these groups into our program pipeline. The IAF also supports conferences, exchanges, collaborative analytical efforts and other measures to help these communities network and learn from each other.

Performance Measure 2.1: Funding actions in the fiscal year that enhance the opportunities for traditionally marginalized groups to become effective actors in the design and execution of projects that improve their quality of life and their participation in the development process.

Performance Measure 2.2: Events, exchanges and other knowledge generation efforts to enhance the participation of traditionally marginalized groups in the development process and contribute to what is known about how these groups can most effectively take action to improve their quality of life.

Performance Measure 2.3: Specific accomplishments reported by project partners active in FY 2013, evidenced by measurable indicators, that improved the quality of life of traditionally marginalized groups and their opportunities to participate in the development process.

Strategic Goal Three: *Make knowledge-generation and knowledge- management an integral part of our work, informing new approaches for smarter investments by IAF and others.*

Problem/need/challenge addressed: The economic, social, political and technological contexts in which our community-based partners live and work are changing at unprecedented speed. Consequently, the need for careful, continuous attention to the generation, distribution and application of new knowledge about community-led development is more important now than ever before.

The IAF was created in 1969 to be agile and innovative, helping to identify, test, and reflect upon changing opportunities for community-led development. As part of every funding action, we will define *what* we hope to learn, *why* those lessons are important, and *what evidence* we will capture and use to produce new knowledge about the development process. In this more rigorously empirical approach to our grantmaking, every funding action will explore a hypothesis about what works, what doesn't work and why.

Contributing IAF programs: Grants for projects, IAF fellowships for field work by Ph.D. candidates at U.S. universities, support for exchanges and interaction among partner communities and organizations, and investment in producing, sharing and using new knowledge about what works in citizen-led development.

Contributing external U.S. government programs: The IAF consults with the respective U.S. Embassy as part of the approval process for new grants each year. The IAF is also participating in and developing inter-agency initiatives involving the Department of State, USAID, the Department of Housing and Urban Development, and the Environmental Protection Agency.

Lead persons/positions: The President takes a direct role in setting the knowledge agenda. The Vice President for Programs and the Director of Evaluation lead a Washington-based team and a network of skilled in-country consultants to identify and take action on knowledge generation opportunities. The Director of External and Government Affairs leads a team that manages the IAF's Ph.D. fellowship program and interacts with other knowledge partners.

Strategy and key measures: The IAF's core strategy for knowledge- generation is to ensure that each funding action has a knowledge- generation strategy and component embedded in its design, to support real-time reflection during project implementation on what works and why. Additional support for what we are calling learning enhancement measures enables partners to reflect at mid-course about emerging dynamics and lessons not identified at the time of project design.

Our distinctive Grassroots Development Framework uses a well-established system of concrete indicators and frequent visits by contracted data verifiers to collect evidence throughout each project on progress toward results. This effort, managed by the IAF's Office of Evaluation, is supplemented by Project Histories compiled after funding ceases and by an ambitious program of ex-post evaluations of projects five or more years after completion to assess the long-term impact of our investment.

A complementary strategy relies on the extraordinary capacity of our partners to teach and learn from each other — the best teacher for a farmer is a similarly-situated farmer who has been successful. The IAF invests considerable resources in meetings, exchanges, workshops and other events that enable our partners to share what they are learning about citizen-led development. This is a particularly cost-effective method for rapidly spreading the word about new knowledge on Next/Best Practices. By supporting these efforts *to help good ideas go viral*, the IAF multiplies its development impact far beyond our limited capacity to intervene directly.

Another complementary strategy is the exploration of new uses of media to identify and distribute new knowledge. The IAF's new website (www.iaf.gov) is designed to promote the electronic distribution, among our partners and far beyond, of new knowledge about what works best. Moreover, the IAF has initiated new partnerships with: a) a network of more than 3,000 ethnic media outlets in the US and abroad that is dedicated to bringing the voices of the marginalized ethnic minorities, immigrants, young people, the elderly — into the national discourse, and developing similar capacities on other countries; and b) another media partner committed to enabling participating communities to use *radionovelas* and other public-interest radio programming more effectively. The IAF is also putting low-cost video equipment in the hands of grantee partners, to enable them to document visually what they are accomplishing and is offering continued support for current and new partners in Latin America attempting to apply other new media tools in service of community-led development.

The IAF's Grassroots Development Fellowships support cutting-edge field research by Ph.D. candidates in U.S. universities, contributing to the cadre of specialists in development and increasing exposure to grassroots development as they become professionals and assume leadership roles throughout the region.

Finally, the IAF is engaged in an ongoing series of discussions with other thought-leaders in the areas of community-led development and the related field of asset-based community development (ABCD). In FY 2014, we will continue a series of focused interactions with the Kettering Foundation, the Coady International Institute, and the ABCD Institute at Northwestern University. This working collaboration focuses on rethinking the logic of how communities thrive. In FY 2014, we will expand engagement with corresponding Latin American thought-partners in this effort.

> **Performance Measure 3.1:** Funding actions, events, conferences, exchanges and other efforts that directly enhance the opportunities for generating and disseminating new knowledge about development and for promoting interactive learning among IAF partners in the region and other development actors and thought leaders.
>
> **Performance Measure 3.2:** Publications and other media products, including ex-post assessments of IAF grants, that effectively distribute to strategically targeted audiences new knowledge about citizen-led development.

Performance Measure 3.3: Funded research and knowledge- generation activities, including fellowships in support of doctoral research that adds to the body of knowledge on citizen-led development.

Performance Measure 3.4: Institutional knowledge-management plan implemented.

Strategic Goal Four: *Increase awareness, understanding and support for the IAF and its programs among key audiences in order to draw more resources into grassroots development.*

Problem/need/challenge addressed: A broader resource base is crucial to the IAF's vision of increased support for grassroots development. In order to attract additional resources in support of its mission and program, the IAF must increase the degree to which its work is recognized, understood and adequately resourced.
Contributing IAF programs: Grants for projects, IAF fellowships for field work by Ph.D. students at U.S. universities, evaluation and research initiatives, media initiatives, publications and diverse external engagement with partners, donors and other key constituencies.
Contributing external U.S. government programs: The IAF is participating in and developing inter-agency initiatives involving the Department of State, USAID, the Department of Housing and Urban Development, and the Environmental Protection Agency. Expanded partnership efforts will be ongoing throughout the planning period.
Lead persons/positions: The Director of External and Government Affairs provides overall strategic guidance and leadership for this goal, coordinating the involvement of the IAF President, the Vice President of Programs, the Director of Evaluation and their respective teams.
Strategy and key measures: The IAF will take advantage of opportunities to increase its visibility and strengthen its position as an effective and experienced leader in grassroots development. It will pursue partnerships with key private foundations, private-sector firms and other U.S. government agencies interested in grassroots development. The IAF will offer its capabilities, expertise and operational efficiencies to allow partners to invest resources efficiently and effectively through the IAF, rather than bearing the cost of operational inefficiencies associated with unilateral investment. This increased awareness of the IAF, its demonstrated results, and its value proposition should increase the number of partners and volume of resources available. The IAF will also continue to expand opportunities in the Latin American business sector through RedEAmérica, the IAF-initiated network of corporate foundations that currently represents more than 360 Latin American companies committed to investing in grassroots development. Lastly, the IAF will continue to require grantee partners to contribute counterpart funding toward their projects and encourage them to obtain additional support for their efforts from local government, businesses and philanthropic institutions.

Performance Measure 4.1: Metrics on visits to the IAF website and utilization of associated online information and resources.

Performance Measure 4.2: External speaking engagements or participation of IAF staff in public forums.

Performance Measure 4.3: Media coverage, press releases and grantee project recognition.

Performance Measure 4.4: Total committed dollar amount of in-kind and cash resources contributed or mobilized by grantees.

Performance Measure 4.5: Funds secured as a result of private sector, inter-governmental or individual donation, investment, or other sponsorship of IAF activities.

Strategic Goal Five: *Modernize and strengthen our operations.*

Problem/need/challenge addressed: Feedback from the Grantee Perception Report conducted at the end of 2011 suggests there may be opportunities to streamline our process for approving and monitoring grants and to reduce the administrative burden on our grantees while maintaining prudent controls and appropriate accountability. The IAF operates a grants-management system that has served the agency for many years but does not offer many of the integrative and analytic features available on the market today. Other IT capabilities also require significant upgrading to make the IAF more cost-effective. Meanwhile, as a small agency, we must continuously adjust to retirements and transitions of staff and loss of institutional knowledge.
Contributing IAF programs: Inter-agency agreements, formal training and cross-training of staff, IT development.
Contributing external U.S. government programs: Bureau of Public Debt (BPD), Department of Treasury (accounting, procurement and travel services); National Business Center (NBC), Department of the Interior (personnel services); General Services Administration.
Lead persons/positions: The Chief Operating Officer provides overall leadership and operational support, in close collaboration with the President and the Vice President for Programs.
Strategy and key measures: The IAF will conduct a thorough review of its process for approving, monitoring and evaluating grants to identify opportunities to improve effectiveness and reduce the administrative burden on our grantee partners, while maintaining prudent controls and appropriate accountability. The IAF will also assess its legacy grants- management system in order to determine the best course of action to increase functionality and user-friendliness, enhancing the facility to generate more useful analytical reports that can support evidence-based decision-making and operational transparency. We will continue outsourcing to specialized government agencies many support services, including procurement, accounting, travel, human resources, payroll, and equal employment opportunity. We will review these contracts in detail for more efficient and effective ways of conducting operations to assure the best value to the agency. Finally, we will revise our system of performance evaluations and augment our teamwork and backstopping arrangements.

Performance Measure 5.1: Metrics associated with time elapsed from receipt of proposal to definitive decision on funding.

Performance Measure 5.2: Re-engineered system of grants approval, monitoring and evaluation supported by versatile grants- management system in place.

Performance Measure 5.3: New performance-evaluation system in place.

Performance Measure 5.4: Improved results on Grantee Perception Survey compared with 2011.

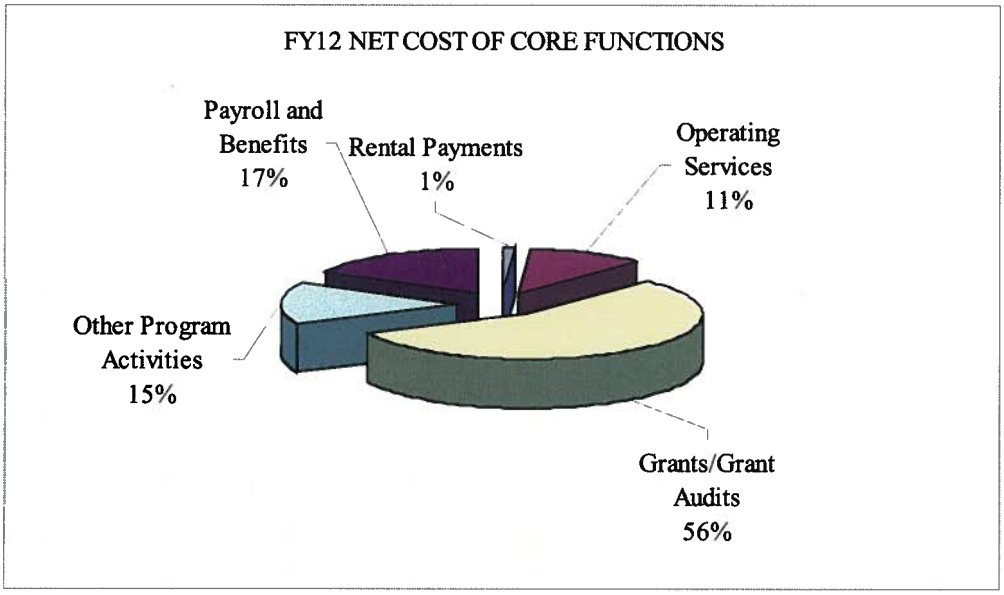
Analysis of Financial Statements and Stewardship Information

Systems, Controls, and Legal Compliance

Net Cost of Core Functions

The activity reported in the Statement of Net Cost reflects the resources used by the IAF during FY2012. Program costs of $28,078,064 reflected a decrease of $648,156 in FY2012 from the FY2011 amount of $28,726,220.

Payroll and benefits in FY2012 increased to $5,458,506 from $5,379,146 in FY2011 and program-related (not including grants/grant audits) activities in FY2012 increased to $4,606,295 from $3,803,395 in FY2011.



Fund Balance with U.S. Treasury

Total resources available from the U.S. Treasury and other financing sources for FY2012 and FY2011 were $34,748,673 and $37,258,513 respectively. The difference of $2,509,840 is due to a reduction of SPTF collections and increases in disbursements and grant advances.

Limitations on Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity.

Inter-American Foundation
An Independent Agency of the U.S. Government

October 24, 2012

Letter from the Chief Financial Officer

The Inter-American Foundation (IAF) is a resourceful, agile, cost-effective agency efficient in its operations, innovative and effective in its grassroots development programs. The IAF learns from its experience, and uses the lessons learned to improve its own grant making decisions and to advance the knowledge and success of development practitioners, donors, and policy makers.

The IAF has significantly streamlined operations, and most administrative and technical functions continued to be outsourced in 2012 through longstanding inter-agency agreements with the Bureau of the Public Debt (BPD) of the U.S. Department of the Treasury and the National Business Center (NBC) of the Department of the Interior. Outsourcing has streamlined operations, lowered overhead and brought a depth of expertise to these functions that the IAF could not otherwise afford. BPD continued to provide services related to procurement, accounting, budget, travel and information technology (IT); NBC continued to provide payroll and human resource services that included timekeeping, processing and reporting personnel actions, and to manage online applications such as the Federal Personnel and Payroll System (FPPS) and Employee Express. Since FY 2009, the IAF has participated with NBC in E-Gov initiatives to improve personnel operations, and since FY 2010, employees have accessed their files through the eOPF project that converted all records in (OPF) to electronic format.

The IAF is supporting the Financial Management Line of Business (FMLOB) Initiative by using BPD's Oracle Federal Financials System and related accounting and procurement services and BPD has been reporting FMLOB metrics for IAF for the past three years. The Oracle platform provides real-time, user-friendly financial reports. The IAF continues to receive unqualified audits of its financial statements, internal controls over financial reporting, and its compliance with relevant federal laws and regulations.

In fiscal 2009, the IAF transitioned to General Services Administration's Federal Technology Service (GSA/FTS) Networx and WITS3 new government-wide telecommunications contracts. This resulted in a savings of 35 percent in expenditures for domestic and international telephone services in 2012. After transitioning to a new VOIP system in April 2012, we will not receive the cost savings, but consolidating phones with IT will allow central management of phone services through server access and integration of workstation phones and computers.

The IAF, in conjunction with BPD, analyzed and evaluated its systems of management control and financial management under the Federal Managers' Financial Integrity Act (FMFIA) for the year ended September 30, 2012, according to the procedures and standards prescribed by the Office of Management and Budget (OMB) and the Government Accountability Office. Based on this evaluation we found that

our systems of management controls provide reasonable assurance that: programs are free from waste, fraud and mismanagement; laws and regulations are followed; our continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and our performance information is reliable as defined in OMB Circular A-11, Section 232.10. We further found that the IAF's financial management systems, in conjunction with those of BPD, meet the Federal government's management system objectives of usefulness, timeliness, reliability and completeness, comparability and consistency, and efficiency and economy. As result, we conclude that there is reasonable assurance that the Inter-American Foundation complies with Sections 2 and 4 of the FMFIA.

We have no open or new material weakness or nonconformance to report; we have not discovered any material weakness or nonconformance during fiscal year 2012; and we do not have any open reportable conditions or second tier issues. In addition, we have found that, for the year ended September 30, 2012, the Inter-American Foundation's administrative and fiscal accounting systems substantially comply with the requirements of the Federal Financial Management Improvement Act (FFMIA).

The financial statements and performance results data are complete, reliable and in accordance with OMB requirements and in conformity with generally accepted accounting principles. The IAF has appropriate management controls in place to ensure that all internal controls are operating in accordance with applicable policies and procedures and are effective in meeting the requirements imposed by the FMFIA and FFMIA.

Signed:

/s/
Juan A. Price
Chief Operating Officer and
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Inter-American Foundation
Washington, D.C.

We have audited the accompanying balance sheet of the Inter-American Foundation (IAF) as of September 30, 2012 and 2011 and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended (collectively referred to as the financial statements). These financial statements are the responsibility of IAF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *U.S. Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IAF as of September 30, 2012 and 2011 and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *U.S. Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have also issued our reports dated November 1, 2012 on our consideration of the IAF internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *U.S. Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by OMB Circular A-136, *Financial Reporting Requirements*, as revised, that considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

This report is intended solely for the information and use of the management of the IAF, OMB, USAID OIG and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 1, 2012

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Inter-American Foundation
Washington, D.C.

We have audited the financial statements of the Inter-American Foundation (IAF) as of and for the year ended September 30, 2012 and have issued our report thereon dated November 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *U.S. Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

In planning and performing our audit, we considered the IAF's internal control over financial reporting by obtaining an understanding of the IAF's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, as amended. The objective of our audit was not to provide an opinion on internal control and therefore, we do not express an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness or significant deficiency. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, as amended, a material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency in internal control, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be a material weakness as defined above.

This report is intended solely for the information and use of the management of the IAF, OMB, USAID OIG and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 1, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Inter-American Foundation
Washington, D.C.

We have audited the financial statements of the Inter-American Foundation (IAF) as of and for the year ended September 30, 2012 and have issued our report thereon dated November 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *U.S. Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

The management of the IAF is responsible for complying with laws and regulations applicable to the IAF. As part of obtaining reasonable assurance about whether the IAF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the IAF.

The results of our tests of compliance with laws and regulations disclosed no material noncompliance with laws and regulations discussed in the preceding paragraph that are required to be reported under *U.S. Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion. However, we noted no noncompliance with laws and regulations, which could have a direct and material effect on the determination of financial statement amounts.

This report is intended solely for the information and use of the management of the IAF, OMB, USAID OIG and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 1, 2012

INTER-AMERICAN FOUNDATION
BALANCE SHEET
AS OF SEPTEMBER 30, 2012 AND 2011
(In Dollars)

		2012		2011
Assets:				
Intragovernmental				
Fund Balance With Treasury (Note 2)	$	34,748,673	$	37,258,513
Other (Note 3)		45,568		15,758
Total Intragovernmental	$	34,794,241	$	37,274,271
Other (Note 3)		2,280,568		1,617,605
Total Assets	$	37,074,809	$	38,891,876
Liabilities:				
Intragovernmental				
Accounts Payable	$	178,919	$	261,762
Other (Note 6)		734,984		819,477
Total Intragovernmental	$	913,903	$	1,081,239
Accounts Payable	$	360,374	$	698,438
Other (Note 6)		655,395		642,021
Total Liabilities	$	1,929,672	$	2,421,698
Net Position:				
Unexpended Appropriations - Other Funds	$	21,485,654	$	22,258,454
Cumulative Results of Operations - Earmarked Funds (Note 14)		14,036,102		14,616,774
Cumulative Results of Operations - Other Funds		(376,619)		(405,050)
Total Net Position	$	35,145,137	$	36,470,178
Total Liabilities and Net Position	$	37,074,809	$	38,891,876

The accompanying notes are an integral part of these financial statements.

INTER-AMERICAN FOUNDATION
STATEMENT OF NET COST
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In Dollars)

	2012	2011
Program Costs:		
Foreign Grant Program: (Note 9)		
Gross Costs	$ 28,155,799	$ 28,826,034
Less: Earned Revenue	(77,735)	(99,814)
Net Cost of Operations	$ 28,078,064	$ 28,726,220

The accompanying notes are an integral part of these financial statements.

INTER-AMERICAN FOUNDATION
STATEMENT OF CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In Dollars)

	2012 Earmarked Funds	2012 All Other Funds	2012 Consolidated Total	2011 Earmarked Funds	2011 All Other Funds	2011 Consolidated Total
Cumulative Results of Operations:						
Beginning Balances	$ 14,616,774	$ (405,050)	$ 14,211,724	$ 13,204,163	$ (388,880)	$ 12,815,283
Budgetary Financing Sources:						
Appropriations Used	-	23,020,799	23,020,799	-	22,320,354	22,320,354
Donations and Forfeitures of Cash and Cash Equivalents	300		300	5,450	-	5,450
Other	4,207,978		4,207,978	7,499,449	-	7,499,449
Other Financing Sources (Non-Exchange):						
Imputed Financing Sources (Note 10)	-	296,746	296,746	-	297,408	297,408
Total Financing Sources	$ 4,208,278	$ 23,317,545	$ 27,525,823	$ 7,504,899	$ 22,617,762	$ 30,122,661
Net Cost of Operations	(4,788,950)	(23,289,114)	(28,078,064)	(6,092,288)	(22,633,932)	(28,726,220)
Net Change	$ (580,672)	$ 28,431	$ (552,241)	$ 1,412,611	$ (16,170)	$ 1,396,441
Cumulative Results of Operations	$ 14,036,102	$ (376,619)	$ 13,659,483	$ 14,616,774	$ (405,050)	$ 14,211,724
Unexpended Appropriations:						
Beginning Balances	$ -	$ 22,258,454	$ 22,258,454	$ -	$ 22,921,207	$ 22,921,207
Budgetary Financing Sources:						
Appropriations Received	-	22,500,000	22,500,000	-	22,499,000	22,499,000
Other Adjustments	-	(252,001)	(252,001)	-	(841,399)	(841,399)
Appropriations Used	-	(23,020,799)	(23,020,799)	-	(22,320,354)	(22,320,354)
Total Budgetary Financing Sources	$ -	$ (772,800)	$ (772,800)	$ -	$ (662,753)	$ (662,753)
Total Unexpended Appropriations	$ -	$ 21,485,654	$ 21,485,654	$ -	$ 22,258,454	$ 22,258,454
Net Position	$ 14,036,102	$ 21,109,035	$ 35,145,137	$ 14,616,774	$ 21,853,404	$ 36,470,178

The accompanying notes are an integral part of these financial statements.

INTER-AMERICAN FOUNDATION
STATEMENT OF BUDGETARY RESOURCES
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In Dollars)

	2012	2011
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	$ 8,783,013	$ 6,149,512
Recoveries of Prior Year Unpaid Obligations	1,257,251	1,347,883
Other changes in unobligated balance	(252,001)	(796,401)
Unobligated balance from prior year budget authority, net	9,788,263	6,700,994
Appropriations	22,500,000	22,454,002
Spending authority from offsetting collections	4,208,279	7,504,899
Total Budgetary Resources	$ 36,496,542	$ 36,659,895
Status of Budgetary Resources:		
Obligations Incurred (Note 15)	$ 31,115,761	$ 27,876,882
Unobligated balance, end of year:		
Apportioned	175,586	276,480
Unapportioned	5,205,195	8,506,533
Total Budgetary Resources	$ 36,496,542	$ 36,659,895
Change in Obligated Balance:		
Unpaid Obligations, Brought Forward, October 1	$ 28,475,500	$ 29,305,026
Adjustment to obligated balance, start of year	(29,367,892)	(28,475,500)
Obligated balance, start of year, as adjusted	(892,392)	829,526
Obligations Incurred	31,115,761	27,876,882
Outlays (gross)	(28,966,118)	(27,358,525)
Recoveries of Prior Year Unpaid	(1,257,251)	(1,347,883)
Obligated balance, end of year	$ 29,367,892	$ 28,475,500
Budget Authority and Outlays, Net:		
Budget authority, gross	$ 26,708,279	$ 29,958,901
Actual offsetting collections	(4,208,279)	(7,504,899)
Budget Authority, net	$ 22,500,000	$ 22,454,002
Outlays, gross	$ 28,966,118	$ 27,358,525
Actual offsetting collections	(4,208,279)	(7,504,899)
Agency outlays, net	$ 24,757,839	$ 19,853,626

The accompanying notes are an integral part of these financial statements.

INTER-AMERICAN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Inter-American Foundation (IAF), a U.S. government corporation, was established pursuant to part IV of the Foreign Assistance Act of 1969 (22 U.S.C. 290f (a)). The IAF provides grants to support the initiatives of non-governmental and community-based organizations in Latin America and the Caribbean to implement their economic development and poverty reduction projects.

The management of the IAF is vested in a nine-person Board of Directors appointed by the President of the United States. Six Board members are drawn from the private sector and three from officers or employees of agencies of the U.S. Government concerned with Inter-American activities. The Board appoints the IAF's president who acts as the chief executive officer.

Congress enacts appropriations to permit the IAF to incur obligations for authorized purposes. In fiscal years 2012 and 2011, the IAF was accountable for the Social Progress Trust Fund (SPTF), Gift Fund, and General Fund appropriations. The IAF recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through the Department of Treasury General Fund warrants and transfers from the Inter-American Development Bank (IDB).

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of the IAF. The Balance Sheet presents the financial position of the agency. The Statement of Net Cost presents the agency's operating results; the Statement of Changes in Net Position displays the changes in the agency's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the agency's resources and follows the rules for the Budget of the United States Government.

The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994 and the Accountability of Tax Dollars Act of 2002. They have been prepared from, and are fully supported by, the books and records of the IAF in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards issued by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended, and the IAF accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control the IAF's use of budgetary resources. The financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

D. Revenues & Other Financing Sources

The IAF's grant program is funded by appropriation from the budget of the United States, agreement with the Inter-American Development Bank (IDB) covering the SPTF,

and donations from the private sector. No-year appropriations remain available until expended, while multi-year appropriations are available for the period prescribed by the applicable statute. Appropriations are used, within statutory limits, for programmatic, operating and capital expenditures for essential personal property. Appropriations are recognized as a financing source when expended. Appropriations expended for capitalized property and equipment are recognized as expense when an asset is consumed in operations.

The IAF has an agreement with the IDB to receive funds from the SPTF to finance part of the IAF's grant program. The IDB is an international financial organization established to promote the economic and social development of member countries. The United States' participation in IDB is authorized and governed by the Inter-American Development Bank Act (22 U.S.C. 283). Within IDB, the United States established the SPTF in 1961 and provided appropriations to SPTF through 1964. IDB was designated as the administrator for the SPTF and committed the original SPTF appropriations to loans. Repayments of these loans are recycled by the IDB in accordance with the original agreement and subsequent provision for additional loans, technical cooperation programs, and financing of the Inter-American Foundation program. Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating, capital and grant expenditures. Additional amounts are obtained from service fees and reimbursements from other government entities and the public.

Pursuant to a 1973 amendment to the Foreign Assistance Act of 1961, IDB provides funds to finance social development projects. These funds are made available in U.S. dollars upon request by the IAF, subject to denomination availability and exchange controls. In 2002, the SPTF agreement was amended to make available all remaining funds until exhausted.
The IAF recognizes as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on its behalf by the Office of Personnel Management (OPM).

E. Fund Balance with Treasury

Fund Balance with Treasury is the aggregate amount of the IAF's appropriated funds and SPTF collections that are available to pay agency liabilities and finance authorized purchases, commitments and SPTF grants. The IAF does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held outside of Treasury. Foreign currency payments are made either by Treasury or the Department of State and are reported by the IAF in the U.S. dollar equivalents.

F. Accounts Receivable

Accounts receivable consists of amounts owed to the IAF by other Federal agencies and the general public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when, based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay.

G. Property, Equipment, and Software

Property, equipment and software represent furniture, fixtures, equipment, and information technology hardware and software which are recorded at original acquisition cost and are depreciated or amortized using the straight-line method over their estimated useful lives. Major alterations and renovations are capitalized, while maintenance and repair costs are expensed as incurred. The IAF's capitalization threshold is $50,000 for individual purchases and $500,000 for bulk purchases. Property, equipment, and software

acquisitions that do not meet the capitalization criteria are expensed upon receipt. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property, equipment, and software. The useful life classifications for capitalized assets are as follows:

Description	Useful Life (years)
Office Furniture	10
ADP Equipment	3
Office Equipment	10
IT Software	3

H. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

I. Liabilities

Liabilities represent the amount of funds likely to be paid by the IAF as a result of transactions or events that have already occurred. The IAF reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another government agency. Liabilities With the Public represents funds owed to any entity or person that is not a federal agency, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave.

J. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to OPM upon the retirement of that individual. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees effective at 50% beginning FY2010 and 100% in 2014.

K. Retirement Plans

The IAF employees participate in either the CSRS or the FERS. The employees who participate in CSRS are beneficiaries of the IAF matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

Prior to December 31, 1983, all employees were covered under the CSRS program. From January 1, 1984 through December 31, 1986, employees had the option of remaining under CSRS or joining FERS and Social Security. Employees hired as of January 1, 1987 are automatically covered by the FERS program. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic agency contribution equal to one percent of pay and the IAF matches any employee contribution up to an additional four percent of pay. For FERS participants, The IAF also contributes the employer's matching share of Social Security.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, the IAF remits the employer's share of the required contribution.

The IAF recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to the IAF for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. The IAF recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

The IAF does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM, as the administrator.

L. Grant Disbursements and Administrative Expenses

Grant disbursements include payments in advance of performance under contractual obligations. Evidence of performance is determined by review of periodic expenditure reports. All of the IAF expenditures for grants over $35,000 are independently verified using the IAF's audit guidelines. The IAF's administrative expenses are funded solely by appropriated funds.

For three years prior to FY10, the IAF did not estimate grant advances. In FY09, the IAF began estimating grant advances by multiplying the grants disbursed during the quarter by 50%. This estimate will be done each quarter to determine the amount of grant disbursements to be accounted for as grant advances in the Balance Sheet.

M. Use of Estimates

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

N. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. The IAF recognized imputed costs and financing sources in fiscal years 2012 and 2011 to the exent directed by accounting standards.

O. Reclassification

Certain fiscal year 2011 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with the current year presentation.

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2012 and 2011 were as follows:

	2012	2011
Fund Balances:		
Trust Funds	$ 1,355	$ 1,055
Social Progress Trust Funds (SPTF)	13,309,393	14,122,705
Appropriated Funds	21,437,925	23,134,753
Total	$ 34,748,673	$ 37,258,513
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 175,586	$ 276,480
Unavailable	5,205,195	8,506,533
Obligated Balance Not Yet Disbursed	29,367,892	28,475,500
Total	$ 34,748,673	$ 37,258,513

No discrepancies exist between the Fund Balance reflected on the Balance Sheet and the balances in the Treasury accounts.

The available unobligated fund balances represent the current-period amount available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the unavailable balance as described in the following paragraph.

The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance on hand (see also Note 8).

NOTE 3. OTHER ASSETS

Other assets account balances as of September 30, 2012 and 2011, were as follows:

	2012	2011
Intragovernmental		
Advances and Prepayments	$ 45,568	$ 15,758
With the Public		
Grant Advances	$ 2,280,568	$ 1,617,605
Total Other Assets	$ 2,326,136	$ 1,633,363

NOTE 4. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2012

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Furniture & Equipment	$ 14,965	$ 14,965	$ -
Total	$ 14,965	$ 14,965	$ -

Schedule of Property, Equipment, and Software as of September 30, 2011

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Furniture & Equipment	$ 38,078	$ 38,078	$ -
Total	$ 38,078	$ 38,078	$ -

NOTE 5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for the IAF as of September 30, 2012 and 2011 include liabilities not covered by budgetary resources. Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

	2012	2011
Unfunded Leave - Total Liabilities Not Covered by Budgetary Resources	$ 376,619	$ 405,050
Total Liabilities Covered by Budgetary Resources	1,553,053	2,016,648
Total Liabilities	$ 1,929,672	$ 2,421,698

Unfunded leave represents a liability for earned leave and is reduced when leave is taken. The balance in the accrued annual leave account is reviewed quarterly and adjusted as needed to accurately reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

NOTE 6. OTHER LIABILITIES

Other liabilities account balances as of September 30, 2012 were as follows:

	Current	Total
Intragovernmental		
Liability for Advances and Prepayments	$ 672,450	$ 672,450
Payroll Taxes Payable	62,534	62,534
Total Intragovernmental Other Liabilities	$ 734,984	$ 734,984
With the Public		
Payroll Taxes Payable	$ 16,718	$ 16,718
Accrued Funded Payroll and Leave	262,058	262,058
Unfunded Leave	376,619	376,619
Total Public Other Liabilities	$ 655,395	$ 655,395

Other liabilities account balances as of September 30, 2011 were as follows:

	Current	Total
Intragovernmental		
Liability for Advances and Prepayments	$ 750,185	$ 750,185
Payroll Taxes Payable	69,292	69,292
Total Intragovernmental Other Liabilities	$ 819,477	$ 819,477
With the Public		
Accrued Funded Payroll and Leave	$ 236,971	$ 236,971
Unfunded Leave	405,050	405,050
Total Public Other Liabilities	$ 642,021	$ 642,021

The IAF only has Current Liabilities – no Non-Current Liabilities.

NOTE 7. COMMITMENTS AND CONTINGENCIES

In the course of the agency's grant-making activities, the IAF has unliquidated grant obligations which, in the absence of violations or cancellations of the grant agreements, will require disbursements. Unliquidated grant obligations at September 30, 2012 and 2011 total approximately $22,892,066 and $23,119,089, respectively.

NOTE 8. UNDELIVERED ORDERS AT THE END OF THE PERIOD

For the fiscal years ended September 30, 2012 and 2011, undelivered orders amounted to $30,813,425 and $28,842,399 respectively.

NOTE 9. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and revenue represent exchange transactions between the IAF and other federal government entities, and are in contrast to those with non-federal entities (the public). Such costs and revenue are summarized as follows:

	2012	2011
Foreign Grant Program		
Intragovernmental Costs	$ 3,192,371	$ 3,648,063
Public Costs	24,963,428	25,177,971
Total Program Costs	$ 28,155,799	$ 28,826,034
Intragovernmental Earned Revenue	(77,735)	(99,814)
Total Net Cost	$ 28,078,064	$ 28,726,220

NOTE 10. IMPUTED FINANCING SOURCES

The IAF recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. For the fiscal years ended September 30, 2012 and 2011, imputed financing was $296,746 and $297,408, respectively.

NOTE 11. FINANCING SOURCES - SPTF

The Reconciliation of Net Cost of Operations to Budget Note reconciles the financial Net Cost of Operations with the Statement of Budgetary Resources. The IAF reports SPTF funds obtained from the IDB as offsetting collections earned. The IAF had no exchange revenue in fiscal year 2012 or 2011. For fiscal year 2012 and 2011, the IAF received $4,183,426 and $7,499,449 respectively, from the IDB, which was reported on its SF-133 as funds received from SPTF collections.

	2012	2011
SPTF Cumulative Results:		
SPTF Beginning Balance	$ 14,615,719	$ 13,204,130
SPTF Funds Received	4,207,978	7,499,449
SPTF Funds Expended	(4,788,950)	(6,087,860)
SPTF Fund Carry Forward	$ 14,034,747	$ 14,615,719
Donations Cumulative Results:		
Donations Beginning Balance	1,055	33
Donations Received	300	5,450
Donations Expended	-	(4,428)
Donations Carry Forward	$ 1,355	$ 1,055
Total SPTF and Donations	$ 14,036,102	$ 14,616,774
Cumulative Results of Operations – All Other Funds	(376,619)	(405,050)
Total Cumulative Results of Operations	$ 13,659,483	$ 14,211,724

NOTE 12. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget that will include fiscal year 2012 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2013 and can be found at the OMB Web site: http://www.whitehouse.gov/omb/. The 2013 Budget of the United States Government, with the "Actual" column completed for 2011, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

NOTE 13. LEASES

Operating Leases

The IAF occupies office space under a lease agreement that is accounted for as an operating lease. The previous lease term began on May 1, 2002 and expired on April 30, 2012. Lease payments were increased annually based on the IAF's proportionate share of the building's operating expenses and real estate taxes. Operating expenses were increased based on an estimated CPI increase of 3% annually. The previous agreement allowed the IAF an abatement credit in lieu of a build-out allowance, deducted from the monthly rent for the first 26 months of the lease. The total operating lease expenses as of September 30, 2012 and 2011 were $377,315 and $762,694, respectively. With the end of the previous lease on 4/30/12, the IAF began a new lease agreement. The new lease term began on May 1, 2012 and expires on April 30, 2017. The new agreement will allow the IAF an abatement credit in lieu of a build-out allowance, deducted from the monthly rent for the first 7 months of the lease.

Below is a schedule of future payments for the term of both leases.

Fiscal Year		Office Space
2013	$	665,414
2014		701,601
2015		706,501
2016		711,547
2017		417,002
Total Future Payments	**$**	**3,202,065**

The operating lease amount does not include estimated payments for leases with annual renewal options.

NOTE 14. EARMARKED FUNDS

The IAF has earmarked funds that fall into the following categories: Social Progress Trust Fund (SPTF) and Gift Fund. Both funds are used to finance part of the IAF's grant program and remain available until funds are exhausted.

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over use of Federal funds.
Schedule of Earmarked Funds as of September 30, 2012:

	Social Progress Trust Fund	Gift Fund	Total Earmarked Funds
Balance Sheet			
Assets:			
Fund Balance with Treasury	$ 13,309,392	$ 1,355	$ 13,310,747
Other Assets	725,355	-	725,355
Total Assets	$ 14,034,747	$ 1,355	$ 14,036,102
Liabilities and Net Position:			
Cumulative Results of Operations	$ 14,034,747	$ 1,355	$ 14,036,102
Total Liabilities and Net Position	$ 14,034,747	$ 1,355	$ 14,036,102
Statement of Net Cost			
Program Costs	$ 4,788,950	$ -	$ 4,788,950
Less: Earned Revenues	(4,207,978)	(300)	(4,208,278)
Net Cost of Operations	$ 580,972	$ (300)	$ 580,672
Statement of Changes in Net Position			
Net Position Beginning of Period	$ 14,615,719	$ 1,055	$ 14,616,774
Net Cost of Operations	580,972	(300)	580,672
Net Position End of Period	$ 14,034,747	$ 1,355	$ 14,036,102

Schedule of Earmarked Funds as of September 30, 2011:

	Social Progress Trust Fund	Gift Fund	Total Earmarked Funds
Balance Sheet			
Assets:			
Fund Balance with Treasury	$ 14,122,705	$ 1,055	$ 14,123,760
Other Asset	493,014	-	493,014
Total Assets	$ 14,615,719	$ 1,055	$ 14,616,774
Liabilities and Net Position:			
Cumulative Results of Operations	$ 14,615,719	$ 1,055	$ 14,616,774
Total Liabilities and Net Position	$ 14,615,719	$ 1,055	$ 14,616,774
Statement of Net Cost			
Program Costs	$ 6,087,860	$ 4,428	$ 6,092,288
Less: Earned Revenues	(7,499,449)	(5,450)	(7,504,899)
Net Cost of Operations	$ (1,411,589)	$ (1,022)	$ (1,412,611)
Statement of Changes in Net Position			
Net Position Beginning of Period	$ 13,204,130	$ 33	$ 13,204,163
Net Cost of Operations	(1,411,589)	(1,022)	(1,412,611)
Net Position End of Period	$ 14,615,719	$ 1,055	$ 14,616,774

NOTE 15. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Obligations incurred and reported in the Statement of Budgetary Resources in 2012 and 2011 consisted of the following:

	2012	2011
Direct Obligations, Category A	$ 9,194,408	$ 8,469,378
Direct Obligations, Category B	21,071,353	18,557,504
Reimbursable Obligations, Category B	850,000	850,000
Total Obligations Incurred	$ 31,115,761	$ 27,876,882

Category A apportionments distribute budgetary resources by fiscal quarters.

Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories.

NOTE 16. CUSTODIAL ACTIVITY

IAF's custodial collection primarily consists of returned funds at IAF's request from a grantee due to funds mismanagement. The returned funds came from IAF's appropriated fund (11 3/4 3100) which is no longer available for use; therefore, the funds must be returned to Treasury. While these collections are considered custodial, they are not material to the overall financial statements. IAF's total custodial collections are $418 and $0 for the fiscal years ended September 30, 2012, and 2011, respectively.

NOTE 17. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

IAF has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

	2012	2011
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 31,115,761	$ 27,876,882
Spending Authority from Offsetting Collections and Recoveries	(5,465,530)	(8,852,782)
Obligations Net of Offsetting Collections and Recoveries	$ 25,650,231	$ 19,024,100
Other Resources		
Donations and Forfeitures of Property	$ 300	$ 5,450
Imputed Financing from Costs Absorbed by Others	296,746	297,408
Net Other Resources Used to Finance Activities	$ 297,046	$ 302,858
Total Resources Used to Finance Activities	$ 25,947,277	$ 19,326,958
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	2,159,218	9,383,093
Total Resources Used to Finance the Net Cost of Operations	$ 28,106,495	$ 28,710,051
Total Components of Net Cost of Operations That will not Require or Generate Resources in the Current Period	(28,431)	16,169
Net Cost of Operations	$ 28,078,064	$ 28,726,220