INTERNATIONAL INSTITUTE OF RURAL RECONSTRUCTION
(A Nonprofit, Nonstock Organization)

Financial Statements
December 31, 2007 and 2006

and

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
International Institute of Rural Reconstruction

We have audited the accompanying statements of financial position of International Institute of Rural Reconstruction (a nonprofit, nonstock organization), incorporated in Delaware, United States of America, as of December 31, 2007 and 2006, and the related statements of activities, statements of changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of the Institute'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Institute's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 International Institute of Rural Reconstruction as of December 31, 2007 and 2006, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

SYCIP GORRES VELAYO & CO.

Juanito A. Fullecido
Partner

June 7, 2008

INTERNATIONAL INSTITUTE OF RURAL RECONSTRUCTION
(A Nonprofit, Nonstock Organization)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2007	2006
ASSETS		
Cash and Cash Equivalents (Note 3)	**$482,793**	$761,856
Investments (Note 3)	**796,102**	804,365
Contributions Receivable (Note 4)	**2,304,673**	1,510,578
Other Receivables (Note 11)	**406,054**	336,998
Property and Equipment - net (Note 5)	**270,291**	310,398
Prepayments and Other Assets	**37,118**	45,876
	$4,297,031	$3,770,071
LIABILITIES AND NET ASSETS		
Accounts Payable and Other Current Liabilities	**$330,251**	$342,815
Funds Held in Trust (Note 7)	**4,264**	4,264
Total Liabilities	**334,515**	347,079
Net Assets		
Unrestricted	**743,143**	1,105,056
Temporarily restricted (Note 8)	**2,501,391**	1,599,954
Permanently restricted (Note 8)	**717,982**	717,982
Total Net Assets	**3,962,516**	3,422,992
	$4,297,031	$3,770,071

See accompanying Notes to Financial Statements.

INTERNATIONAL INSTITUTE OF RURAL RECONSTRUCTION
(A Nonprofit, Nonstock Organization)

STATEMENTS OF ACTIVITIES

	2007 Unrestricted	2007 Temporarily Restricted	2007 Permanently Restricted	2007 Total	2006 Unrestricted	2006 Temporarily Restricted	2006 Permanently Restricted	2006 Total
CONTINUING OPERATIONS								
REVENUES, GAINS AND OTHER SUPPORT								
Contributions/Grants:								
Foundations - inclusive of $14,618 and $47,055 accretion income in 2007 and 2006, respectively (Note 4)	**$34,585**	**$1,056,439**	**$–**	**$1,091,024**	$512,181	$381,209	$–	$893,390
Governments - net of $75,258 discount in 2007 (Note 4)	**–**	**1,153,860**	**–**	**1,153,860**	–	734,493	–	734,493
Individuals	**217,751**	**60,411**	**–**	**278,162**	141,471	34,899	–	176,370
Corporations	**43,452**	**42,614**	**–**	**86,066**	3,340	–	–	3,340
Technical assistance	**444,889**	**–**	**–**	**444,889**	343,202	–	–	343,202
Training courses	**341,512**	**–**	**–**	**341,512**	647,406	–	–	647,406
Use of campus facilities by development organizations	**95,039**	**–**	**–**	**95,039**	87,482	–	–	87,482
Study programs	**83,865**	**–**	**–**	**83,865**	44,454	–	–	44,454
Workshops	**83,335**	**–**	**–**	**83,335**	172,407	–	–	172,407
Publication sales	**32,865**	**–**	**–**	**32,865**	20,693	–	–	20,693
Others (Note 3)	**209,823**	**–**	**–**	**209,823**	141,458	–	–	141,458
Net assets released from restrictions:								
Satisfaction of program restrictions	**1,236,887**	**(1,236,887)**	**–**	**–**	1,446,884	(1,446,884)	–	–
Expiration of time restrictions	**175,000**	**(175,000)**	**–**	**–**	375,000	(375,000)	–	–
	2,999,003	**901,437**	**–**	**3,900,440**	3,935,978	(671,283)	–	3,264,695
EXPENSES (Note 10)								
Program services (Notes 5, 6 and 9):								
Learning community	**1,645,963**	**–**	**–**	**1,645,963**	1,566,318	–	–	1,566,318
Education and training	**992,134**	**–**	**–**	**992,134**	908,824	–	–	908,824
Publication and communication	**338,336**	**–**	**–**	**338,336**	243,908	–	–	243,908
	2,976,433	**–**	**–**	**2,976,433**	2,719,050	–	–	2,719,050
Supporting services (Notes 6 and 9):								
Management and general	**361,168**	**–**	**–**	**361,168**	413,241	–	–	413,241
Fund raising	**124,626**	**–**	**–**	**124,626**	119,623	–	–	119,623
	485,794	**–**	**–**	**485,794**	532,864	–	–	532,864
	3,462,227	**–**	**–**	**3,462,227**	3,251,914	–	–	3,251,914
EXCESS (DEFICIENCY) OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES OF CONTINUING OPERATIONS	**(463,224)**	**901,437**	**–**	**438,213**	684,064	(671,283)	–	12,781
DEFICIENCY OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES OF DISCONTINUED OPERATIONS (Note 11)	**–**	**–**	**–**	**–**	(10,715)	–	–	(10,715)
Translation gain (loss)	**101,311**	**–**	**–**	**101,311**	(238,235)	–	–	(238,235)
CHANGE IN NET ASSETS	**($361,913)**	**$901,437**	**$–**	**$539,524**	$435,114	($671,283)	$–	($236,169)

Years Ended December 31

See accompanying Notes to Financial Statements.

INTERNATIONAL INSTITUTE OF RURAL RECONSTRUCTION
(A Nonprofit, Nonstock Organization)

STATEMENTS OF CHANGES IN NET ASSETS

	Years Ended December 31							
	2007				2006			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	**$1,105,056**	**$1,599,954**	**$717,982**	**$3,422,992**	$669,942	$2,271,237	$717,982	$3,659,161
Change in net assets	**(361,913)**	**901,437**	–	**539,524**	435,114	(671,283)	–	(236,169)
Balance at end of year (Note 8)	**$743,143**	**$2,501,391**	**$717,982**	**$3,962,516**	$1,105,056	$1,599,954	$717,982	$3,422,992

See accompanying Notes to Financial Statements.

INTERNATIONAL INSTITUTE OF RURAL RECONSTRUCTION
(A Nonprofit, Nonstock Organization)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues, gains and other support over expenses of continuing operations	**$438,213**	$12,781
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization (Notes 5 and 10)	**112,305**	100,043
Effect of foreign exchange rate changes on translation	**81,717**	(238,235)
Net withdrawals from (unrealized gain on) investments reported at fair value	**8,263**	(93,414)
Decrease (increase) in:		
Contributions receivable	**(794,095)**	535,395
Other receivables	**(69,056)**	(185,475)
Prepayments and other assets	**8,758**	24,405
Increase (decrease) in:		
Accounts payable and other current liabilities	**(12,564)**	9,847
Pension liability	**–**	(2,643)
Net cash used in operating activities of discontinued operation (Note 11)	**–**	(38,941)
Net cash provided by (used in) operating activities	**(226,459)**	123,763
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 5)	**(52,604)**	(63,092)
Other investment transactions	**–**	(27,054)
Cash provided by investing activity of discontinued operation (Note 11)	**–**	12,300
Net cash used in investing activities	**(52,604)**	(77,846)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(279,063)**	45,917
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**761,856**	715,939
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$482,793**	$761,856

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Organization Information

The International Institute of Rural Reconstruction (IIRR or the Institute) is a not-for-profit organization formed in 1960 under the laws of the State of Delaware, United States of America (U.S.A.). IIRR Headquarters is located in the Philippines. IIRR has regional centers in Asia (Philippines) and Africa (Kenya) and offices in Addis Ababa, Ethiopia, Kampala, Uganda and New York, U.S.A.

IIRR is a tax-exempt organization under Section 501(c)(3) of the United States Internal Revenue Code. IIRR is a recognized public charity. Contributions to IIRR qualify for the maximum allowable charitable deduction in the U.S.A. In the opinion of the management, IIRR has operated under this tax-exempt code and has no unrelated business income.

IIRR is a global learning, training and capacity development organization which, with its predecessor organizations, has more than 80 years of experience and commitment to rural development. The Institute's program services has three main functional categories (described in Note 10), i.e. learning community program, education and training program, and publication and communication program. Resource generation is focused on unrestricted contributions, restricted grants, earned revenue through trainings, workshops, study programs, customized courses, technical assistance, use of campus facilities, and investment return on endowment funds.

As discussed in Note 11, in September 2006, the Board of Trustees (BOT) approved the closure of the Latin America Regional Center. The BOT determined that further investment in Latin America overhead costs is not a strategic use of available funds despite demands for technical assistance.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation
The accompanying financial statements of IIRR have been prepared in compliance with accounting principles generally accepted in the U.S.A., applicable to a not-for-profit organization as described in American Institute of Certified Public Accountants Audit and Accounting Guide, "Not-for-Profit Organization."

Classification of Net Assets
The net assets of IIRR and changes therein are classified and reported on the basis of the existence or absence of donor-imposed restrictions, as follows:

- Unrestricted Net Assets

  Net assets that are not subject to any donor-imposed stipulations. Unrestricted assets may be designated for specific purposes by action of the BOT.

- Temporarily Restricted Net Assets

  Net assets that are subject to donor-imposed stipulations that may be met either by actions of IIRR or by passage of time. When a restriction expires, that is, a stipulated time restriction ends or purpose restriction is accomplished, the assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- Permanently Restricted Net Assets

  Net assets that are subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by IIRR. Generally, the donors of these assets permit IIRR to use all or part of the investment return on these assets.

Basis of Accounting
The financial statements have been prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses when incurred and measurable, regardless of when the related cash flows take place. Nonexchange transactions, in which IIRR receives value without directly giving equal value in exchange, include grants and private donations. On an accrual basis, revenues from these transactions are recognized in the year in which all criteria are satisfied, if measurable and probable of collection.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the U.S.A. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues, expenses, or other changes in net assets during the year. Actual results could differ from these estimates.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Contributions and Other Receivables
Contributions and other receivables are recognized initially at fair value. After initial measurement, contributions and other receivables are carried at amortized cost using the effective interest rate method, less any allowance for impairment. The allowance is established by charges to the statement of activities in the form of provision for doubtful accounts.

Investments
Investments are reported at fair value based on quoted market prices. Gains and losses on investments are based on the appreciation or depreciation of the market values at the earlier of the end of the year (unrealized) or the time of sale (realized) and are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

Property and Equipment
Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including other directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to the statement of activities in the year such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	10 to 25 years or the term of the lease, whichever period is shorter
Buildings	10 years
Furniture and office equipment	5 to 8 years
Transportation equipment	5 to 7.5 years
Other equipment	5 to 10 years

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is credited or charged to statement of activities.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. If any such indication exists and when the carrying values exceed the estimated recoverable amount, the assets are written down to their fair value. Any impairment loss is recognized in the statement of activities.

Fully depreciated property and equipment is retained in the account until it is no longer in use and no further depreciation is credited or charged to current activities.

<u>Revenue and Expense Recognition</u>
Contributions and grants, which include unconditional promises to give (pledges), are recognized as revenues in the year they are received or promised, whichever is earlier. An unconditional promise to give is recognized when a promise is made or received, provided there is sufficient evidence in the form of verifiable documentation.

Donor-restricted contributions whose restrictions are met in the same reporting year are classified as unrestricted support. Contributions and grants received intended for projects to be undertaken in future years are accounted for as temporarily restricted net assets. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

Revenues from other services, such as training, workshops, study programs, customized courses and technical assistance, are recognized when services have been rendered and collection is reasonably assured.

Revenues from use of campus facilities are recognized based on actual occupancy and when collection is reasonably assured.

Revenues from sale of books and other published materials are recognized when the significant risks and rewards of ownership of the published materials have passed to the buyer and the amount of revenues can be reliably measured.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations or of the BOT designations that simultaneously increase one class of net assets and decrease another are reported as transfers between the applicable classes of net assets.

Allocation of Expenses
The cost incurred in the various programs and other activities has been summarized on a functional basis (see Note 10). Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services using the prevailing IIRR cost allocation methodology.

Pension Cost
IIRR's pension cost related to the defined benefit pension plan for employees in the Philippines and defined contribution pension plan for employees in the U.S.A. and Africa Regional Center includes the service cost determined under the projected unit credit method. This method reflects benefits earned by the employees to the date of the valuation taking into consideration the employees' projected salaries.

Translation of Philippine and Other Regional Centers' Financial Statements
Financial statements of IIRR's Philippine and other Regional Centers are translated in accordance with Statement of Financial Accounting Standard No. 52, "Foreign Currency Translation." Under this method, assets and liabilities, expressed in Philippine pesos, Kenyan shillings, Ugandan shillings and Ethiopian birr, have been translated into U.S. dollar amounts at the closing exchange rates at the financial position date, while revenues and expenses have been translated at the average exchange rate of each center for the year. Other changes in fund balances are translated at the rate in effect in the year the transactions were originally recorded. The accumulated loss on translation adjustment of $893,453 and $994,764 as of December 31, 2007 and 2006, respectively, is reflected as a component of unrestricted net assets.

Functional and Reporting Currency
The functional and reporting currency of IIRR is the U.S. dollar. All values are rounded to the nearest dollar unit, unless otherwise indicated.

Fair Value of Financial Instruments
Fair value of financial instruments is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale.

The fair values of cash and cash equivalents, other receivables, and accounts payable and other current liabilities approximate their carrying values due to the relatively short-term maturity of these financial instruments.

The fair value of contributions receivable is based on the discounted value of future cash flows using the prevailing risk free U.S. dollar interest rates plus spread.

3. Cash and Cash Equivalents and Investments

Concentrations of Risks

Custodial Credit Risk. Cash and cash equivalents are maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal credit risk.

Interest Rate Risk. Disclosure of the maturities of investments is required when the fair market value is adversely affected by changes in interest rates. Investments are intended to be held for an undefined period.

The main investment management objective is to maintain security and liquidity. To achieve this objective, IIRR seeks the highest possible return on its investments. Investments are governed by the BOT. IIRR is restricted to invest in investment instruments which are obligations of a limited class of issuers, primarily government or government-guaranteed obligations and corporate obligations.

Foreign Currency Risk. IIRR has no significant foreign investments for 2007 and 2006 exposed to changes in exchange rates that will adversely affect the fair market value of an investment or a deposit. Deposits are maintained mainly in U.S. dollars.

IIRR's investments held in the U.S.A. consist of the following:

	2007			2006
	Short-term	**Long-term**	**Total**	
Equity stocks	**$659,803**	**$–**	**$659,803**	$668,598
U.S. Treasury notes	**–**	**102,403**	**102,403**	102,453
Money market placements	**33,896**	**–**	**33,896**	33,314
	$693,699	**$102,403**	**$796,102**	$804,365

The balances of short-term and long-term investments are composed of:

	2007			2006
	Cost	**Unrealized Gain**	**Total**	
Short-term (held for a year or less):				
Equity stocks	**$473,192**	**$186,611**	**$659,803**	$668,598
Money market placements	**33,896**	**–**	**33,896**	33,314
	$507,088	**$186,611**	**$693,699**	$701,912
Long-term (held for more than a year) - U.S. Treasury notes	**$98,061**	**$4,342**	**$102,403**	$102,453

4. **Contributions Receivable**

These receivables are covered by signed grant agreements.

Realization of the pledges is expected in the following periods:

	2007	2006
In one year or less	**$1,160,321**	$1,197,984
Between one and five years	**1,236,195**	343,797
	2,396,516	1,541,781
Less discount	**91,843**	31,203
	$2,304,673	$1,510,578

5. **Property and Equipment** - net

This account consists of:

	2007	2006
Leasehold improvements	**$55,151**	$46,513
Buildings	**717,285**	603,907
Furniture and office equipment	**793,096**	664,487
Transportation equipment	**425,860**	383,509
Other equipment	**156,849**	131,580
	2,148,241	1,829,996
Less accumulated depreciation and amortization	**1,877,950**	1,519,598
	$270,291	$310,398

IIRR donated its land in Cavite to the Philippine Rural Reconstruction Movement, Inc. (PRRM) in 1975. Excluded from this donation were buildings and other improvements on such land. In the same year, PRRM and IIRR entered into a lease agreement on the land in Cavite for a period of 25 years, renewable for another 25 years upon mutual agreement of the parties concerned. The annual rental under the lease contract was $286 until May 25, 2000. On May 23, 2000, IIRR and PRRM executed a contract to confirm their agreement to share the Cavite campus for rural reconstruction work. The contract permits IIRR to use its portion of the campus without rent through May 25, 2025 and may be extended for another 25 years upon mutual agreement of the parties concerned. The fair value of the free rent of $17,442 in 2007 and $14,685 in 2006 is recognized as part of other revenues and program services in the statements of activities.

As of December 31, 2007 and 2006, fully depreciated assets amounting to $1,137,673 and $951,307, respectively, were still in use.

6. **Pension Plans**

IIRR has a defined benefit pension plan for its employees in the Philippines and a defined contribution pension plan covering its employees in the U.S.A. and Africa Regional Center. Pension cost for these plans amounted to $105,217 and $91,068 in 2007 and 2006, respectively.

- Pension Plan for the Philippines

  The defined benefit pension plan (Plan) is a funded noncontributory retirement plan covering all regular employees in the Philippines except for certain staff members covered by other plans. A local bank, appointed as trustee, administers the Plan. IIRR's policy is to fund accrued pension costs.

  Effective July 1, 2000, the Institute amended the plan to change the benefit formula to a cash balance formula from the existing benefit calculation based upon years of service and final pay. The benefits accrued as of June 30, 2000 under the old formula were credited to each employee's personal retirement account (PRA). A fixed percentage of the employee's monthly salary (at the time earned) beginning July 1, 2000 is also being credited to the employee's PRA.

  Normal retirement date is upon attainment by a member of age 60 while early retirement is at age 50, with at least 10 years of service. Upon retirement, an employee receives in one lump sum the amount credited to his/her PRA or the legally mandated minimum retirement benefit, whichever is higher. In case of voluntary resignation, the employee is entitled to receive the amount standing to his/her credit upon the member attaining the age of 50 or after having completed at least 10 years of continuous service. A member who resigns from the employment of the Institute before completing 10 years of continuous service shall be entitled to receive one-half of the amount standing to his/her credit upon resignation and the balance of such amount standing to his/her credit upon attaining the age of 50. Alternatively, he/she may request for his/her fund balance to be transferred to another qualified plan. The fund is required to be under trusteeship to comply with the Philippine requirement for tax qualification. No part of the amount of the fund may be used for or diverted to any purpose other than for the benefit of the members and their beneficiaries.

The following table sets forth IIRR Plan's status:

	2007	2006
Accumulated benefit obligation	**$412,416**	$305,015

Projected benefit obligation (PBO)	**$412,416**	$305,015
Plan assets at fair value	**412,416**	305,015
Required additional pension liability	**$–**	$–

Unrecognized amortization:		
Prior service cost	**$–**	$–
Net gain	**–**	–
	$–	$–

The net pension cost for the Plan includes the following elements:

	2007	2006
Benefit cost:		
Service cost	**$52,319**	$42,538
Interest cost on PBO	**8,986**	18,207
Expected return on assets	**(8,986)**	(18,207)
Net amortization cost	**1,046**	941
Pension cost	**$53,365**	$43,479
Benefits paid	**$16,491**	$63,867
Contributions made	**$52,319**	$42,538

The projected benefit obligation assumes a discount rate of 8% in 2007 and 2006, and a 5% rate of compensation increases in 2007 and per year thereafter. The expected long-term rate of return on Plan assets is 8% in 2007 and 10% in 2006.

The changes in PBO are as follows:

	2007	2006
PBO at beginning of year	**$305,015**	$278,380
Service cost	**52,319**	42,538
Interest cost on PBO	**8,986**	18,207
Benefits paid	**(16,491)**	(63,867)
Actuarial loss	**–**	6,545
Translation adjustment (Philippine peso to U.S. dollar)	**62,587**	23,212
PBO at end of year	**$412,416**	$305,015

The changes in fair value of plan assets are as follows:

	2007	2006
Fair value of plan assets at beginning of year	**$305,015**	$284,707
Actual return on plan assets	**8,986**	18,207
Contributions made	**52,319**	42,538
Benefits paid	**(16,491)**	(63,867)
Translation adjustment (Philippine peso to U.S. dollar)	**62,587**	23,430
Fair value of plan assets at end of year	**$412,416**	$305,015

The Plan is funded by contributions of the Institute to a trust fund managed by a Philippine bank. The plan assets of the Institute include Philippine peso and U.S. dollar-denominated investments. The market value of the plan assets is determined by the fund trustee.

Notwithstanding any other provisions of the trust agreement, the fund trustee shall use its best efforts to maintain allocation of the investment of the provident fund as established by the Institute's retirement committee and approved by the Institute's BOT. Funds delivered to the trustee in Philippine pesos shall be invested in Philippine peso-denominated investments. Funds delivered to the trustee in U.S. dollars shall be invested in U.S. dollar-denominated investments.

Allocation of the trust fund is as follows:

	2007	2006
Type of Investment (Philippine peso-denominated):		
Government securities	**57%**	62%
Short-term money market	**29%**	28%
Commercial loan	**14%**	10%
	100%	100%
Type of Investment (U.S. dollar-denominated):		
Mutual fund	**100%**	75%
Short-term money market	–	25%
	100%	100%

- Pension Plan for Other Countries

Net pension cost for the defined contribution pension plan amounted to $51,852 in 2007 and $44,949 in 2006. Pension cost for employees of the Latin America Regional Center amounted to $2,640 in 2006.

Relative to the closure of Latin America Regional Center (see Note 1), separation pay amounting to $12,261 was paid in 2006 to its employees out of the pension fund.

7. Funds Held in Trust

This is a liability account consisting of the loan fund portions of project grants from Deutsche Welthungerhilfe/German Agro Action to IIRR to be transferred to beneficiary organizations once they have established their capabilities to manage such funds. These funds have been used to provide loans to cooperatives and other village-based people's organizations for specific purposes and with specific maturities.

The remaining fund is attributed to Santo Domingo People's Cooperative a multi-purpose secondary cooperative/federation of various primary cooperatives in Santo Domingo, Albay, Philippines established in 1989 through the efforts and assistance of the Institute under its Local Resource Management - Bicol Project.

8. Net Assets

a. Temporarily restricted net assets are available for the following program service expenditures:

	2007	2006
Program services	**$2,449,311**	$1,540,625
The Alice Yen Senior Fellowship Fund (The Alice Yen Fund)	**34,168**	17,765
The Mr. & Mrs. Yen Mei Tang Memorial Fund	**13,672**	30,164
The Reader's Digest Endowment for Publications	**4,240**	2,654
The Employees' Welfare Fund	**–**	8,746
	$2,501,391	$1,599,954

b. Permanently restricted net assets as of December 31, 2007 and 2006 consist of the following endowment funds:

	2007	2006
The Alice Yen Fund	**$500,000**	$500,000
The Reader's Digest Endowment for Publications	**100,000**	100,000
The Employees' Welfare Fund	**62,982**	62,982
The Mr. & Mrs. Yen Mei Tang Memorial Fund	**55,000**	55,000
	$717,982	$717,982

Earnings and appreciation of permanently restricted net assets were included as part of temporarily restricted net assets.

Earnings and appreciation on The Alice Yen Fund may be used for purposes that honor the memory of Alice Yen and her contributions to rural reconstruction and those that relate to education, training, research programs of IIRR and professional development of its staff.

Earnings on The Reader's Digest Endowment for Publications may be used for publication expenses.

Earnings and appreciation on The Employees' Welfare Fund may be used for any purpose that tends to give a sense of security to IIRR's staff members.

Earnings and appreciation on The Mr. & Mrs. Yen Mei Tang Memorial Fund may be used for purposes that honor the memory of Mr. and Mrs. Yen Mei Tang and meet any of the following conditions:

a. Send promising IIRR staff members, holding bachelor's degrees to study for master's degrees at the University of the Philippines.

b. Enable promising young staff members to attend short-term courses or to receive training in subjects related to IIRR's mission and language, computer science or to other subjects relating to their work for IIRR.

c. Provide grants to finance on-site study of successful rural reconstruction efforts.

d. Finance expenditures on facilities and equipment that improve staff effectiveness.

e. Finance publications of IIRR staff members related to rural reconstruction.

In 2003, the Institute transferred the Rural Reconstruction Endowment Fund amounting to $50,128 to an endowment trust, which is a separate entity. The endowment trust is organized exclusively for the benefit of the Institute and shall operate as a supporting organization of the Institute in accordance with Section 509 (a)(3) of the U.S. Internal Revenue Code. The Institute has no control over the trust. The earnings of the fund will be for the benefit of the Institute only upon the determination of the distributable amount by the trustees of the endowment trust. Any earnings not distributed shall be accumulated to the principal. The value of the endowment trust as of December 31, 2007 and 2006 amounted to $63,528 and $62,385, respectively.

9. Commitments and Contingencies

IIRR leases various office spaces for its operations. The terms of these leases range from one to three years. Total rent expense amounted to $55,918 in 2007 and $53,256 in 2006.

10. **Expenses**

This account consists of expenses from continuing operation of IIRR:

2007

	Program Services				Supporting Services			
	Learning Community	Education and Training	Publication and Communication	Total	Management and General	Fund Raising	Total	Total Expenses
Staff cost (see Note 6)	$552,113	$475,066	$141,595	$1,168,774	$185,225	$87,371	$272,596	$1,441,370
Collaborating agency expenses	480,112	–	–	480,112	–	–	–	480,112
Contractual services	108,304	63,431	33,153	204,888	46,761	2,364	49,125	254,013
Travel	88,669	95,420	11,817	195,906	26,781	12,584	39,365	235,271
Food and accommodation	98,100	93,234	35,056	226,390	4,075	1,951	6,026	232,416
Field program expenses	42,451	77,096	5,169	124,716	7,863	–	7,863	132,579
Rental and maintenance of premises (see Notes 5 and 9)	44,353	30,780	24,358	99,491	19,498	7,249	26,747	126,238
Depreciation and amortization	33,294	53,800	14,462	101,556	10,360	389	10,749	112,305
Communication	36,238	18,359	16,641	71,238	11,134	3,406	14,540	85,778
Rental and maintenance of furniture, equipment and vehicle	52,116	17,029	3,490	72,635	7,340	902	8,242	80,877
Supplies and materials	24,265	23,157	7,195	54,617	23,699	2,331	26,030	80,647
Printing and publication	29,153	6,872	26,356	62,381	3,545	773	4,318	66,699
Staff education	12,868	960	480	14,308	7,854	–	7,854	22,162
Consultants	4,900	622	311	5,833	816	1,515	2,331	8,164
Others	39,027	36,308	18,253	93,588	6,217	3,791	10,008	103,596
	$1,645,963	$992,134	$338,336	$2,976,433	$361,168	$124,626	$485,794	$3,462,227

2006

	Program Services				Supporting Services			
	Learning Community	Education and Training	Publication and Communication	Total	Management and General	Fund Raising	Total	Total Expenses
Staff cost (see Note 6)	$581,913	$377,120	$92,076	$1,051,109	$161,526	$76,388	$237,914	$1,289,023
Collaborating agency expenses	367,073	25,898	11,183	404,154	–	–	–	404,154
Contractual services	106,978	57,158	23,365	187,501	15,235	3,978	19,213	206,714
Travel	89,715	85,157	17,132	192,004	25,218	14,119	39,337	231,341
Food and accommodation	83,088	184,247	40,074	307,409	6,468	2,484	8,952	316,361
Field program expenses	44,444	20,586	8,626	73,656	4,681	–	4,681	78,337
Rental and maintenance of premises (see Notes 5 and 9)	74,724	38,337	21,785	134,846	30,431	9,053	39,484	174,330
Depreciation and amortization	49,984	13,414	5,748	69,146	30,068	829	30,897	100,043
Communication	43,284	31,245	8,825	83,354	15,409	7,414	22,823	106,177
Rental and maintenance of furniture, equipment and vehicle	35,573	34,337	9,132	79,042	3,721	538	4,259	83,301
Supplies and materials	25,703	23,352	2,951	52,006	6,389	3,874	10,263	62,269
Printing and publication	30,340	11,271	1,661	43,272	3,974	924	4,898	48,170
Staff education	16,673	895	163	17,731	156	22	178	17,909
Consultants	14,282	5,394	1,046	20,722	568	–	568	21,290
Others	2,544	413	141	3,098	109,397	–	109,397	112,495
	$1,566,318	$908,824	$243,908	$2,719,050	$413,241	$119,623	$532,864	$3,251,914

The foregoing expenses and costs incurred by IIRR are classified by functional category of program and supporting services. The functional categories included under program services are described as follows:

a. Learning Community Program

This program aims to: (1) enable people and their communities to effect meaningful change in their lives through research and learning process; and, (2) generate knowledge about participatory human development through practical experience. Capacity building of people and their institutions is achieved at the community level through this program.

b. Education and Training Program

This program aims to share knowledge to strengthen the capacities of learning communities, development practitioners and the international development community to promote participatory human development through training courses, workshops, study programs, conferences and other educational means.

c. Publication and Communication Program

This program aims to share knowledge to strengthen the capacities of learning communities, development practitioners and the international development community to promote participatory human development through the production, distribution and use of publication and communication materials produced and shared using participatory approaches.

11. Discontinued Operation

In September 2006, the BOT approved the closure of Latin America Regional Center. The components of assets and liabilities of Latin America follow:

ASSETS	
Receivables - resulting from sale of vehicles	$10,290
LIABILITY	
Payable to IIRR - Headquarters	166,975
Net Liability of Discontinued Operation	($156,685)

The liability of Latin America Regional Center to IIRR - Headquarters is eliminated in the accompanying 2006 statement of financial position; its receivables amounting to $10,290 are shown as part of other receivables.

The result of activities of Latin America Regional Center for the year ended December 31, 2006 which are presented separately in the accompanying statements of activities follow:

REVENUES, GAINS AND OTHER SUPPORT	
Gain on sale of property and equipment	$12,300
Technical assistance	9,034
Publication sales	4,245
Others	2,321
	27,900
EXPENSES	
Learning community	12,353
Education and training	12,353
Management and general	7,731
Publication and communication	6,178
	38,615
DEFICIENCY OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES OF DISCONTINUED OPERATIONS	($10,715)

Cash flows of Latin America Regional Center for the year ended December 31, 2006 which are shown separately in the accompanying statements of cash flows follow:

CASH FLOWS FROM OPERATING ACTIVITIES	
Deficiency of revenues, gains and other support over expenses of discontinued operations	($10,715)
Gain on sale of property and equipment	(12,300)
Increase in other receivables	(10,085)
Decrease in accounts payable and other current liabilities	(8,027)
Cash used in operating activities of discontinued operations	($41,127)
CASH FLOWS FROM INVESTING ACTIVITY	
Proceeds from sale of property and equipment	$12,300

The increase in liability of Latin America Regional Center to IIRR - Headquarters amounting to $2,186 in 2006 is eliminated in the accompanying statements of cash flows.