International Institute of Rural Reconstruction

(A Nonprofit, Nonstock Organization)

Financial Statements
December 31, 2008 and 2007

and

Independent Auditors' Report

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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, 2008 and 2007, 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, 2008 and 2007, 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

Juanito A. Fullecido
Partner

May 29, 2009

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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2008	2007
ASSETS		
Cash and Cash Equivalents (Note 3)	**$419,547**	$482,793
Investments (Note 3)	**522,351**	796,102
Contributions Receivable (Note 4)	**2,402,992**	2,304,673
Other Receivables (Note 5)	**323,263**	406,054
Property and Equipment - net (Note 6)	**174,588**	270,291
Prepayments and Other Assets	**24,200**	37,118
	$3,866,941	$4,297,031
LIABILITIES AND NET ASSETS		
Accounts Payable and Other Current Liabilities (Note 7)	**$390,956**	$330,251
Funds Held in Trust (Note 9)	**4,264**	4,264
Total Liabilities	**395,220**	334,515
Net Assets		
Unrestricted	**64,371**	743,143
Temporarily restricted (Note 10)	**2,689,368**	2,501,391
Permanently restricted (Note 10)	**717,982**	717,982
Total Net Assets	**3,471,721**	3,962,516
	$3,866,941	$4,297,031

See accompanying Notes to Financial Statements.

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

STATEMENTS OF ACTIVITIES

	Years Ended December 31							
	2008				2007			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CONTINUING OPERATIONS								
REVENUES, GAINS AND OTHER SUPPORT								
Contributions/Grants:								
Foundations - net of $62,780 discount in 2008 and inclusive of $41,329 and $14,618 accretion income in 2008 and 2007, respectively (Note 4)	**$36,195**	**$2,157,352**	**$–**	**$2,193,547**	$34,585	$1,056,439	$–	$1,091,024
Governments - net of $75,258 discount in 2007 and inclusive of $50,331 accretion income in 2008 (Note 4)	**–**	**298,373**	**–**	**298,373**	–	1,153,860	–	1,153,860
Individuals	**138,854**	**44,006**	**–**	**182,860**	217,751	60,411	–	278,162
Corporations	**5,214**	**239**	**–**	**5,453**	43,452	42,614	–	86,066
Technical assistance	**472,862**	**–**	**–**	**472,862**	444,889	–	–	444,889
Training courses	**270,188**	**–**	**–**	**270,188**	341,512	–	–	341,512
Use of campus facilities by development organizations	**95,092**	**–**	**–**	**95,092**	95,039	–	–	95,039
Study programs	**86,636**	**–**	**–**	**86,636**	83,865	–	–	83,865
Workshops	**42,308**	**–**	**–**	**42,308**	83,335	–	–	83,335
Publication sales	**21,039**	**–**	**–**	**21,039**	32,865	–	–	32,865
Gain on changes in market value of investments (Note 3)	**–**	**–**	**–**	**–**	149,013	–	–	149,013
Others (Notes 3 and 6)	**163,095**	**–**	**–**	**163,095**	60,810	–	–	60,810
Net assets released from restrictions:								
Satisfaction of program restrictions	**2,136,993**	**(2,136,993)**	**–**	**–**	1,236,887	(1,236,887)	–	–
Expiration of time restrictions	**175,000**	**(175,000)**	**–**	**–**	175,000	(175,000)	–	–
	3,643,476	**187,977**	**–**	**3,831,453**	2,999,003	901,437	–	3,900,440
EXPENSES (Note 12)								
Program services (Notes 6, 8 and 11):								
Learning community	**2,234,841**	**–**	**–**	**2,234,841**	1,645,963	–	–	1,645,963
Education and training	**872,948**	**–**	**–**	**872,948**	992,134	–	–	992,134
Publication and communication	**201,221**	**–**	**–**	**201,221**	338,336	–	–	338,336
	3,309,010	**–**	**–**	**3,309,010**	2,976,433	–	–	2,976,433
Supporting services (Notes 6, 8 and 11):								
Management and general	**479,484**	**–**	**–**	**479,484**	361,168	–	–	361,168
Fund raising	**100,387**	**–**	**–**	**100,387**	124,626	–	–	124,626
	579,871	**–**	**–**	**579,871**	485,794	–	–	485,794
	3,888,881	**–**	**–**	**3,888,881**	3,462,227	–	–	3,462,227
EXCESS (DEFICIENCY) OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES OF CONTINUING OPERATIONS	**(245,405)**	**187,977**	**–**	**(57,428)**	(463,224)	901,437	–	438,213
Translation gain (loss)	**(433,367)**	**–**	**–**	**(433,367)**	101,311	–	–	101,311
CHANGE IN NET ASSETS	**($678,772)**	**$187,977**	**$–**	**($490,795)**	($361,913)	$901,437	$–	$539,524

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							
	2008				2007			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	**$743,143**	**$2,501,391**	**$717,982**	**$3,962,516**	$1,105,056	$1,599,954	$717,982	$3,422,992
Change in net assets	**(678,772)**	**187,977**	**–**	**(490,795)**	(361,913)	901,437	–	539,524
Balance at end of year	**$64,371**	**$2,689,368**	**$717,982**	**$3,471,721**	$743,143	$2,501,391	$717,982	$3,962,516

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues, gains and other support over expenses of continuing operations	**($57,428)**	$438,213
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Effect of foreign exchange rate changes on translation	**(410,234)**	81,716
Loss (gain) on changes in market value of investments (Note 3)	**257,521**	(149,013)
Depreciation and amortization (Notes 6 and 12)	**93,103**	112,305
Decrease (increase) in:		
Contributions receivable	**(98,319)**	(794,095)
Other receivables	**82,791**	(69,056)
Prepayments and other assets	**12,918**	8,758
Increase (decrease) in accounts payable and other current liabilities	**60,705**	(12,564)
Net cash used in operating activities	**(58,943)**	(383,736)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 6)	**(20,533)**	(52,603)
Decrease in investments (Note 3)	**16,230**	157,276
Net cash provided by (used in) investing activities	**(4,303)**	104,673
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(63,246)**	(279,063)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**482,793**	761,856
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$419,547**	$482,793

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 12), 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, publication sales and investment return on endowment funds.

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 Board of Trustees (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 a 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 accompanying 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.

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.

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.

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 12). 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 $1,326,820 and $893,453 as of December 31, 2008 and 2007, 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 Euro and U.S. dollar interest rates plus spread.

3. Cash and Cash Equivalents and Investments

The cash and cash equivalents account consists of:

	2008	2007
Cash in banks	**$367,780**	$481,222
Short-term investments	**50,550**	–
Cash on hand	**1,217**	1,571
	$419,547	$482,793

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of one day and three months depending on the immediate cash requirements of the Institute and earn interest at the respective short-term investment rates.

The movements in the investments held in the U.S.A. are as follows:

	2008			
	Short-term		**Long-term**	
	Equity Stocks	**Money Market Placements**	**U.S. Treasury Notes**	**Total**
Cost at January 1, 2008	**$473,191**	**$33,896**	**$98,062**	**$605,149**
Gain on changes in market value at January 1, 2008	**186,612**	**–**	**4,341**	**190,953**
Market value at January 1, 2008	**659,803**	**33,896**	**102,403**	**796,102**
Deposits/acquisitions	**9,787**	**1,514**	**1,936**	**13,237**
Interest and dividends	**–**	**7,705**	**–**	**7,705**
Withdrawals	**–**	**(37,172)**	**–**	**(37,172)**
Loss due to change in market value during the year (Note12)	**(255,208)**	**–**	**(2,313)**	**(257,521)**
Market value at December 31, 2008	**$414,382**	**$5,943**	**$102,026**	**$522,351**
Cost at December 31, 2008	**$482,978**	**$5,943**	**$99,998**	**$588,919**
Gain (loss) on changes in market value at December 31, 2008	**(68,596)**	**–**	**2,028**	**(66,568)**
	$414,382	**$5,943**	**$102,026**	**$522,351**

	2007			
	Short-term		Long-term	
	Equity Stocks	Money Market Placements	U.S. Treasury Notes	Total
Cost at January 1, 2007	$627,965	$33,314	$101,146	$762,425
Gain on changes in market value at January 1, 2007	40,633	–	1,307	41,940
Market value at January 1, 2007	668,598	33,314	102,453	804,365
Deposits	–	33,797	–	33,797
Interest and dividends	–	16,067	–	16,067
Withdrawals	(154,774)	(49,282)	(3,106)	(207,162)
Interest accrued	–	–	22	22
Gain due to change in market value during the year	145,979	–	3,034	149,013
Market value at December 31, 2007	$659,803	$33,896	$102,403	$796,102

	2007			
	Short-term		Long-term	
	Equity Stocks	Money Market Placements	U.S. Treasury Notes	Total
Cost at December 31, 2007	$473,191	$33,896	$98,062	$605,149
Gain on changes in market value at December 31, 2007	186,612	–	4,341	190,953
	$659,803	$33,896	$102,403	$796,102

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 2008 and 2007 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.

4. Contributions Receivable

These receivables are covered by signed grant agreements.

Realization of the pledges is expected in the following periods:

	2008	2007
In one year or less	**$ 1,731,812**	$1,160,321
Between one and five years	**734,143**	1,236,195
	2,465,955	2,396,516
Less discount	**62,963**	91,843
	$2,402,992	$2,304,673

Movements in discount on contributions receivable are as follows:

	2008	2007
Balance at beginning of year	**$91,843**	$31,203
Accretion income	**(91,660)**	(14,618)
Additions during the year	**62,780**	75,258
Balance at end of year	**$62,963**	$91,843

5. Other Receivables

This account consists of:

	2008	2007
Advances to officers and employees	**$104,787**	$98,367
Other receivables	**219,677**	311,418
	324,464	409,785
Less allowance for impairment losses	**1,201**	3,731
	$323,263	$406,054

Other receivables include receivables arising from training courses, workshops, study programs, technical assistance, publication sales, deposits to suppliers and creditors, and other staff receivables.

Movements in the allowance for impairment losses are as follows:

	2008	2007
Balance at beginning of year	**$3,731**	$3,731
Amounts written-off against allowance	**(2,530)**	–
Balance at end of year	**$1,201**	$3,731

6. Property and Equipment

This account consists of:

	Leasehold Improvements	Buildings	Furniture and office equipment	Transportation Equipment	Other equipment	Total
Cost						
Balance at January 1, 2007	$46,513	$603,907	$664,487	$383,509	$131,580	$1,829,996
Additions	–	–	50,539	1,477	587	52,603
Disposals	–	–	(7,664)	–	–	(7,664)
Cumulative translation adjustments	8,638	113,378	85,734	40,874	24,682	273,306
Balance at December 31, 2007	55,151	717,285	793,096	425,860	156,849	2,148,241
Additions	–	–	9,918	8,195	2,420	20,533
Cumulative translation adjustments	(7,176)	(94,189)	(109,554)	(60,000)	(20,634)	(291,553)
Balance at December 31, 2008	$47,975	$623,096	$693,460	$374,055	$138,635	$1,877,221
Accumulated Depreciation and Amortization						
Balance at January 1, 2007	$37,715	$497,764	$545,320	$334,826	$103,973	$1,519,598
Depreciation and amortization	1,320	28,350	58,695	19,678	4,262	112,305
Disposals	–	–	(7,664)	–	–	(7,664)
Cumulative translation adjustments	7,187	97,481	92,888	36,279	19,876	253,711
Balance at December 31, 2007	46,222	623,595	689,239	390,783	128,111	1,877,950
Depreciation and amortization	1,398	32,284	27,989	23,730	7,702	93,103
Cumulative translation adjustments	(6,147)	(86,473)	(100,331)	(56,653)	(18,816)	(268,420)
Balance at December 31, 2008	$41,473	$569,406	$616,897	$357,860	$116,997	$1,702,633
Net Book Value						
At December 31, 2008	**$6,502**	**$53,690**	**$76,563**	**$16,195**	**$21,638**	**$174,588**
At December 31, 2007	8,929	93,690	103,857	35,077	28,738	270,291

IIRR donated its land in Cavite, Philippines 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 $15,152 in 2008 and $17,442 in 2007 is recognized as part of other revenues and program services in the statements of activities.

As of December 31, 2008 and 2007, fully depreciated assets amounting to $1,140,188 and $1,137,673, respectively, were still in use.

7. Accounts Payable and Other Current Liabilities

This account consists of:

	2008	2007
Vouchers payable	**$324,170**	$302,271
Accrued expenses	**66,301**	27,495
Others	**485**	485
	$390,956	$330,251

Vouchers payable are noninterest-bearing and are generally on 30 to 60 days' term. Accrued expenses represent statutory payables such as withholding taxes, social security premiums and other liabilities to the government.

8. 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 $70,929 and $105,217 in 2008 and 2007, 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:

	2008	2007
Accumulated benefit obligation	**$134,220**	$412,416
Projected benefit obligation (PBO)	**$134,220**	$412,416
Plan assets at fair value	**134,220**	412,416
Required additional pension liability	**$–**	$–
Unrecognized amortization:		
Prior service cost	**$–**	$–
Net gain	**–**	–
	$–	$–

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

	2008	2007
Benefit cost:		
Service cost	**$35,745**	$52,319
Interest cost on PBO	**14,754**	8,986
Expected return on assets	**(14,754)**	(8,986)
Curtailment loss	**(19,081)**	–
Net amortization cost	**1,086**	1,046
Pension cost	**$17,750**	$53,365
Benefits paid	**$12,745**	$16,491
Contributions made	**$35,745**	$52,319

The projected benefit obligation assumes a discount rate of 8% in 2008 and 2007, and a 5% rate of compensation increases in 2007 and per year thereafter. The expected long-term rate of return on Plan assets is 6% in 2008 and 8% in 2007.

The changes in PBO are as follows:

	2008	2007
PBO at beginning of year	**$412,416**	$305,015
Service cost	**35,745**	52,319
Interest cost on PBO	**14,754**	8,986
Benefits paid	**(12,745)**	(16,491)
Effect of curtailment	**(277,138)**	–
Translation adjustment (Philippine peso to U.S. dollar)	**(38,812)**	62,587
PBO at end of year	**$134,220**	$412,416

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

	2008	2007
Fair value of plan assets at beginning of year	**$412,416**	$305,015
Actual return on plan assets	**14,754**	8,986
Contributions made	**35,745**	52,319
Benefits paid	**(12,745)**	(16,491)
Effect of curtailment	**(277,138)**	–
Translation adjustment (Philippine peso to U.S. dollar)	**(38,812)**	62,587
Fair value of plan assets at end of year	**$134,220**	$412,416

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:

	2008	2007
Type of Investment (Philippine peso-denominated):		
Government securities	**60%**	57%
Short-term money market	**19%**	29%
Commercial loan	**21%**	14%
	100%	100%
Type of Investment (U.S. dollar-denominated):		
Mutual fund	**91%**	100%
Short-term money market	**9%**	–
	100%	100%

- Pension Plan for Other Countries

  Net pension cost for the defined contribution pension plan amounted to $53,179 in 2008 and $51,852 in 2007.

9. 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.

10. Net Assets

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

	2008	2007
Program services	**$2,686,698**	$2,449,311
The Alice Yen Senior Fellowship Fund (The Alice Yen Fund)	–	34,168
The Mr. & Mrs. Yen Mei Tang Memorial Fund	–	13,672
The Reader's Digest Endowment for Publications	**2,670**	4,240
	$2,689,368	$2,501,391

b. Permanently restricted net assets as of December 31, 2008 and 2007 consist of the following endowment funds:

	2008	2007
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, 2008 and 2007 amounted to $54,605 and $63,528, respectively.

11. 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 $65,629 in 2008 and $55,918 in 2007.

12. Expenses

This account consists of expenses from continuing operation of IIRR:

	2008							
	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 8)	$760,182	$393,298	$105,011	$1,258,491	$213,504	$69,005	$282,509	$1,541,000
Collaborating agency expenses	605,038	–	–	605,038	–	–	–	605,038
Loss on changes in market value of investments (see Note 3)	51,504	51,504	25,752	128,760	128,761	–	128,761	257,521
Travel	125,112	85,909	7,792	218,813	19,478	4,607	24,085	242,898
Contractual services	141,404	62,618	10,647	214,669	25,795	509	26,304	240,973
Food and accommodation	142,156	58,084	10,102	210,342	8,037	854	8,891	219,233

(Forward)

2008

	Program Services				Supporting Services			
	Learning Community	**Education and Training**	**Publication and Communication**	**Total**	**Management and General**	**Fund Raising**	**Total**	**Total Expenses**
Rental and maintenance of premises (see Notes 6 and 11)	**$73,939**	**$37,830**	**$10,967**	**$122,736**	**$27,514**	**$7,232**	**$34,746**	**$157,482**
Depreciation and amortization (see Note 6)	**45,143**	**29,793**	**11,479**	**86,415**	**6,005**	**683**	**6,688**	**93,103**
Rental and maintenance of furniture, equipment and vehicle	**58,853**	**22,530**	**2,004**	**83,387**	**7,515**	**392**	**7,907**	**91,294**
Communication	**41,314**	**20,536**	**4,398**	**66,248**	**9,978**	**3,896**	**13,874**	**80,122**
Consultants	**40,960**	**22,439**	**727**	**64,126**	**5,090**	**1,028**	**6,118**	**70,244**
Field program expenses	**23,852**	**33,528**	**1,102**	**58,482**	**247**	**–**	**247**	**58,729**
Supplies and materials	**32,254**	**12,906**	**1,150**	**46,310**	**6,057**	**1,842**	**7,899**	**54,209**
Printing and publication	**22,331**	**8,139**	**654**	**31,124**	**3,426**	**1,738**	**5,164**	**36,288**
Staff education	**8,881**	**3,343**	**437**	**12,661**	**2,079**	**936**	**3,015**	**15,676**
Others	**61,918**	**30,491**	**8,999**	**101,408**	**15,998**	**7,665**	**23,663**	**125,071**
	$2,234,841	**$872,948**	**$201,221**	**$3,309,010**	**$479,484**	**$100,387**	**$579,871**	**$3,888,881**

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 8)	$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
Travel	88,669	95,420	11,817	195,906	26,781	12,584	39,365	235,271
Contractual services	108,304	63,431	33,153	204,888	46,761	2,364	49,125	254,013
Food and accommodation	98,100	93,234	35,056	226,390	4,075	1,951	6,026	232,416
Rental and maintenance of premises (see Notes 6 and 11)	44,353	30,780	24,358	99,491	19,498	7,249	26,747	126,238
Depreciation and amortization (Note 6)	33,294	53,800	14,462	101,556	10,360	389	10,749	112,305
Rental and maintenance of furniture, equipment and vehicle	52,116	17,029	3,490	72,635	7,340	902	8,242	80,877
Communication	36,238	18,359	16,641	71,238	11,134	3,406	14,540	85,778
Consultants	4,900	622	311	5,833	816	1,515	2,331	8,164
Field program expenses	42,451	77,096	5,169	124,716	7,863	–	7,863	132,579
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
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

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.