

## INDEPENDENT AUDITORS' REPORT

To the Inter-American Board of Agriculture  
of the Inter-American Institute for Cooperation on Agriculture (IICA):

### Report on the financial statements

We have audited the accompanying financial statements of the Inter-American Institute for Cooperation on Agriculture (IICA), which comprise of the statements of financial position as at December 31, 2006 and 2005 and the statements of activities of unrestricted net assets, changes in net assets, and of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles for non-profit organizations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of IICA as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in accordance with generally accepted accounting principles for non-profit organizations.

### *Matters that do not affect the Auditor's Opinion*

As of December 31, 2006, the balance of quotas due from Member States amounting to US\$12,313,073 includes US\$4,096,815 of quotas overdue for more than one year. The General Directorate of IICA considers such balances to be collectible and continues making efforts to collect these balances from each Member State.

### **Report on supplementary information**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of IICA as of December 31, 2006 and 2005. The supplementary financial information shown in Exhibits 1, 2 and 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary financial information is the responsibility of the management of IICA. Such information has been subjected to the auditing procedures applied in the audit of the 2006 basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the 2006 basic financial statements, taken as a whole.



March 16, 2007

**INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)**

**STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2006 AND 2005**  
(Stated in United States Dollars)

	Notes	December 31, 2006			December 31, 2005	
		Unrestricted	Temporarily Restricted	Permanently Restricted		Total
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
Cash	2	US\$ 47,409,004			US\$ 47,409,004	US\$ 50,121,702
Short-term investments	1e, 3	<u>33,818,541</u>			<u>33,818,541</u>	<u>38,618,329</u>
Sub-total		<u>81,227,545</u>			<u>81,227,545</u>	<u>88,740,031</u>
Receivables:						
Quotas from Member States		12,313,073			12,313,073	11,971,620
Payments made on behalf of contracts, agreements and grants		1,964,112			1,964,112	2,880,488
Due from Regular Fund to Trust Fund	1f	<u>(62,751,169)</u>	US\$62,751,169			
Other		<u>2,046,098</u>			<u>2,046,098</u>	<u>3,701,173</u>
Sub-total		<u>(46,427,886)</u>	62,751,169		<u>16,323,283</u>	<u>18,553,281</u>
Less: Allowance for doubtful accounts	1h	<u>(279,181)</u>			<u>(279,181)</u>	<u>(279,181)</u>
Receivables - Net		<u>(46,707,067)</u>	<u>62,751,169</u>		<u>16,044,102</u>	<u>18,274,100</u>
Inventories	1g	59,327			59,327	57,655
Prepaid expenses		263,451			263,451	96,820
Other assets		<u>155,267</u>			<u>155,267</u>	<u>15,372</u>
Total current assets		<u>34,998,523</u>	62,751,169		<u>97,749,692</u>	<u>107,183,978</u>
PROPERTY, FURNITURE AND EQUIPMENT - NET	1i, 1j, 4	<u>2,669,319</u>		<u>US\$8,713,171</u>	<u>11,382,490</u>	<u>11,009,449</u>
<b>TOTAL ASSETS</b>		<u><b>US\$ 37,667,842</b></u>	<u><b>US\$62,751,169</b></u>	<u><b>US\$8,713,171</b></u>	<u><b>US\$109,132,182</b></u>	<u><b>US\$118,193,427</b></u>
<b>LIABILITIES AND NET ASSETS</b>						
<b>CURRENT LIABILITIES:</b>						
Accounts payable and accrued expenses		US\$ 2,832,329			US\$ 2,832,329	US\$ 3,775,816
Purchase commitments	1l	260,894			260,894	601,995
Other accruals		<u>386,946</u>			<u>386,946</u>	<u>395,548</u>
Total current liabilities		<u>3,480,169</u>			<u>3,480,169</u>	<u>4,773,359</u>
Provisions for:						
Repatriation and transfer of international professional personnel	1k	1,799,996			1,799,996	1,712,370
Recognition of years of service for international professional personnel	1k	1,867,885			1,867,885	2,049,035
Recognition of years of service for local personnel	1k	1,793,392			1,793,392	1,690,704
Other termination benefits	1k	<u>6,210,994</u>			<u>6,210,994</u>	<u>6,259,625</u>
Total provisions		<u>11,672,267</u>			<u>11,672,267</u>	<u>11,711,734</u>
Total liabilities		<u>15,152,436</u>			<u>15,152,436</u>	<u>16,485,093</u>
<b>NET ASSETS:</b>						
Unrestricted funds:						
Regular fund:						
General subfund	1b	6,046,162			6,046,162	6,487,265
Working subfund	1b	4,075,136			4,075,136	4,075,136
Miscellaneous income fund	1b	4,880,183			4,880,183	1,094,054
Institutional net rate fund	1b	4,844,606			4,844,606	4,481,132
Fixed assets fund	1b	2,669,319			2,669,319	2,296,278
Temporarily restricted funds:						
Trust funds	1b		US\$62,751,169		62,751,169	74,561,298
Permanently restricted fund - Land	1b			<u>US\$8,713,171</u>	<u>8,713,171</u>	<u>8,713,171</u>
Total net assets		<u>22,515,406</u>	<u>62,751,169</u>	<u>8,713,171</u>	<u>93,979,746</u>	<u>101,708,334</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u><b>US\$ 37,667,842</b></u>	<u><b>US\$62,751,169</b></u>	<u><b>US\$8,713,171</b></u>	<u><b>US\$109,132,182</b></u>	<u><b>US\$118,193,427</b></u>
CONTINGENCIES	11					

See accompanying notes to the financial statements.

## INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)

### STATEMENTS OF ACTIVITIES OF UNRESTRICTED NET ASSETS

YEARS ENDED DECEMBER 31, 2006 AND 2005

(Stated in United States Dollars)

	Notes	2006					2005				
		Regular Fund Quotas	Miscellaneous Income Fund	Institutional Net Rate Fund	Trust Funds	Total	Regular Fund Quotas	Miscellaneous Income Fund	Institutional Net Rate Fund	Trust Funds	Total
REVENUES:											
Quotas from Member States	1c	US\$27,167,572				US\$ 27,167,572	US\$27,167,572				US\$ 27,167,572
Recovery of Institutional Net Rate (INR)	5			US\$7,062,573		7,062,573			US\$7,446,642		7,446,642
Temporarily restricted funds assets released from restrictions	1f				US\$134,107,114	134,107,114				US\$125,485,987	125,485,987
Commercial and miscellaneous operations - Net	6		US\$3,786,129			3,786,129		US\$937,347			937,347
Total revenues		<u>27,167,572</u>	<u>3,786,129</u>	<u>7,062,573</u>	<u>134,107,114</u>	<u>172,123,388</u>	<u>27,167,572</u>	<u>937,347</u>	<u>7,446,642</u>	<u>125,485,987</u>	<u>161,037,548</u>
EXPENSES:											
International professional personnel costs		9,789,346				9,789,346	9,408,616				9,408,616
Local personnel costs		7,473,645				7,473,645	7,297,204				7,297,204
Training		909,310				909,310	909,701				909,701
IICA staff travel		1,559,565				1,559,565	1,410,468				1,410,468
Documents and supplies		674,050				674,050	723,837				723,837
Acquisition and/or rental of assets and other		806,235				806,235	1,021,409				1,021,409
Maintenance, communications and general services		2,090,814				2,090,814	2,007,699				2,007,699
Contracts, works, donations and subsidies		2,539,689				2,539,689	2,381,387				2,381,387
Annual allowance to CATIE	7	1,000,000				1,000,000	1,000,000				1,000,000
Annual allowance to Caribbean Agricultural Research and Development Institute (CARDI)		182,197				182,197	190,440				190,440
Miscellaneous		583,824				583,824	538,076				538,076
Sub-total of expenses related to quota budget and Working Subfund		<u>27,608,675</u>				<u>27,608,675</u>	<u>26,888,837</u>				<u>26,888,837</u>
Temporarily restricted funds assets released from restrictions	1f				134,107,114	134,107,114				125,485,987	125,485,987
Disbursements financed with funds from the Institutional Net Rate (INR)	5			6,698,408		6,698,408			6,008,266		6,008,266
Total expenses		<u>27,608,675</u>		<u>6,698,408</u>	<u>134,107,114</u>	<u>168,414,197</u>	<u>26,888,837</u>		<u>6,008,266</u>	<u>125,485,987</u>	<u>158,383,090</u>
Increase (decrease) in unrestricted net assets for the year, before excluding net expenses capitalized as property, furniture and equipment and including depreciation of the year		(441,103)	3,786,129	364,165		3,709,191	278,735	937,347	1,438,376		2,654,458
Exclusion of net capitalized expenses as property, furniture and equipment		815,071				815,071	844,933				844,933
Prior period adjustments		780,684				780,684					
Increase in unrestricted net assets for the year, before including depreciation of the year		1,154,652	3,786,129	364,165		5,304,946	1,123,668	937,347	1,438,376		3,499,391
Inclusion of depreciation of the year		(1,222,714)				(1,222,714)	(1,111,469)				(1,111,469)
Increase (decrease) in unrestricted net assets		<u>US\$ (68,062)</u>	<u>US\$3,786,129</u>	<u>US\$ 364,165</u>	<u>US\$</u>	<u>US\$ 4,082,232</u>	<u>US\$ 12,199</u>	<u>US\$937,347</u>	<u>US\$1,438,376</u>	<u>US\$</u>	<u>US\$ 2,387,922</u>

See accompanying notes to the financial statements.

## INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)

### STATEMENTS OF CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2006 AND 2005

(Stated in United States Dollars)

	NET ASSETS							
	Regular Fund		Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General Subfund	Working Subfund	Miscellaneous Income Fund	Institutional Net Rate Fund	Fixed Assets Fund	Trust Funds	Land	
BALANCE AT DECEMBER 31, 2004	US\$ 6,208,530	US\$ 4,075,136	US\$156,707	US\$3,040,629	US\$ 2,562,814	US\$ 61,329,008	US\$8,713,171	US\$ 86,085,995
Restricted contributions received from donors						136,762,663		136,762,663
Net assets released from restrictions						(125,485,987)		(125,485,987)
Increase (decrease) in unrestricted net assets for the year	1,123,668		937,347	1,438,376	(1,111,469)			2,387,922
Prior period adjustments				2,127				2,127
Capitalization of net disbursements as property, furniture and equipment	(844,933)				844,933			
Net increase in disbursements made on behalf of contracts, agreements, and grants receivable from donors						1,955,614		1,955,614
BALANCE AT DECEMBER 31, 2005	6,487,265	4,075,136	1,094,054	4,481,132	2,296,278	74,561,298	8,713,171	101,708,334
Restricted contributions received from donors						123,213,361		123,213,361
Net assets released from restrictions						(134,107,114)		(134,107,114)
Increase (decrease) in unrestricted net assets for the year	1,154,652		3,786,129	364,165	(1,222,714)			4,082,232
Prior period adjustments	(780,684)			(691)	780,684			(691)
Capitalization of net disbursements as property, furniture and equipment	(815,071)				815,071			
Net decrease in disbursements made on behalf of contracts, agreements, and grants receivable from donors						(916,376)		(916,376)
BALANCE AT DECEMBER 31, 2006	<u>US\$ 6,046,162</u>	<u>US\$ 4,075,136</u>	<u>US\$4,880,183</u>	<u>US\$4,844,606</u>	<u>US\$ 2,669,319</u>	<u>US\$ 62,751,169</u>	<u>US\$8,713,171</u>	<u>US\$ 93,979,746</u>

See accompanying notes to the financial statements.

**INTER-AMERICAN INSTITUTE FOR COOPERATION  
ON AGRICULTURE (IICA)**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2006 AND 2005**

(Stated in United States Dollars)

	<b>2006</b>	<b>2005</b>
<b>OPERATING ACTIVITIES:</b>		
Increase in unrestricted net assets	US\$ 4,082,232	US\$ 2,387,922
Plus: Items not requiring cash:		
Prior period adjustments	(781,375)	2,127
Depreciation	1,222,714	1,111,469
Cash provided by (used for) changes in:		
Quotas receivable from Member States	(341,453)	4,154,367
Other receivables	1,655,075	(2,627,414)
Inventories	(1,672)	(2,854)
Prepaid expenses	(166,631)	135,999
Other assets	(139,895)	129,665
Accounts payable and accrued expenses	(943,487)	1,280,431
Purchase commitments	(341,101)	404,483
Other accruals	(8,602)	(226,800)
Provisions	(39,467)	1,953,571
Net cash provided by operating activities	<u>4,196,338</u>	<u>8,702,966</u>
<b>INVESTING ACTIVITIES:</b>		
Additions to furniture and equipment	(837,099)	(847,910)
Disposal of furniture and equipment	<u>22,028</u>	<u>2,977</u>
Net cash used in investing activities	<u>(815,071)</u>	<u>(844,933)</u>
<b>FINANCING ACTIVITIES:</b>		
Restricted contributions received from donors	123,213,361	136,762,663
Disbursements made in the execution of trust funds	<u>(134,107,114)</u>	<u>(125,485,987)</u>
Net cash (used in) provided by financing activities	<u>(10,893,753)</u>	<u>11,276,676</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,512,486)	19,134,709
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>88,740,031</u>	<u>69,605,322</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>US\$ 81,227,545</u>	<u>US\$ 88,740,031</u>

See accompanying notes to the financial statements.

# INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)

## NOTES TO THE FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(Stated in United States Dollars)

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### 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

- a. ***Basis of Presentation*** - The Inter-American Institute for Cooperation on Agriculture (IICA), formerly the Interamerican Institute of Agricultural Sciences, was established on October 7, 1942 pursuant to an initiative of the Organization of American States (OAS) in the District of Columbia, United States of America for an indefinite term. IICA is an autonomous international legal entity of Inter-American scope, whose main objective is to stimulate, promote, and support the efforts of the Member States to achieve agricultural development and rural well-being. Its regulations and operating procedures currently in use were approved at the First Ordinary Meeting of the Inter-American Board of Agriculture, held in August 1981 in Argentina.

IICA has the following formal authority structures:

- i. Inter-American Board of Agriculture (IABA) comprised by a representative from each Member State.
- ii. Executive Committee comprised by twelve Member States.
- iii. General Directorate.

At present, IICA is made up of 34 Member States with central headquarters located in San José, Costa Rica.

- b. ***Accounting Policies and Funds Managed*** - The financial statements were prepared in conformity with the accounting policies adopted by the IABA, and are presented according to the American Institute of Certified Public Accountants (AICPA)'s fund accounting policies for not-for-profit organizations. Funds managed by IICA are classified in the accompanying financial statements, according to the accounting policies established by IICA, as Unrestricted Funds, Temporarily Restricted Funds, and Permanently Restricted Funds. Additionally, such funds are classified according to their source and purpose, as follows:

#### UNRESTRICTED FUNDS:

- i. ***Regular Fund:*** This fund is comprised of two subfunds:

**General Subfund** - Activities of this subfund are mainly financed by mandatory contributions from Member States, as established by IABA, based on the quota computation system of the Organization of American States

(OAS). In addition, the miscellaneous income is recorded in this fund, unless the IABA or the Executive Committee has approved it for specific purposes. The purpose of the General Subfund is to finance execution of the regular activities planned and budgeted by IICA, including administration and management.

**Working Subfund** - The purpose of this subfund is to ensure the normal financial operation of IICA. According to Article 89 of the Rules of the General Directorate, the subfund balance shall not exceed 15% of annual quotas approved for the corresponding fiscal year, unless otherwise decided by IABA or the Executive Committee. This fund is constituted by the proceeds from the balances of uncommitted appropriations financed by quotas outstanding at each fiscal year-end and by additional funds specifically assigned by IABA or the Executive Committee.

- ii. ***Fixed Assets Fund*** - The Fixed Assets Fund is used by IICA to control unrestricted property, furniture and equipment, which have been either acquired with resources from the Regular Fund and the Institutional Net Rate (INR) Fund or donated thereto by a national or international organization. The balance of the Fixed Assets Fund represents the carrying value, net of depreciation, of fixed assets owned by IICA, except for land with permanent use restrictions.
- iii. ***Institutional Net Rate (INR) Fund*** - The objective of this Fund is to finance additional costs incurred by IICA, in the execution of contracts, agreements, and grants subscribed by donors (Member States, international organizations, and others) for specific purposes and to contribute to the Institute's pre-investment activities. The Institutional Net Rate Fund balance is comprised of the recovery of Institutional Net Rate (INR) in the management of projects executed by IICA with external resources.
- iv. ***Miscellaneous Income Fund*** - This fund was created by the IABA through resolution IICA/IABA/Res.400 (XII-O/03) dated November 13, 2003, with the purpose of covering immediate financial needs of IICA. The Miscellaneous Income Fund is comprised of the balance of those proceeds from the General Subfund that are not committed in the Regular Fund budget at the end of the fiscal year in which they were received.

#### **TEMPORARILY RESTRICTED FUNDS:**

- i. ***Trust Funds*** - The Trust Funds have been established according to contracts, agreements, and grants subscribed by donors (Member States, international organizations, and others) for specific purposes. For control purposes, separate records are maintained to account for income and expenses related to those funds. Moreover, financial resources pertaining to some funds are managed through separate bank accounts according to the agreement terms executed by IICA and the donors.



**PERMANENTLY RESTRICTED FUND - LAND:**

This fund is represented by the original contribution of land to IICA, which has permanent use restrictions (Note 4).

c. **Budget** - A summary of significant aspects of each fund budget is provided below:

i. **Regular Fund** - On September 1, 2005, through Resolution IICA/IABA/Res.416 (XIII-O/05), IABA approved the 2006 budget for the Regular Fund made up of Member State quotas and other miscellaneous income amounting to US\$27,167,572 and US\$2,832,428, respectively.

The above resolution authorizes the Director General to transfer amounts between budget chapters not exceeding 10% of each chapter total.

In the Exhibit 2, a comparative analysis is shown of the budget authorized by IABA, actual expenses and respective over/under execution.

ii. **Special Budgets** - Through resolution IICA/IABA/Res.391 (XII-O/03) dated November 13, 2003 and resolution IICA/IABA/Res.417 (XIII-O/05) dated September 1, 2005, IABA approved the following proposed special expenditures to be financed by the General Subfund from the resources that IICA obtains from collection of overdue quotas, earmarking them for the following programs:

✓ Special budget for the 2004-2005 biennium:

Promotion of Agricultural Trade in the Member States	US\$1,000,000
Agricultural Health and Food Safety	1,000,000
Institutional Modernization of IICA	<u>1,000,000</u>
Total	<u>US\$3,000,000</u>

✓ Special budget for the 2006-2007 biennium:

Development of capabilities to comply fully with the Agreement on Sanitary and Phytosanitary Measures	US\$ 500,000
Investments in equipment	1,185,000
Remodeling and maintenance work in owned offices and others held in usufruct	<u>924,000</u>
Total	<u>US\$2,609,000</u>

iii. **Trust Funds** - Through resolution IICA/IABA/Res.254 (VIII-O/95) dated September 19, 1995, IABA authorized the Director General to use the resources provided to IICA through the institutions and Member States related to contracts, agreements, and grants, for the purpose agreed upon. The mentioned resolution authorized the Director General to accept contributions and donations, and to subscribe contracts or agreements, as long as they are consistent with the objectives of IICA programs and that the Executive Committee of IICA is notified in advance of contracts or agreements exceeding US\$500,000.

- d. ***Monetary Unit and Foreign Exchange Transactions*** - The accounting records of IICA are kept in U.S. Dollars (US\$) and the financial statements are expressed in such currency. Assets and liabilities in currencies of countries where IICA activities are developed are translated into U.S. Dollars primarily at official or commercial exchange rates in effect in each country. Transactions in such currencies are translated into U.S. Dollars using monthly average exchange rates. When determining its financial position and results of activities, IICA values and adjusts the balances of assets and liabilities that are recoverable or payable in the local currency of countries where activities are developed. The resulting differences are applied to the results of the period in which they are incurred.
- e. ***Cash and Cash Equivalents*** - Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.
- f. ***Due from Regular Fund and Temporarily Restricted Net Assets*** - Funds contributed by institutions and Member States (donors) to establish Trust Funds for executing contracts, agreements, and grants are restricted contributions received from donors recorded as temporarily restricted net assets. As the funds are used in the agreed-upon activities, IICA recognizes simultaneously an income for funds released from restrictions and an expense of the Trust Funds in the Statement of Activities of Unrestricted Net Assets. Generally, funds received from donors to execute contracts, agreements, and grants are managed by IICA as part of current assets of the Regular Fund. To identify the portion of funds corresponding to resources received from donors, an asset account entitled "Due from Regular Fund to Trust Funds" is included.

Whenever expenses incurred by IICA in the execution of a particular contract, agreement, or grant exceed the amounts contributed to date or are reimbursable, the resulting difference is recorded as an account receivable from the respective donor.

- g. ***Inventories*** - Inventories are composed primarily of office supplies stated at average cost, which does not exceed market value.
- h. ***Allowance for Doubtful Accounts*** - According to IICA/IABA/Res.109 (III-E/86) dated October 28, 1986, IICA adopted the policy of recording an allowance for doubtful accounts.
- i. ***Property, Furniture, and Equipment*** - IICA has adopted the policy of charging the amounts disbursed and/or committed for the acquisition of fixed assets to current period expenses, and, subsequently, capitalizing those amounts in the Fixed Assets Fund. Such capitalization is recorded at original acquisition cost of the asset or the market value in effect at the donation date, if they are donated. Minor repairs and maintenance expenses are charged to results of the annual activities. Such practice enables IICA to compare expenditures with annual budgeted amounts for the acquisition of fixed assets and, at the same time, to present such amounts as capitalized assets in the statement of financial position.

- j. ***Accumulated Depreciation*** - The historical cost of fixed assets is depreciated over the estimated useful lives using the straight-line method.
- k. ***Provisions*** - According to the organization's regulations, in case of resignation or dismissal, IICA pays expenses for transfer, repatriation and recognition of years of service of international professional personnel. Such expenses are computed based on years of service of each official and the number of his/her dependents. Likewise, local personnel in certain cases could be entitled to recognition of years of service benefits once they no longer work for IICA.

Where IICA offices are located, local personnel may be entitled to termination benefits according with applicable legislation in each country. IICA follows the policy of recording an accrual for severance indemnities to cover disbursements related therewith. Additionally, a provision for termination benefits under various contractual agreements is recorded based upon the different national labor legislations. Actual termination payments are charged to the provision.

- l. ***Purchase Commitments*** - In conformity with the Rules of the General Directorate and its Financial Regulations, IICA follows the practice of recognizing a liability in its financial statements for those commitments assumed to acquire goods and services not yet received at year-end.
- m. ***Net Assets - Restricted and Unrestricted Funds*** - Since 1995, IICA adopted the accounting standards contained in Financial Accounting Standards (FASB) No.116 and 117. In accordance with those standards, IICA records contributions received from donors for specific purposes, as well as any income generated by such contributions, as Net Assets-Temporarily Restricted Funds. The balance of each Temporarily Restricted Fund decreases when available resources are used for established purposes, and is disclosed as "net assets released from restrictions" in the Statement of Changes in Net Assets and in the Statement of Activities of Unrestricted Net Assets.

The balance of Unrestricted Funds increases with the excess of income over expenses from IICA's activities (increase in unrestricted net assets), as determined at year-end. Likewise, such balance decreases when there is an excess of expenses over income (decrease in unrestricted net assets).

- n. ***Income from Member State Quotas*** - According to IABA resolutions, IICA follows the policy of recording assessed quotas as receivable from Member States on the first day of the corresponding fiscal year. According to Article 86 of IICA's Rules of the General Directorate, such quotas are collectible effective from that date.
- o. ***Recovery of Institutional Net Rate (INR)*** - As established in certain contract agreements signed with donors (Member States, international organizations, etc.), IICA recovers indirect costs incurred in the execution of trust funds, as a recognition of the administrative efforts devoted by IICA to manage such contracts. Such reimbursement is recognized by IICA as income when earned and increases the balance of the Institutional Net Rate (INR) Fund.

## 2. RESTRICTED CASH

Cash in banks at December 31, 2006 and 2005 includes funds held in separate bank accounts of US\$38,477,343 and US\$38,626,842 respectively, which may only be used to cover expenditures related to contracts signed by IICA and the respective donors.

## 3. SHORT-TERM INVESTMENTS

Short-term investments are as follows:

	<b>2006</b>	<b>2005</b>
In Argentinean pesos:		
Time deposits, interest 8.25% per annum (2005: 3.64% per annum)	US\$ 462,508	US\$ 2,502,904
In Mexican pesos:		
Money market funds, interest of 2.1% per annum	3,013,668	3,110,092
In Brazilian reais:		
Overnight deposits, interest of 1.44% per annum (2005: 1.42% per annum)	6,111,397	11,663,730
In Peruvians soles:		
Time deposits, interest of 4.37% per annum	281,250	
In US dollars:		
Money market funds, time deposits, and mutual funds, interest between 0.35% and 5.15% per annum (2005: 0.35% and 2.48% per annum)	22,302,728	20,650,858
Overnight deposits, interest of 3.40% per annum (2005: between 2.00% and 2.73% per annum)	1,481,981	603,807
Other currencies:		
Real estate investment certificates, and other commercial paper, interest between 4.84% and 12.32% per annum (2005: 3.49% and 12.32% per annum)	<u>165,009</u>	<u>86,938</u>
Total	<u>US\$33,818,541</u>	<u>US\$38,618,329</u>

As of December 31, 2006 and 2005, short-term investments of US\$17,851,209 and US\$25,720,116 respectively, are restricted to cover expenditures of contracts signed by IICA and the respective donors.

#### 4. PROPERTY, FURNITURE AND EQUIPMENT

The property, furniture and equipment, including their useful lives, is detailed as follows:

	<b>2006</b>	<b>2005</b>
Unrestricted:		
Buildings (25 years)	US\$ 5,205,177	US\$ 5,205,177
Vehicles (4 years)	1,871,418	2,089,599
Furniture and equipment (3, 4, 5 and 10 years)	<u>4,745,531</u>	<u>5,492,567</u>
Total unrestricted fixed assets	11,822,126	12,787,343
Less: Accumulated depreciation	<u>(9,152,807)</u>	<u>(10,491,065)</u>
Total unrestricted fixed assets - Net	2,669,319	2,296,278
Permanently restricted - land	<u>8,713,171</u>	<u>8,713,171</u>
Total	<u>US\$11,382,490</u>	<u>US\$ 11,009,449</u>

Property, furniture and equipment do not include fixed assets acquired with resources from special funds (Trust Funds), since such disbursements are considered expenditures related to the execution of specific agreements related to those funds. However, in accordance with the provisions of each agreement, when assets are donated, exchanged, or sold to IICA, they are recognized in the accounting records as part of the Fixed Assets Fund.

Land located in Costa Rica (San Isidro de Coronado, Turrialba and Limón) was donated to IICA by the Government of Costa Rica. However, once IICA concludes its official mission or terminates its functions in Costa Rica, this property and any improvements thereto shall be returned to the Government of Costa Rica. Income capitalized for this donation is shown in the financial statements of IICA as part of Net Assets - Permanently Restricted Funds. Throughout the years, IICA has built several administrative facilities and related infrastructure on the properties donated by the Government of Costa Rica. These improvements to donated properties have no restrictions of use and are being amortized over their estimated useful lives. As of December 31, 2006, the net book value of such assets is US\$1,005,177 (2005: US\$1,188,854).

According to an agreement subscribed between the Government of Costa Rica and IICA, the Tropical Agricultural Research and Training Center (CATIE) was granted usufruct rights to land and buildings located in Turrialba and Limón, Costa Rica.

#### 5. INCOME AND EXPENSES RELATED TO INSTITUTIONAL NET RATE (INR)

On October 13, 1997, through Resolution IICA/IABA/Res.310 (IX-O/97), the Inter-American Board of Agriculture agreed to establish the Institutional Net Rate (INR) Fund. The purpose of this fund is to finance the additional costs incurred by the Institute in the execution of these contracts and to contribute to the institutional pre-investment activities.

Income and expenses related to Institutional Net Rate (INR) are comprised as follows:

	<b>2006</b>	<b>2005</b>
<b>Income:</b>		
Inter-American Development Bank (IDB)	US\$ 197,642	US\$ 375,487
Ministry of Agriculture, Livestock, and Food - (MAGA) - Guatemala	186,740	189,750
International Fund for Agricultural Development (IFAD)	36,242	65,857
Ministry of Agriculture and Rural Development - Colombia	737,850	309,966
Secretariat of Agriculture, Livestock, Fisheries and Food - Argentina	369,210	610,866
Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) - Organization, Training, Technical Assistance and Research Project - Mexico	2,569,549	2,679,278
Institute for Agriculture and Livestock Development (INDAP) - Chile	36,121	37,643
Ministry of Livestock, Agriculture, and Fisheries - Reinforcement of Plant Health Directorate - Uruguay	32,845	38,078
Government of the United States of America Secretariat of Hydro - Infrastructure of the Ministry of National Integration - Brazil	1,060,345	1,091,594
World Bank	23,125	70,246
Ministry of Agrarian Development - Brazil	416,190	807,120
Other institutions	<u>1,174,094</u>	<u>831,623</u>
<b>Total</b>	<b><u>US\$7,062,573</u></b>	<b><u>US\$7,446,642</u></b>
<b>Expenses:</b>		
International professional personnel costs	US\$ 945,136	US\$ 822,528
Local personnel costs	2,912,177	2,532,538
Training	222,812	66,941
IICA staff travel	295,118	225,273
Documents and materials	160,763	131,004
Acquisition and rental of property and equipment	281,478	310,181
Maintenance, communications, and general services	801,271	703,219
Service contracts and transfers	984,457	1,109,369
Other costs	<u>95,196</u>	<u>107,213</u>
<b>Total</b>	<b><u>US\$6,698,408</u></b>	<b><u>US\$6,008,266</u></b>

## 6. COMMERCIAL AND MISCELLANEOUS OPERATIONS

A breakdown of revenues and expenses from commercial and miscellaneous operations is as follows:

	<b>2006</b>	<b>2005</b>
Revenues:		
Interest earned from securities	US\$3,407,763	US\$2,748,728
Proceeds from equipment sales	205,581	107,407
Purchase discounts	1,574,146	573,804
Book sales commission	4,052	9,581
Sales of services	223,091	292,220
Other	789,453	386,711
Miscellaneous	<u>10,728</u>	<u>9,011</u>
Total revenues from commercial and miscellaneous income	<u>6,214,814</u>	<u>4,127,462</u>
Expenses:		
Local personnel costs	500,919	477,186
Training	88,485	99,083
IICA staff travel	52,268	57,926
Documents and supplies	208,459	169,606
Acquisition and/or rental of fixed assets and other	241,021	463,542
Maintenance, communications, and general services	431,523	471,769
Service contracts and transfers	1,244,819	1,115,749
Other costs	<u>104,787</u>	<u>101,052</u>
Sub-total	2,872,281	2,955,913
Exchange (gains) and losses - Net	<u>(443,596)</u>	<u>234,202</u>
Total expenses from commercial and miscellaneous activities	<u>2,428,685</u>	<u>3,190,115</u>
Excess of income over expenses	<u>US\$3,786,129</u>	<u>US\$ 937,347</u>

## 7. TROPICAL AGRICULTURE RESEARCH AND TRAINING CENTER (CATIE)

On September 12, 2000, under Law No.6873 the Costa Rican Legislative Assembly ratified CATIE's creation contract entered into by the Government of Costa Rica, IICA and CATIE. The most significant terms of this Law are as follows:

- a. The Inter-American Board of Agriculture will be the superior governing body of CATIE.
- b. CATIE's members (partners) may be regular or special. The regular members will be IICA, the Government of Costa Rica, and the Governments of the remaining member countries of IICA, which incorporate into CATIE via acceptance of the Contract. Special members will include international governmental and non-governmental organizations, international centers, and private organizations with similar purposes as those of CATIE.

- c. IICA will contribute up to a maximum of 5% of IICA's quotas budget to CATIE's basic budget. The use of those contributions may be subject to an audit by IICA, when considered necessary. Each member country of CATIE will annually contribute US\$50,000 to cover CATIE's expenses.
- d. The new agreement will be for a 20-year period, effective from its enacting date, and may be renewed for equal consecutive terms.
- e. CATIE is entitled to the following: i) usufruct rights to land, buildings, equipment, and other property contributed by IICA, plus improvements thereto, during the entire term of the contract, and ii) all assets CATIE has acquired or will acquire in the future.
- f. Upon termination of the contract, all usufruct property as well as improvements thereto, will be returned to IICA. The remaining assets will be distributed between IICA, the Government of Costa Rica, and regular active members based on quotas paid.

During the years ended December 31, 2006 and 2005, IICA contributed to CATIE US\$1,000,000 per annum in accordance with the approved allocation in the Program Budget.

## **8. DISBURSEMENTS SUBJECT TO APPROVAL**

Some grant agreements subscribed with international organizations, establish that disbursements for agreed-upon programs executed with grant funds are subject to approval or rejection by those same organizations, depending on compliance with the agreement terms.

As of December 31, 2006, management of IICA is not aware of any expenses not yet reimbursed, that would have been questioned or disallowed by the respective donors.

## **9. TAXES**

As an international organization, IICA is exempt from income and sales taxes in Costa Rica and other countries where it operates. With respect to other taxes, such as contributions and present or future national and municipal taxes, customs duties, national licenses, among others, the exemption is dependent upon the agreements subscribed with the Governments of those countries.

## **10. INACTIVE FUNDS**

The Inter-American Board of Agriculture (IABA) approved, through various resolutions, the establishment of the following funds. Nevertheless, as of December 31, 2006 these funds have not received yet any contributions and therefore, remain inactive.



- i. ***Patrimonial Fund*** - The purpose of this fund is to establish an endowment for the partial financing of IICA's activities. The fund balance would be made up of donations and other voluntary contributions from governments, individuals, private institutions, and other donors, as well as a portion of the Fund's annual income deposited in the endowment to increase and preserve its real value.

Capital Assets donated to the Fund, including all reinvested income to increase and maintain the real value of the Fund's Capital Assets, shall not be expensed for a 20 year-period from the date of the IABA resolution creating the Fund.

- ii. ***IICA Associates Trust Fund*** - In Resolution IICA/IABA/Res.312 (IX-O/97), dated October 13, 1997, the Inter-American Board of Agriculture approved the creation of the IICA Associates Trust Fund. The status of IICA Associate is granted to certain permanent observers, international, regional, and national organizations, and other non-IICA Member States. The Fund's balance is to be made up of contributions from such Associates, Member States and other donors to this Fund, and will be governed by the corresponding rules and regulations of the Institute and its Statutes approved by the Executive Committee.

## 11. CONTINGENCIES

As of December 31, 2006, there are various litigation cases in which IICA is a party, filed through its Offices. These litigations are primarily commercial and/or labor lawsuits, are in different procedural stages, and the amounts claimed are approximately US\$715,000, in the aggregate.

The legal advisors of IICA believe that no material liability will result from these legal proceedings. Nevertheless, the financial statements of IICA for the year ended December 31, 2006, include a provision to cover potential losses from the mentioned litigations.

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**INTER-AMERICAN INSTITUTE FOR COOPERATION  
ON AGRICULTURE (IICA)**

**SUPPLEMENTARY FINANCIAL INFORMATION**

**AS OF DECEMBER 31, 2006**

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### **EXHIBIT**

1. Statement of movements of Member States quotas receivable
2. Quota budget and expenses by chapter
3. Execution of external resources by financing source

**INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)  
REGULAR FUND**

**STATEMENT OF MOVEMENTS OF MEMBER STATES QUOTAS RECEIVABLE  
YEAR ENDED DECEMBER 31, 2006**

(Stated in United States Dollars)

Country	Uncollected Quotas at Beginning of Year	Quotas for the Year	Quotas Collected During the Year			Uncollected Quotas at Year-End			Years Owing
			Prior Years	Current Year	Total	Prior Years	Current Year	Total	
Antigua & Barbuda	US\$ 6,939	US\$ 5,502	US\$ 6,939	US\$ 5,502	US\$ 12,441				
Argentina	2,801,100	1,347,925	2,127,137		2,127,137	US\$ 673,963	US\$1,347,925	US\$ 2,021,888	1.50
Bahamas	(8,037)	19,256		21,720	21,720	(8,037)	(2,464)	(10,501)	
Barbados		22,007		22,007	22,007				
Belize		8,253		8,253	8,253				
Bolivia	19,256	19,256	19,256		19,256		19,256	19,256	1.00
Brazil	6,584,344	2,351,992	4,000,217		4,000,217	2,584,127	2,351,992	4,936,119	2.10
Canada		3,400,073		3,400,073	3,400,073				
Colombia	244,040	258,582	244,040	259,376	503,416		(794)	(794)	
Costa Rica	26,838	35,760	23,046		23,046	3,792	35,760	39,552	1.11
Chile	230,641	148,547	230,641	148,547	379,188				
Dominica	11,004	5,502	7,407		7,407	3,597	5,502	9,099	1.65
Dominican Republic	47,803	49,516				47,803	49,516	97,319	1.97
Ecuador		49,516		49,516	49,516				
El Salvador		19,256					19,256	19,256	1.00
Grenada	8,253	8,253	8,253	8,253	16,506				
Guatemala	(140)	35,760		37,598	37,598	(140)	(1,838)	(1,978)	
Guyana	65	5,502		5,939	5,939	65	(437)	(372)	
Haiti	19,256	19,256	19,256		19,256		19,256	19,256	1.00
Honduras	(6)	19,256		19,256	19,256	(6)		(6)	
Jamaica		49,516		49,516	49,516				
Mexico		1,672,528		1,672,528	1,672,528				
Nicaragua	123,362	19,256				123,362	19,256	142,618	7.41
Panama		35,760		35,822	35,822		(62)	(62)	
Paraguay	81,629	49,516	43,292		43,292	38,337	49,516	87,853	1.77
Peru	676,716	112,786	112,786		112,786	563,930	112,786	676,716	6.00
Saint Kitts & Nevis		5,502		5,502	5,502				
Saint Lucia		8,253					8,253	8,253	1.00
Saint Vincent & the Grenadines	(5,502)	5,502				(5,502)	5,502		
Suriname	19,212	19,256	19,212	2,700	21,912		16,556	16,556	0.86
Trinidad & Tobago		49,516		49,516	49,516				
United States of America		16,359,410		12,269,412	12,269,412		4,089,998	4,089,998	0.25
Uruguay	204,569	71,523	133,045		133,045	71,524	71,523	143,047	2.00
Venezuela	880,278	880,278	880,278	880,278	1,760,556				
<b>Total</b>	<u>US\$11,971,620</u>	<u>US\$27,167,572</u>	<u>US\$7,874,805</u>	<u>US\$18,951,314</u>	<u>US\$26,826,119</u>	<u>US\$4,096,815</u>	<u>US\$8,216,258</u>	<u>US\$12,313,073</u>	

**INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)  
REGULAR FUND**

**QUOTA BUDGET AND EXPENSES BY CHAPTER**

**YEAR ENDED DECEMBER 31, 2006**

(Stated in United States Dollars)

	Budget	Expenses	(Over) Under Execution	
			Amount	Percentage
<b>CHAPTER 1: DIRECT TECHNICAL COOPERATION SERVICES</b>				
Trade and Agribusiness Development	US\$ 6,255,261	US\$ 6,167,574	US\$ 87,687	98.60%
Technology and Innovation	5,015,458	4,876,180	139,278	97.22%
Agricultural Health and Food Safety	4,691,263	4,606,712	84,551	98.20%
Sustainable Rural Development	4,066,614	4,062,528	4,086	99.90%
Education and Training	2,365,801	2,394,347	(28,546)	101.21%
Information and Communication	2,113,395	2,108,417	4,978	99.76%
Total Chapter 1	<u>24,507,792</u>	<u>24,215,758</u>	<u>292,034</u>	<u>98.81%</u>
<b>CHAPTER 2: MANAGEMENT COSTS</b>				
Office of the Director General	731,969	710,603	21,366	97.08%
Directorate of Administration and Finance	831,311	789,677	41,634	94.99%
Total Chapter 2	<u>1,563,280</u>	<u>1,500,280</u>	<u>63,000</u>	<u>95.97%</u>
<b>CHAPTER 3: GENERAL COSTS AND PROVISIONS</b>				
Governing Bodies	401,000	348,574	52,426	86.93%
Insurance	325,000	328,915	(3,915)	101.20%
Pensions	250,000	255,150	(5,150)	102.06%
OAS Administrative Tribunal	25,000	24,051	949	96.20%
External Audit	95,500	84,443	11,057	88.42%
Total Chapter 3	<u>1,096,500</u>	<u>1,041,133</u>	<u>55,367</u>	<u>94.95%</u>
<b>TOTAL</b>	<u>US\$27,167,572</u>	<u>US\$26,757,171</u>	<u>US\$410,401</u>	<u>98.49%</u>

## INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)

### EXECUTION OF EXTERNAL RESOURCES BY FINANCING SOURCE YEAR ENDED DECEMBER 31, 2006

(Stated in United States Dollars)

Source	Amount
<b>a. Member States</b>	
Argentina	US\$ 4,363,683
Bolivia	78,848
Brazil	26,547,312
Canada	35,013
Chile	813,725
Colombia	30,725,359
Costa Rica	331,530
Dominican Republic	150,957
Ecuador	1,375,640
El Salvador	2,660,398
Guatemala	3,484,842
Haiti	21,136
Honduras	6,495,858
Jamaica	15,906
Mexico	34,947,403
Panama	1,521,334
Paraguay	2,284,930
Peru	1,372,887
Trinidad & Tobago	6,299
United States of America	2,665,942
Uruguay	1,009,215
Venezuela	<u>227,846</u>
Sub-total - Member States	<u>121,136,063</u>
<b>b. Other Institutions and Governments</b>	
Amazonic Scientific Research Institute	23,500
Andean Development Corporation	31,267
Austrian Development Agency	240,075
Biotechnology Industry Organization	30,163
Central American Bank for Economic Integration	111,105
Technical Center for Rural Agriculture and Cooperation from Holland	168,358
Common Fund for Products	62,982
Deutsche Gesellschaft Fur Technische Zusammenarbeit Gmbh	88,804
Development Association (CLUSA) of El Salvador	26,000
European Union	231,220

(Continued)

## INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)

### EXECUTION OF EXTERNAL RESOURCES BY FINANCING SOURCE YEAR ENDED DECEMBER 31, 2006

(Stated in United States Dollars)

Source	Amount
External Ministry of Finland	US\$ 204,829
Food and Agriculture Organization of the United Nations	32,455
Government of China	134,445
Government of Japan	100,096
Government of Netherlands	398,306
Inter-American Development Bank	5,099,173
International Food Policy Research Institute	98,172
International Center for Forestry Research	52,191
International Center for Tropical Agriculture	91,110
International Fund for Agricultural Development	1,223,194
International Institute for Investigation on Cattling	115,105
Sugar Industry Control Board of Belize	29,413
Swiss Agency for Development and Cooperation	608,424
W.K. Kellogg Foundation	159,028
World Bank	3,408,716
World Cocoa Foundation	88,834
Others	<u>114,086</u>
Sub-total - Other institutions and governments	<u>12,971,051</u>
Grand total	<u>US\$134,107,114</u>

(Concluded)

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