

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of the Inter-American Institute for Cooperation on Agriculture (IICA) as of December 31, 2005 and 2004 and the related statements of activities of unrestricted net assets, changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the management of IICA. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management of IICA, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IICA as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

As of December 31, 2005, the balance of quotas due from Member States amounting to US\$11,971,620 includes US\$6,586,758 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of IICA as of December 31, 2005 and 2004. 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 2005 basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the 2005 basic financial statements, taken as a whole.



March 31, 2006

INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2005 AND 2004**
(Stated in United States Dollars)

	Notes	December 31, 2005			Total	December 31, 2004
		Unrestricted	Temporarily Restricted	Permanently Restricted		
ASSETS						
CURRENT ASSETS:						
Cash	2	US\$50,121,702	US\$	US\$	US\$50,121,702	US\$43,159,685
Short-term investments	1e, 3	<u>38,618,329</u>			<u>38,618,329</u>	<u>26,445,637</u>
Sub-total - cash equivalents		<u>88,740,031</u>			<u>88,740,031</u>	<u>69,605,322</u>
Receivables:						
Quotas from Member States		11,971,620			11,971,620	16,125,987
Payments made on behalf of contracts, agreements and grants		2,880,488			2,880,488	924,874
Due from Regular Fund to Trust Fund	1f	(74,561,298)	74,561,298			
Other		<u>3,701,173</u>			<u>3,701,173</u>	<u>1,073,759</u>
Sub-total		(56,008,017)	74,561,298		18,553,281	18,124,620
Less: Allowance for doubtful accounts	1h	<u>(279,181)</u>			<u>(279,181)</u>	<u>(279,181)</u>
Receivables - Net		<u>(56,287,198)</u>	<u>74,561,298</u>		<u>18,274,100</u>	<u>17,845,439</u>
Inventories	1g	57,655			57,655	54,801
Prepaid expenses		96,820			96,820	232,819
Other assets		<u>15,372</u>			<u>15,372</u>	<u>145,037</u>
Total current assets		32,622,680	74,561,298		107,183,978	87,883,418
PROPERTY, FURNITURE AND EQUIPMENT - Net	1i, 1j, 4	<u>2,296,278</u>		<u>8,713,171</u>	<u>11,009,449</u>	<u>11,275,985</u>
TOTAL		<u>US\$34,918,958</u>	<u>US\$ 74,561,298</u>	<u>US\$8,713,171</u>	<u>US\$118,193,427</u>	<u>US\$99,159,403</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable and accrued expenses		US\$ 3,775,816	US\$	US\$	US\$ 3,775,816	US\$ 2,495,385
Purchase commitments	1l	601,995			601,995	197,512
Other accruals		<u>395,548</u>			<u>395,548</u>	<u>622,348</u>
Total current liabilities		<u>4,773,359</u>			<u>4,773,359</u>	<u>3,315,245</u>
Provisions for:						
Repatriation of international professional personnel	1k	1,712,370			1,712,370	1,224,226
Recognition of years of service for international professional personnel	1k	2,049,035			2,049,035	1,902,492
Recognition of years of service for local personnel	1k	1,690,704			1,690,704	1,607,941
Other termination benefits	1k	<u>6,259,625</u>			<u>6,259,625</u>	<u>5,023,504</u>
Total provisions		<u>11,711,734</u>			<u>11,711,734</u>	<u>9,758,163</u>
Total liabilities		<u>16,485,093</u>			<u>16,485,093</u>	<u>13,073,408</u>
Net assets:						
Unrestricted funds:						
Regular Fund -						
General Subfund	1b	6,487,265			6,487,265	6,208,530
Working Subfund	1b	4,075,136			4,075,136	4,075,136
Miscellaneous Income Fund	1b	1,094,054			1,094,054	156,707
Institutional Net Rate Fund	1b	4,481,132			4,481,132	3,040,629
Fixed Assets Fund	1b	2,296,278			2,296,278	2,562,814
Temporarily Restricted Funds:						
Trust Funds	1b		74,561,298		74,561,298	61,329,008
Permanently restricted fund-land	1b			8,713,171	8,713,171	8,713,171
Total net assets		<u>18,433,865</u>	<u>74,561,298</u>	<u>8,713,171</u>	<u>101,708,334</u>	<u>86,085,995</u>
TOTAL		<u>US\$34,918,958</u>	<u>US\$ 74,561,298</u>	<u>US\$8,713,171</u>	<u>US\$118,193,427</u>	<u>US\$99,159,403</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, 2005 AND 2004 (Stated in United States Dollars)

	Notes	2005				2004					
		Regular Fund	Miscellaneous Income Fund	Institutional Net Rate Fund	Trust Funds	Total	Regular Fund	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\$ 7,446,642		7,446,642			US\$ 5,675,349		5,675,349
Temporarily restricted funds assets released from restrictions	1f				US\$ 125,485,987	125,485,987				US\$ 100,975,870	100,975,870
Commercial and miscellaneous operations - Net	6		US\$ 937,347			937,347		US\$156,707			156,707
Total revenues		27,167,572	937,347	7,446,642	125,485,987	161,037,548	27,167,572	156,707	5,675,349	100,975,870	133,975,498
EXPENSES:											
International professional personnel costs		9,408,616				9,408,616	9,312,480				9,312,480
Local personnel costs		7,297,204				7,297,204	6,951,443				6,951,443
Training		909,701				909,701	599,162				599,162
IICA staff travel		1,410,468				1,410,468	1,380,919				1,380,919
Documents and supplies		723,837				723,837	832,964				832,964
Acquisition and/or rental of assets and other		1,021,409				1,021,409	659,912				659,912
Maintenance, communications and general services		2,007,699				2,007,699	2,214,418				2,214,418
Contracts, works, donations and subsidies		2,381,387				2,381,387	2,526,078				2,526,078
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)		190,440				190,440	200,000				200,000
Miscellaneous		538,076				538,076	502,568				502,568
Sub-total of expenses related to quota budget and Working Subfund		26,888,837				26,888,837	26,179,944				26,179,944
Temporarily restricted funds assets released from restrictions	1f				125,485,987	125,485,987				100,975,870	100,975,870
Disbursements financed with funds from the Institutional Net Rate (INR)	5			6,008,266		6,008,266			5,313,202		5,313,202
Total expenses		26,888,837		6,008,266	125,485,987	158,383,090	26,179,944		5,313,202	100,975,870	132,469,016
Increase in unrestricted net assets for the year, before excluding net expenses capitalized as property, furniture and equipment and including depreciation of the year		278,735	937,347	1,438,376		2,654,458	987,628	156,707	362,147		1,506,482
Exclusion of net capitalized expenses as property, furniture and equipment		844,933				844,933	289,612				289,612
Increase in unrestricted net assets for the year, before including depreciation of the year		1,123,668	937,347	1,438,376		3,499,391	1,277,240	156,707	362,147		1,796,094
Inclusion of depreciation of the year		(1,111,469)				(1,111,469)	(2,538,369)				(2,538,369)
Increase (decrease) in unrestricted net assets		US\$ 12,199	US\$ 937,347	US\$ 1,438,376	US\$	US\$ 2,387,922	US\$(1,261,129)	US\$156,707	US\$ 362,147	US\$	US\$ (742,275)

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, 2005 AND 2004

(Stated in United States Dollars)

	Net Assets							Total
	Regular Fund		Unrestricted			Temporarily Restricted	Permanently Restricted	
	General Subfund	Working Subfund	Miscellaneous Income Fund	Institutional Net Rate Fund	Fixed Assets Fund	Trust Funds	Land	
BALANCE AT DECEMBER 31, 2003	US\$5,220,902	US\$4,075,136		US\$ 2,639,141	US\$ 4,811,571	US\$ 48,754,289	US\$ 8,713,171	US\$ 74,214,210
Restricted contributions received from donors						116,736,851		116,736,851
Net assets released from restrictions						(100,975,870)		(100,975,870)
Increase (decrease) in unrestricted net assets for the year	1,277,240		US\$ 156,707	362,147	(2,538,369)			(742,275)
Prior period adjustments				39,341				39,341
Capitalization of net disbursements as property, furniture and equipment	(289,612)				289,612			
Net decrease in disbursements made on behalf of contracts, agreements, and grants receivable from donors						(3,186,262)		(3,186,262)
BALANCE AT DECEMBER 31, 2004	6,208,530	4,075,136	156,707	3,040,629	2,562,814	61,329,008	8,713,171	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	<u>US\$6,487,265</u>	<u>US\$4,075,136</u>	<u>US\$1,094,054</u>	<u>US\$ 4,481,132</u>	<u>US\$ 2,296,278</u>	<u>US\$ 74,561,298</u>	<u>US\$ 8,713,171</u>	<u>US\$ 101,708,334</u>

See accompanying notes to the financial statements.

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

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

(Stated in United States Dollars)

	2005	2004
OPERATING ACTIVITIES:		
Increase (decrease) in unrestricted net assets	US\$ 2,387,922	US\$ (742,275)
Plus: Items not requiring cash:		
Prior period adjustments	2,127	39,341
Depreciation	1,111,469	2,538,369
Assets written-off due to change in capitalization policy		557,236
Allowance for doubtful accounts		78,546
Cash provided by (used for) changes in:		
Quotas receivable from Member States	4,154,367	1,347,808
Other receivables	(2,627,414)	371,844
Inventories	(2,854)	14,627
Prepaid expenses	135,999	66,072
Other assets	129,665	(378,989)
Accounts payable and accrued expenses	1,280,431	(3,502,292)
Purchase commitments	404,483	(86,534)
Other accruals	(226,800)	75,999
Provisions	<u>1,953,571</u>	<u>1,825,873</u>
Net cash provided by operating activities	<u>8,702,966</u>	<u>2,205,625</u>
INVESTING ACTIVITIES:		
Additions to furniture and equipment	(847,910)	(854,941)
Disposal of furniture and equipment	<u>2,977</u>	<u>8,093</u>
Net cash used in investing activities	<u>(844,933)</u>	<u>(846,848)</u>
FINANCING ACTIVITIES:		
Restricted contributions received from donors	136,762,663	116,736,851
Disbursements made in the execution of trust funds	(125,485,987)	(100,975,870)
Banking line of credit		<u>(1,500,000)</u>
Net cash provided by financing activities	<u>11,276,676</u>	<u>14,260,981</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,134,709	15,619,758
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>69,605,322</u>	<u>53,985,564</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>US\$ 88,740,031</u>	<u>US\$ 69,605,322</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, 2005 AND 2004 (Stated in United States Dollars)

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 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 or 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 November 13, 2003, through Resolution IICA/IABA/Res.390 (XII-O/03), IABA approved the 2004 and 2005 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 Budget** - Through resolution IICA/IABA/Res.391 (XII-O/03) dated November 13, 2003, IABA approved a proposed special expenditures to be financed by the General Subfund, in the amount of US\$3,000,000 for the 2004-2005 biennium, earmarking them for the following programs:

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>

iii. **Trust Funds** - Through resolution IICA/IABA/Res.254 (VIII-0/95) 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 Equivalent**s - 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 by 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 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 its 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, 2005 and 2004 includes funds held in separate bank accounts of US\$38,626,842 and US\$37,150,356 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:

	2005	2004
In Argentinean pesos:		
Time deposits, interest 3.64% per annum (2004: 2% and 2.50% per annum)	US\$ 2,502,904	US\$ 2,479,757
In Mexican pesos:		
Money market funds, interest of 2.1% per annum	3,110,092	2,390,133
In Brazilian reais:		
Overnight deposits, interest of 1.42% per annum (2004: 1.22% per annum)	11,663,730	7,512,463
In Guatemalan quetzales:		
Time deposits, interest of 8% per annum		639,386
In US dollars:		
Money market funds, time deposits, and mutual funds, interest between 0.35% and 2.48% per annum (2004: 0.55% and 2.05% per annum)	20,650,858	11,914,645
Overnight deposits, interest between 2.00% and 2.73% per annum (2004: 1.32% per annum)	603,807	1,413,735
Other currencies:		
Real estate investment certificates, and other commercial paper, interest between 3.49% and 12.32% per annum (2004: 2.07% and 12.32% per annum)	<u>86,938</u>	<u>95,518</u>
Total	<u>US\$38,618,329</u>	<u>US\$26,445,637</u>

As of December 31, 2005 and 2004, short-term investments of US\$25,720,116 and US\$16,212,206 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:

	2005	2004
Unrestricted:		
Buildings (25 years)	US\$ 5,205,177	US\$ 5,205,177
Vehicles (4 years)	2,089,599	1,933,686
Furniture and equipment (3, 4, 5 and 10 years)	<u>5,492,567</u>	<u>5,487,725</u>
Total unrestricted fixed assets	12,787,343	12,626,588

(Continued)

	2005	2004
Less: Accumulated depreciation	<u>US\$(10,491,065)</u>	<u>US\$(10,063,774)</u>
Total unrestricted fixed assets - Net	2,296,278	2,562,814
Permanently restricted - land	<u>8,713,171</u>	<u>8,713,171</u>
Total	<u>US\$ 11,009,449</u>	<u>US\$ 11,275,985</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, 2005, the net book value of such assets is US\$1,188,854 (2004: US\$1,372,531).

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.

During 2004, the IICA's General Directorate changed the capitalization policy for fixed assets increasing the minimum capitalizable amount from US\$100 to US\$1,000. Additionally, the useful lives of certain fixed assets, primarily vehicles and equipment, were changed as well. Both changes were retroactively applied and consequently fixed assets with a carrying value of US\$557,236 were written-off and the depreciation expense of the year increased in approximately US\$1,500,000. Such changes are intended to simplify IICA's management and control over its fixed assets as well as to depreciate such assets during their economic useful lives.

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

On October 13, 1997, through Resolution IICA/IABA/Res.310 (IX-0/97), 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 composed as follows:

	2005	2004
Income:		
Inter-American Development Bank (IDB)	US\$ 375,487	US\$ 226,518
Ministry of Agriculture, Livestock, and Food - (MAGA) - Guatemala	189,750	112,846
International Agricultural Development Fund	65,857	82,669
Ministry of Agriculture and Rural Development - Colombia	309,966	213,507
Secretariat of Agriculture, Livestock, Fisheries and Food - Argentina	610,866	303,872
Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) - Organization, Training, Technical Assistance and Research Project - Mexico	2,679,278	1,916,267
Institute for Agriculture and Livestock Development (INDAP) - Chile	37,643	19,403
Ministry of Livestock, Agriculture, and Fisheries - Reinforcement of Plant Health Directorate - Uruguay	38,078	97,996
Government of the United States of America	339,134	174,394
Ministry of National Integration - Brazil		42,327
Secretariat of Hydro - Infrastructure of the Ministry of National Integration - Brazil	1,091,594	60,080
World Bank	70,246	86,645
U.S. Agency for International Development (USAID)		260,640
Ministry of Agrarian Development - Brazil	807,120	624,900
Ministry of National Education - Colombia		23,381
Other institutions	<u>831,623</u>	<u>1,429,904</u>
Total	<u>US\$7,446,642</u>	<u>US\$5,675,349</u>
Expenses:		
International professional personnel costs	US\$ 822,528	US\$ 752,315
Local personnel costs	2,532,538	2,265,016
Scholarships	66,941	135,880
IICA staff travel	225,273	220,574
Documents and materials	131,004	145,344
Acquisition and rental of property and equipment	310,181	260,383
Maintenance, communications, and general services	703,219	615,581
Service contracts and transfers	1,109,369	850,241
Other costs	<u>107,213</u>	<u>67,868</u>
Total	<u>US\$6,008,266</u>	<u>US\$5,313,202</u>

6. COMMERCIAL AND MISCELLANEOUS OPERATIONS

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

	2005	2004
Revenues:		
Interest earned from securities	US\$2,748,728	US\$1,930,869
Proceeds from equipment sales	107,407	81,456
Purchase discounts	573,804	240,542
Book sales commission	9,581	105
Sales of services	292,220	509,309
Other	386,711	270,586
Miscellaneous	<u>9,011</u>	<u>15,853</u>
Total revenues from commercial and miscellaneous income	<u>4,127,462</u>	<u>3,048,720</u>
Expenses:		
Local personnel costs	477,186	916,960
Scholarships	99,083	64,623
IICA staff travel	57,926	68,488
Documents and supplies	169,606	141,470
Acquisition and/or rental of fixed assets and other	463,542	334,772
Maintenance, communications, and general services	471,769	368,971
Service contracts and transfers	1,115,749	844,323
Other costs	<u>101,052</u>	<u>91,513</u>
Sub-total	2,955,913	2,831,120
Exchange losses - Net	<u>234,202</u>	<u>60,893</u>
Total expenses from commercial and miscellaneous activities	<u>3,190,115</u>	<u>2,892,013</u>
Excess of income over expenses	<u>US\$ 937,347</u>	<u>US\$ 156,707</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 with 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, 2005 and 2004, IICA contributed to CATIE in US\$1,000,000 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, 2005, 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, 2005 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-0/97), 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, 2005, IICA has the following contingencies:

Contingent Liabilities - There are various litigation cases in which IICA is a party, filed through its Offices. These litigations are primarily labor lawsuits, are in different procedural stages, and the amounts claimed are approximately US\$152,000, 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, 2005, include a provision to cover potential losses from the mentioned litigations.

Contingent Assets - In 2005 IICA filed a lawsuit for misappropriation of funds, involving a former employee in one of its Offices, and is pursuing a claim for an estimated recovery of US\$330,000 under its insurance policies. IICA, together with its legal advisors, is maintaining the legal actions related to the issue. Legal counsel believes that there is a high probability of obtaining a positive sentence for IICA, since the person has recognized the crime before the Court.

* * * * *

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

SUPPLEMENTARY FINANCIAL INFORMATION

AS OF DECEMBER 31, 2005

INDEX

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, 2005

(Stated in United States Dollars)

Country	Uncollected Quotas at		Quotas Collected During the Year			Uncollected Quotas at Year-End			Years Owing
	Beginning of Year	Quotas for the Year	Prior Years	Current Year	Total	Prior Years	Current Year	Total	
Antigua and Barbuda	US\$ 15,510	US\$ 5,502	US\$ 14,073		US\$ 14,073	US\$ 1,437	US\$ 5,502	US\$ 6,939	1.26
Argentina	5,028,631	1,347,925	3,575,456		3,575,456	1,453,175	1,347,925	2,801,100	2.08
Bahamas	(9,722)	19,256		US\$ 17,571	17,571	(9,722)	1,685	(8,037)	
Barbados		22,007		22,007	22,007				
Belize	8,253	8,253	8,253	8,253	16,506				
Bolivia	19,256	19,256	19,256		19,256		19,256	19,256	1
Brazil	8,085,681	2,351,992	3,853,329		3,853,329	4,232,352	2,351,992	6,584,344	2.80
Canada		3,400,073		3,400,073	3,400,073				
Colombia	499,404	258,582	499,404	14,542	513,946		244,040	244,040	0.94
Costa Rica	62,449	35,760	62,449	8,922	71,371		26,838	26,838	0.75
Chile	182,094	148,547	100,000		100,000	82,094	148,547	230,641	1.55
Dominica	5,502	5,502				5,502	5,502	11,004	2
Dominican Republic	97,141	49,516	97,141	1,713	98,854		47,803	47,803	0.97
Ecuador		49,516		49,516	49,516				
El Salvador		19,256		19,256	19,256				
Grenada		8,253					8,253	8,253	1
Guatemala	(11,275)	35,760		24,625	24,625	(11,275)	11,135	(140)	
Guyana	126	5,502	126	5,437	5,563		65	65	0.01
Haiti	19,256	19,256	19,256		19,256		19,256	19,256	1
Honduras	23	19,256	23	19,262	19,285		(6)	(6)	
Jamaica		49,516		49,516	49,516				
Mexico		1,672,528		1,672,528	1,672,528				
Nicaragua	217,725	19,256	113,619		113,619	104,106	19,256	123,362	6.41
Panama		35,760		35,760	35,760				
Paraguay	183,521	49,516	151,408		151,408	32,113	49,516	81,629	1.65
Peru	676,716	112,786	112,786		112,786	563,930	112,786	676,716	6
Saint Kitts and Nevis		5,502		5,502	5,502				
Saint Vincent and the Grenadines		5,502		11,004	11,004		(5,502)	(5,502)	
Saint Lucia		8,253		8,253	8,253				
Suriname	32,372	19,256	32,372	44	32,416		19,212	19,212	1
Trinidad and Tobago		49,516		49,516	49,516				
United States of America		16,359,410		16,359,410	16,359,410				
Uruguay	133,046	71,523				133,046	71,523	204,569	2.86
Venezuela	880,278	880,278	880,278		880,278		880,278	880,278	1
Total	<u>US\$16,125,987</u>	<u>US\$27,167,572</u>	<u>US\$ 9,539,229</u>	<u>US\$21,782,710</u>	<u>US\$31,321,939</u>	<u>US\$6,586,758</u>	<u>US\$5,384,862</u>	<u>US\$11,971,620</u>	

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

QUOTA BUDGET AND EXPENSES BY CHAPTER

YEAR ENDED DECEMBER 31, 2005

(Stated in United States Dollars)

	Budget	Expenses	(Over) Under Execution	
			Amount	Percentage
CHAPTER 1: DIRECT TECHNICAL COOPERATION SERVICES				
Trade and Agribusiness Development	US\$ 5,992,100	US\$ 5,811,768	US\$ 180,332	96.99%
Technology and Innovation	4,418,300	4,351,956	66,344	98.50%
Agricultural Health and Food Safety	4,429,400	3,487,722	941,678	78.74%
Sustainable Rural Development	4,415,700	4,903,506	(487,806)	111.05%
Education and Training	2,813,800	2,680,969	132,831	95.28%
Information and Communication	2,384,900	2,336,836	48,064	97.98%
Total Chapter 1	<u>24,454,200</u>	<u>23,572,757</u>	<u>881,443</u>	<u>96.40%</u>
CHAPTER 2: MANAGEMENT COSTS				
Office of the Director General	798,900	698,553	100,347	87.44%
Directorate of Administration and Finance	914,000	858,909	55,091	93.97%
Total Chapter 2	<u>1,712,900</u>	<u>1,557,462</u>	<u>155,438</u>	<u>90.93%</u>
CHAPTER 3: GENERAL COSTS AND PROVISIONS				
Governing Bodies	400,000	328,640	71,360	82.16%
Insurance	250,000	276,614	(26,614)	110.65%
Pensions	230,000	253,570	(23,570)	110.25%
OAS Administrative Tribunal	25,000	24,051	949	96.20%
External Audit	95,500	89,879	5,621	94.11%
Total Chapter 3	<u>1,000,500</u>	<u>972,754</u>	<u>27,746</u>	<u>97.23%</u>
TOTAL	<u>US\$27,167,600</u>	<u>US\$26,102,973</u>	<u>US\$1,064,627</u>	<u>96.08%</u>

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

**EXECUTION OF EXTERNAL RESOURCES BY FINANCING SOURCE
YEAR ENDED DECEMBER 31, 2005**

(Stated in United States Dollars)

	Source	Amount
a.	MEMBER STATES	
	Argentina	US\$ 9,306,993
	Bolivia	27,361
	Brazil	23,621,341
	Canada	28,493
	Chile	460,997
	Colombia	15,590,198
	Costa Rica	411,120
	Dominican Republic	318,991
	Ecuador	1,112,983
	El Salvador	1,672,185
	Guatemala	3,206,297
	Haiti	4,623
	Honduras	2,989,831
	Jamaica	55,982
	Mexico	36,230,857
	Nicaragua	27,992
	Panama	1,168,924
	Paraguay	1,000,110
	Peru	874,364
	United States of America	4,100,417
	Uruguay	775,411
	Venezuela	354,224
	Sub-total - Member States	<u>103,339,694</u>
b.	OTHER INSTITUTIONS AND GOVERNMENTS	
	Australian Embassy	9,684
	Central American Bank for Economic Integration	1,110,968
	Deutsche Gesellschaft Fur Technische Zusammenarbeit Gmbh	195,470
	Eastern Caribbean States	1,928
	European Documentation Center - Belgium	24,729
	European Economic Community	119,833
	European Union	25,555
	Food and Agriculture Organization of the United Nations	71,913
	Government of China	9,331
	Government of Japan	202,176
	Government of Netherlands	485,608
	Inter-American Development Bank	12,252,869
	International Bank for Reconstruction and Development	1,423,292
	International Center for Forestry Research	109,941

(Continued)

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

EXECUTION OF EXTERNAL RESOURCES BY FINANCING SOURCE

YEAR ENDED DECEMBER 31, 2005

(Stated in United States Dollars)

Source	Amount
International Center for Tropical Agriculture	US\$ 124,059
International Food Policy Research Institute	120,190
International Fund for Agricultural Development	1,775,702
International Institute for Investigation on Cattling	48,429
International Plant Genetic Resources Institute	17,050
Spanish Agency for International Cooperation	19,192
Swiss Agency for Development and Cooperation	449,710
Technical Centre for Agricultural and Rural Co-operation	111,820
United Nations Development Program	73,346
United Nations Environment Program	51,000
W.K. Kellogg Foundation	299,434
World Bank	2,892,594
World Cocoa Foundation	22,440
World Food Program	867
Others	<u>97,163</u>
Sub-total - Other Institutions and Governments	<u>22,146,293</u>
Grand total	<u>US\$125,485,987</u>

(Concluded)
