

**International Institute of Rural
Reconstruction**
(A Nonstock, Nonprofit Organization)

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
International Institute of Rural Reconstruction

Report on the Audit of the Financial Statements

We have audited the financial statements of International Institute of Rural Reconstruction (the Institute), a nonstock, nonprofit organization incorporated in Delaware, United States of America, which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of activities, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Institute as at December 31, 2017 and 2016, and the results of its activities and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Institute in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Institute's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Institute's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Christine G. Vallejo
Christine G. Vallejo
Partner

June 1, 2018



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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Cash and cash equivalents (Note 3)	\$1,688,736	\$1,603,145
Investments (Note 3)	756,541	725,654
Contribution receivables (Note 4)	2,236,750	1,892,077
Other receivables (Note 5)	1,302,759	790,235
Property and equipment - net (Note 6)	271,169	280,902
Prepayment and other assets	22,424	51,845
Pension asset (Note 8)	33,509	15,280
	\$6,311,888	\$5,359,138
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other current liabilities (Note 7)	\$319,151	\$369,637
Other noncurrent liabilities	1,282	10,459
Total Liabilities	320,433	380,096
NET ASSETS		
Unrestricted	4,193,184	2,679,871
Temporarily restricted (Note 9)	1,080,289	1,581,189
Permanently restricted (Note 9)	717,982	717,982
Total Net assets	5,991,455	4,979,042
	\$6,311,888	\$5,359,138

See accompanying Notes to Financial Statements.



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

STATEMENTS OF ACTIVITIES

	Years Ended December 31					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT						
Contributions/Grants						
Foundations (Note 4)	\$139,107	\$1,836,007	\$1,975,114	\$56,144	\$2,984,586	\$3,040,730
Government	–	226,918	226,918	–	705,656	705,656
Individuals	187,478	33,003	220,481	50,047	25,100	75,147
Corporation	–	357,038	357,038	2,712	–	2,712
Use of campus facilities	636,790	–	636,790	494,042	–	494,042
Training courses, study missions and technical assistance	1,327,571	–	1,327,571	1,211,791	–	1,211,791
Workshops	242,143	–	242,143	387,262	–	387,262
Publication sales	838	–	838	2,889	–	2,889
Others - net (Notes 3)	244,663	–	244,663	515,566	–	515,566
Net assets released from restrictions:						
Satisfaction of program activities	2,938,866	(2,938,866)	–	3,886,528	(3,886,528)	–
Expiration of time restrictions	15,000	(15,000)	–	15,000	(15,000)	–
	5,732,456	(500,900)	5,231,556	6,621,981	(186,186)	6,435,795
EXPENSES (Notes 10 and 11)						
Program services:						
Learning community	2,515,422	–	2,515,422	4,725,197	–	4,725,197
Applied learning	1,180,364	–	1,180,364	775,504	–	775,504
	3,695,786	–	3,695,786	5,500,701	–	5,500,701
Support services:						
Management and general	498,218	–	498,218	702,744	–	702,744
Fund raising	76,132	–	76,132	110,138	–	110,138
	574,350	–	574,350	812,882	–	812,882
	4,270,136	–	4,270,136	6,313,583	–	6,313,583
EXCESS OF REVENUE, GAINS AND OTHER SUPPORT OVER EXPENSES						
	1,462,320	(500,900)	961,420	308,398	(186,186)	122,212
Translation gain	50,993	–	50,993	46,885	–	46,885
CHANGE IN NET ASSETS	\$1,513,313	(\$500,900)	\$1,012,413	\$355,283	(\$186,186)	\$169,097

See accompanying Notes to Financial Statements.



INTERNATIONAL INSTITUTE OF RURAL RECONSTRUCTION

(A Nonstock, Nonprofit Organization)

STATEMENTS OF CHANGES IN NET ASSETS

	Years Ended December 31							
	2017				2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance at beginning of year	\$2,679,871	\$1,581,189	\$717,982	\$4,979,042	\$2,324,588	\$1,767,375	\$717,982	\$4,809,945
Change in net assets	1,513,313	(500,900)	–	1,012,413	355,283	(186,186)	–	169,097
Balance at end of year	\$4,193,184	\$1,080,289	\$717,982	\$5,991,455	\$2,679,871	\$1,581,189	\$717,982	\$4,979,042

See accompanying Notes to Financial Statements.



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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue, gains and other support over expenses	\$961,420	\$122,212
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization (Notes 6 and 11)	83,370	98,137
Effect of foreign exchange rate changes on translation	76,596	28,601
Gain on changes in market value on investments (Note 3)	(63,679)	(58,649)
Interest and dividend income (Note 3)	(13,832)	(12,305)
Working capital adjustments:		
Decrease (increase) in:		
Contribution receivables	(344,673)	(542,618)
Other receivables	(512,524)	(548,217)
Prepayment and other assets	29,421	2,372
Pension asset	(18,229)	(73,507)
Increase (decrease) in:		
Accounts payable and other current liabilities	(50,486)	63,840
Other noncurrent liabilities	(9,177)	7,486
Net cash provided by (used in) operating activities	138,207	(912,648)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net withdrawal of investments (Note 3)	46,624	84,660
Additions to property and equipment (Note 6)	(99,240)	(70,949)
Net cash provided by (used in) investing activities	(52,616)	13,711
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	85,591	(898,937)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,603,145	2,502,082
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	\$1,688,736	\$1,603,145

See accompanying Notes to Financial Statements.



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

NOTES TO FINANCIAL STATEMENTS

1. Organization Information

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

IIRR is a tax-exempt organization under Section 501(c)(3) of the United States Internal Revenue Code. IIRR is a recognized public charity. Contributions to IIRR qualify for the maximum allowable charitable deduction in the U.S.A.

IIRR is a global learning, training and capacity development organization which, with its predecessor organizations, has more than 80 years of experience and commitment to rural development. The Institute's program service has two main functional categories (described in Note 11), i.e. learning community program and applied learning program. Resource generation is focused on unrestricted contributions, restricted grants, earned revenue through trainings, workshops, study programs, customized courses, technical assistance, use of campus facilities, publication sales and investment return on endowment funds.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

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

Classification of Net Assets

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

▪ Unrestricted Net Assets

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

▪ Temporarily Restricted Net Assets

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



- Permanently Restricted Net Assets

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

Basis of Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

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

Investments

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

Contributions and Other Receivables

Contributions and other receivables are recognized initially at fair value. After initial measurement, contributions and other receivables are carried at amortized cost using the effective interest rate method, less any allowance for impairment. Unconditional promise to give in future periods are initially recorded at estimated fair value determined using the discounted present value of expected cash flows and subsequently amortized over the expected payment period, net of allowance for impairment. The discount rates are determined at the time the unconditional promise to give is initially received. The allowance is established by charges to the statement of activities in the form of provision for doubtful accounts. The allowance for uncollectible contributions receivable is based upon the Institute's analysis of past collection experience, pledge activity and other judgmental factors.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value.



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

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

Leasehold improvements	10 to 25 years or the term of the lease, whichever period is shorter
Buildings	10 to 25 years
Furniture and office equipment	3 to 5 years
Transportation equipment	5 to 8 years
Other equipment	5 to 10 years

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

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

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

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

Revenue and Expense Recognition

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

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

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



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

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

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

Allocation of Expenses

The cost incurred in the various programs and other activities has been summarized on a functional basis (see Note 11). Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services using the prevailing IIRR cost allocation methodology.

Pension Cost

IIRR's pension cost is based on the defined benefit pension plan for employees in the Philippines and defined contribution pension plan for employees in the U.S.A. and Africa Regional Center. Defined benefit pension plan includes the service cost determined under the projected unit credit method. This method reflects benefits earned by the employees to the date of the valuation taking into consideration the employees' projected salaries. Under the defined contribution pension plan, the Institute's obligation for each reporting period is determined by the amounts to be contributed for that reporting period.

Translation of Philippine and Other Regional Centers' Financial Statements

Financial statements of IIRR's Philippine and other Regional Centers are translated in accordance with Accounts Standards Codification (ASC) No. 830, *Foreign Currency Matters*. Under this method, assets and liabilities, expressed in Philippine pesos, Kenyan shillings, Ugandan shillings, Ethiopian birr, Sudanese pound, United Kingdom pound and euro, have been translated into U.S. dollar amounts at the closing exchange rates at the financial position date, while revenues and expenses have been translated at the average exchange rate of each center for the year. Other changes in fund balances are translated at the rate in effect in the year the transactions were originally recorded.

Functional and Reporting Currency

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

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs are prioritized according to the valuation techniques used to measure fair value. The highest priority is given to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs), and the lowest priority to measurements involving insignificant unobservable inputs (Level 3 inputs).



The three levels of the fair value hierarchy under ASC 820 are as follows:

Level 1: Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Institute has the ability to access.

Level 2: Inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.

Level 3: Inputs are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

3. Cash and Cash Equivalents and Investments

Cash and cash equivalents

The cash and cash equivalents account consist of:

	2017	2016
Cash in banks	\$1,067,979	\$1,023,432
Cash on hand	8,068	18,621
	1,076,047	1,042,053
Short-term placements	612,689	561,092
	\$1,688,736	\$1,603,145

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

Cash and cash equivalents include restricted cash in bank and short-term placements amounting to \$1,476,625 and \$678,302 in 2017 and 2016, respectively, which pertains to amounts given by various donors for the implementation of program services.

Investments

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

	2017			
	Equity Stocks	Short-term Money Market Placements	Long-term U.S. Treasury Notes	Total
Cost at January 1, 2017	\$364,312	\$2,926	\$2,896	\$370,134
Gain on changes in market value at January 1, 2017	261,041	-	94,479	355,520
Market value at January 1, 2017	625,353	2,926	97,375	725,654
Interest and dividends	12,639	1,193	-	13,832
Additions	-	28,254	-	28,254
Withdrawals	(73,545)	-	(1,333)	(74,878)
Gain due to change in market value	63,679	-	-	63,679
	\$628,126	\$32,373	\$96,042	\$756,541

(Forward)



2017				
	Equity Stocks	Short-term		Total
		Money Market Placements	U.S. Treasury Notes	
Cost at December 31, 2017	\$304,056	\$32,373	\$96,042	\$432,471
Gain on changes in market value at December 31, 2017	324,070	-	-	324,070
	\$628,126	\$32,373	\$96,042	\$756,541
2016				
	Equity Stocks	Short-term		Total
		Money Market Placements	U.S. Treasury Notes	
Cost at January 1, 2016	\$401,645	\$1,158	\$39,686	\$442,489
Gain on changes in market value at January 1, 2016	201,987	-	94,884	296,871
Market value at January 1, 2016	603,632	1,158	134,570	739,360
Interest and dividends	10,537	1,768	-	12,305
Withdrawals	(47,870)	-	(36,790)	(84,660)
Gain due to change in market value	59,054	-	(405)	58,649
	\$625,353	\$2,926	\$97,375	\$725,654
Cost at December 31, 2016	\$364,312	\$2,926	\$2,896	\$370,134
Gain on changes in market value at December 31, 2016	261,041	-	94,479	355,520
	\$625,353	\$2,926	\$97,375	\$725,654

Gain due to change in market value, and interest and dividends during the year are shown as “Others” in the statements of activities.

As at December 31, 2017 and 2016, the Institute’s investments in equity stocks, money market placements and U.S. Treasury Notes are classified as Level 1, with fair values based on readily available determinable market prices. There were no changes in valuation techniques that resulted in transfer in or out of an investment’s assigned level within the hierarchy.

Concentrations of Risks

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

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

Foreign Currency Risk. IIRR has no significant foreign currency investments exposed to changes in exchange rates that will adversely affect the fair market value of an investment.

The main investment management objective is to maintain security and liquidity. Subject to that objective, IIRR seeks a reasonable return on its investments given their risk profile. IIRR is restricted to invest in instruments of a limited class of issuers, particularly government or government-guaranteed obligations, money market mutual funds, corporate obligations and certain index securities.



The following table presents the Institute's cash deposits exposed to foreign currency risk:

	2017		2016	
	Original currency	Functional currency	Original currency	Functional currency
Cash deposits:				
In Kenyan shillings	50,103,476	\$481,486	36,902,944	\$353,748
In Ethiopian birr	547,582	19,641	4,571,120	201,282
In United Kingdom pound	81	92	4,996	6,168
In Philippine peso	2,169,645	43,454	12,538,594	252,184
In Sudanese pound	555,201	4,262	274,682	41,872
In Ugandan shillings	182,779,520	49,988	69,902,608	19,099
In Euro	4,635	5,518	6,891	7,254
		\$604,441		\$881,607

The table below shows the closing exchange rates used in translating the foreign-currency denominated cash deposits to \$1:

	2017	2016
Kenyan shillings	104.06	104.32
Ethiopian birr	27.88	22.71
United Kingdom pounds	0.88	0.81
Philippine peso	49.93	49.72
Sudanese pound	130.26	6.56
Ugandan shillings	3,656.45	3,660.00
Euro	0.84	0.95

The following table demonstrates the sensitivity to a reasonable possible change in U.S. dollar exchange rate, with all variables held constant, of the Institute's excess of revenue, gains and other support over expenses due to changes in the fair value of foreign-currency denominated cash deposits as at December 31, 2017 and 2016:

	Increase (Decrease) In Excess of Revenue, Gains And Other Support Over Expenses	
	2017	2016
Appreciation of US\$ by 10% of all of the Above-mentioned currencies	(\$56,451)	(\$57,676)
Depreciation of US\$ by 10% of all of the Above-mentioned currencies	65,324	66,359

4. Contributions Receivable

These receivables are covered by signed grant agreements. Realization of the pledges is expected in the following periods:

	2017	2016
In one year or less	\$1,921,369	\$1,660,733
Between one and five years	315,381	231,344
	\$2,236,750	\$1,892,077



5. Other Receivables

This account consists of:

	2017	2016
Trade receivables	\$1,249,040	\$765,139
Advances to officers and employees	53,118	24,198
Others	601	898
	\$1,302,759	\$790,235

Trade receivables consist of grants arising from technical assistance, study programs and training courses.

Advances to officers and employees are cash given in advance for the purpose of carrying the Institute's technical assistance, study programs, training courses and other projects. These are noninterest-bearing and have an average term of one year.

Other receivables include deposits to suppliers and creditors and other receivables from employees.

6. Property and Equipment

This account consists of:

	Leasehold Improvements	Buildings	Furniture and Office Equipment	Transportation Equipment	Other Equipment	Total
Cost						
Balance at January 1, 2016	\$48,375	\$677,338	\$791,454	\$574,631	\$207,757	\$2,299,555
Additions	-	-	29,736	35,366	5,847	70,949
Cumulative translation adjustments	(2,588)	(36,237)	(36,748)	(20,112)	(11,115)	(106,800)
Balance at December 31, 2016	45,787	641,101	784,442	589,885	202,489	2,263,704
Additions	-	-	89,590	3,386	6,264	99,240
Cumulative translation adjustments	(192)	(2,697)	(108,928)	(51,317)	63,963	(99,171)
Balance at December 31, 2017	\$45,595	\$638,404	\$765,104	\$541,954	\$272,716	\$2,263,773

	Leasehold Improvements	Buildings	Furniture and Office Equipment	Transportation Equipment	Other Equipment	Total
Accumulated Depreciation and Amortization						
Balance at January 1, 2016	\$47,675	\$648,128	\$695,983	\$440,291	\$177,672	\$2,009,749
Depreciation and amortization (see Note 11)	165	4,773	43,224	47,299	2,676	98,137
Cumulative translation adjustments	(2,567)	(35,055)	(36,667)	(45,778)	(5,017)	(125,084)
Balance at December 31, 2016	45,273	617,846	702,540	441,812	175,331	1,982,802
Depreciation and amortization (see Note 11)	141	4,496	23,813	41,642	13,278	83,370
Cumulative translation adjustments	(604)	(8,207)	(59,435)	(39,497)	34,175	(73,568)
Balance at December 31, 2017	\$44,810	\$614,135	\$666,918	\$443,957	\$222,784	\$1,992,604

Net Book Value

At December 31, 2017	\$785	\$24,269	\$98,186	\$97,997	\$49,932	\$271,169
At December 31, 2016	\$514	\$23,255	\$81,902	\$148,073	\$27,158	\$280,902



IIRR donated its land in Cavite, Philippines to the Philippine Rural Reconstruction Movement, Inc. (PRRM) in 1975. Excluded from this donation were buildings and other improvements on such land. In the same year, PRRM and IIRR entered into a lease agreement on the land in Cavite, Philippines for a period of 25 years, renewable for another 25 years upon mutual agreement of the parties concerned. The annual rental under the lease contract was \$286 until May 25, 2000. On May 23, 2000, IIRR and PRRM executed a contract to confirm their agreement to share the Cavite campus for rural reconstruction work. The contract permits IIRR to use its portion of the campus without rent through May 25, 2025 and may be extended for another 25 years upon mutual agreement of the parties concerned. The fair value of the free rent amounting to \$11,827 in 2017 and \$12,556 in 2016.

As at December 31, 2017 and 2016, fully depreciated assets amounting to \$1,752,629 and \$1,612,332, respectively, were still in use by the Institute.

7. Accounts Payable and Other Current Liabilities

This account consists of:

	2017	2016
Accounts payable	\$153,758	\$65,899
Fund set aside for field partners	92,069	144,676
Accrued expenses	64,177	145,253
Others	9,147	13,809
	\$319,151	\$369,637

Accrued expenses represent statutory payables such as withholding taxes, social security premiums and other liabilities to governments.

Fund set aside for field partners are payables relating to field program expenses and are expected to be settled within 30 to 360 days from the end of the reporting period.

Accounts payable are noninterest-bearing and are generally on 30 to 60 days term.

Other payables comprise mainly of the obligations relating to employee benefits and other funds that are expected to be settled within 30 to 360 days from the end of the reporting period.

8. Pension Plans

IIRR has a defined benefit pension plan for its employees in the Philippines and a defined contribution pension plan covering its employees in the U.S.A. and Africa Regional Center. Pension cost for these plans amounted to \$77,773 and \$94,301 in 2017 and 2016, respectively.

- Pension Plan for the Philippines

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



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

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

The following table sets forth IIRR Plan's status:

	2017	2016
Projected benefit obligation (PBO)	\$271,672	\$235,679
Plan assets at fair value	(305,181)	(250,959)
Pension asset	(\$33,509)	(\$15,280)

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

	2017	2016
Benefit cost:		
Service cost	\$39,859	\$38,023
Interest cost on PBO	12,166	16,828
Expected return on plan assets	(2,118)	(2,972)
Amortization of actuarial loss (gain)	(2,931)	1,053
Pension cost	\$46,976	\$52,932
Benefits paid	\$5,107	\$36,401
Contributions made	\$39,859	\$32,577

Pension cost is presented as part of Staff cost under "Expenses" account in the statements of activities (see Note 11).

The principal assumptions used in determining projected benefit obligation as at December 31, 2017 and 2016 are shown below:

	2017	2016
Discount rate	5.78%	5.29%
Expected rate of return on plan assets	0.79%	0.79%
Expected rate of salary increases	2.50%	2.50%



The changes in PBO are as follows:

	2017	2016
PBO at beginning of year	\$235,679	\$325,222
Service cost	39,859	38,023
Interest cost on PBO	12,166	16,828
Benefits paid	(5,107)	(36,401)
Actuarial gain	(10,282)	(94,002)
Translation adjustment (Philippine peso to U.S. dollar)	(643)	(13,991)
PBO at end of year	\$271,672	\$235,679

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

	2017	2016
Fair value of plan assets at beginning of year	\$250,959	\$266,995
Expected return on plan assets	2,118	2,972
Contributions made	39,859	32,577
Benefits paid	(5,107)	(36,401)
Actuarial loss (gain)	17,888	(982)
Translation adjustment (Philippine peso to U.S. dollar)	(536)	(14,202)
Fair value of plan assets at end of year	\$305,181	\$250,959

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

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

The trust fund is 100% invested in UITFs denominated in Philippine peso in 2017 and 2016. There are no U.S. dollar denominated investments in 2017 and 2016.

- Pension Plan for Other Countries

Net pension cost for the defined contribution pension plan amounted to \$63,634 in 2017 and \$53,309 in 2016.



9. Net Assets

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

	2017	2016
Program services	\$1,069,991	\$1,580,907
The Alice Yen Fund	8,145	-
The Employees' Welfare Fund	1,050	-
The Mr. & Mrs. Yen Mei Tang Memorial Fund	967	-
The Reader's Digest Endowment for Publications	136	282
	\$1,080,289	\$1,581,189

- b. Permanently restricted net assets consist of the following endowment funds as at December 31, 2017 and 2016:

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

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

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

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

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

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

- a. Send promising IIRR staff members, holding bachelor's degrees, to study for master's degrees at the University of the Philippines.
- b. Enable promising young staff members to attend short-term courses or to receive training in subjects related to IIRR's mission and language, computer science or to other subjects relating to their work for IIRR.
- c. Provide grants to finance on-site study of successful rural reconstruction efforts.
- d. Finance expenditures on facilities and equipment that improve staff effectiveness.
- e. Finance publications of IIRR staff members related to rural reconstruction.



In 2003, the Institute transferred the Rural Reconstruction Endowment Fund amounting to \$50,128 to an endowment trust, which is a separate entity. The endowment trust is organized exclusively for the benefit of the Institute and shall operate as a supporting organization of the Institute in accordance with Section 509 (a)(3) of the U.S. Internal Revenue Code. The Institute has no control over the trust. The earnings of the fund will be for the benefit of the Institute only upon the determination of the distributable amount by the trustees of the endowment trust. Any earnings not distributed shall be accumulated to the principal. The value of the endowment trust as at December 31, 2017 and 2016 amounted to \$106,449 and \$75,838, respectively.

10. Commitments and Contingencies

IIRR leases various office spaces for its operations. The terms of these leases range from one to three years. Total rent expense amounted to \$63,761 in 2017 and \$116,861 in 2016 and is shown as part of "Rental and maintenance" under "Expenses" account in the statements of activities (see Note 11).

11. Expenses

This account consists of expenses from continuing operation of IIRR:

	2017						
	Program Services			Supporting Services			Total Expenses
	Learning Community	Applied Learning	Subtotal	Management and General	Fund Raising	Subtotal	
Field program expenses	\$1,368,751	\$600,547	\$1,969,298	\$-	\$-	\$-	\$1,969,298
Staff cost (Note 8)	806,778	297,369	1,104,147	333,344	45,154	378,498	1,482,645
Rental and maintenance (see Note 10)	149,035	96,376	245,411	69,018	8,545	77,563	322,974
Contractual services	72,966	63,533	136,499	33,168	12,660	45,828	182,327
Travel	37,558	33,901	71,459	19,853	2,461	22,314	93,773
Depreciation (Note 6)	24,919	30,371	55,290	25,806	2,274	28,080	83,370
Communication	18,227	16,220	34,447	9,699	2,213	11,912	46,359
Supplies and materials	4,205	4,045	8,250	1,400	373	1,773	10,023
Printing and publication	2,906	2,819	5,725	899	669	1,568	7,293
Others	30,077	35,183	65,260	5,031	1,783	6,814	72,074
	\$2,515,422	\$1,180,364	\$3,695,786	\$498,218	\$76,132	\$574,350	\$4,270,136

	2016						
	Program Services			Supporting Services			Total Expenses
	Learning Community	Applied Learning	Subtotal	Management and General	Fund Raising	Subtotal	
Field program expenses	\$2,150,951	\$156,394	\$2,307,345	\$-	\$-	\$-	\$2,307,345
Staff cost (Note 8)	1,441,344	194,529	1,635,873	432,935	64,585	497,520	2,133,393
Contractual services	887,656	48,902	936,558	10,333	3,819	14,152	950,710
Rental and maintenance (see Note 10)	62,487	295,000	357,487	31,370	29,560	60,930	418,417
Travel	82,357	45,869	128,226	72,533	1,435	73,968	202,194
Depreciation (Note 6)	10,311	13,995	24,306	67,419	6,412	73,831	98,137
Supplies and materials	50,840	6,979	57,819	12,561	273	12,834	70,653
Communication	22,558	12,148	34,706	4,546	2,467	7,013	41,719
Printing and publication	8,649	1,688	10,337	1,106	1,106	2,212	12,549
Others	8,044	-	8,044	69,941	481	70,422	78,466



2016						
Program Services			Supporting Services			Total Expenses
Learning Community	Applied Learning	Subtotal	Management and General	Fund Raising	Subtotal	
\$4,725,197	\$775,504	\$5,500,701	\$702,744	\$110,138	\$812,882	\$6,313,583

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

a. Learning Community Program

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

b. Applied Learning Program

This program aims to contribute to the global body of knowledge on organizational and program effectiveness and good governance through practical trainings, workshops, conferences, technical assistance, study programs and publications. The focus is to transform field experience into a unique, informed, evolving and on-site learning through interaction between community members and development practitioners engaged at national, regional and global levels.

12. Subsequent Events

The Institute evaluated events subsequent to December 31, 2017 through June 1, 2018. It was determined that there were no subsequent events or transactions that were material in the financial statements at December 31, 2017.

13. Approval of the Financial Statements

The financial statements were approved and authorized for issue by the BOT on June 1, 2018.

