

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

Financial Statements  
December 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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

April 21, 2017



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

---

**STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Cash and cash equivalents (Note 3)	<b>\$1,603,145</b>	\$2,502,082
Investments (Note 3)	<b>725,654</b>	739,360
Contribution receivables (Note 4)	<b>1,892,077</b>	1,349,459
Other receivables (Note 5)	<b>790,235</b>	242,018
Property and equipment - net (Note 6)	<b>280,902</b>	289,806
Prepayment and other assets	<b>51,845</b>	54,217
Pension asset (Note 8)	<b>15,280</b>	-
	<b>\$5,359,138</b>	\$5,176,942
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and other current liabilities (Note 7)	<b>\$369,637</b>	\$305,797
Pension liability (Note 8)	-	58,227
Other noncurrent liabilities	<b>10,459</b>	2,973
Total Liabilities	<b>380,096</b>	366,997
<b>NET ASSETS</b>		
Unrestricted	<b>2,679,871</b>	2,324,588
Temporarily restricted (Note 9)	<b>1,581,189</b>	1,767,375
Permanently restricted (Note 9)	<b>717,982</b>	717,982
Total Net assets	<b>4,979,042</b>	4,809,945
	<b>\$5,359,138</b>	\$5,176,942

*See accompanying Notes to Financial Statements.*



# INTERNATIONAL INSTITUTE OF RURAL RECONSTRUCTION

(A Nonstock, Nonprofit Organization)

## STATEMENTS OF ACTIVITIES

	Years Ended December 31					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE, GAINS AND OTHER SUPPORT</b>						
Contributions/Grants						
Foundations (Note 4)	\$56,144	\$2,984,586	\$3,040,730	\$-	\$3,849,869	\$3,849,869
Government	-	705,656	705,656	-	137,721	137,721
Individuals	50,047	25,100	75,147	39,123	49,905	89,028
Corporation	2,712	-	2,712	-	-	-
Use of campus facilities	494,042	-	494,042	516,833	-	516,833
Training courses, study missions and technical assistance	1,211,791	-	1,211,791	366,282	-	366,282
Workshops	387,262	-	387,262	129,902	-	129,902
Publication sales	2,889	-	2,889	11,754	-	11,754
Others - net (Notes 4 and 6)	515,566	-	515,566	196,118	-	196,118
Net assets released from restrictions:						
Satisfaction of program activities	3,886,528	(3,886,528)	-	5,071,410	(5,071,410)	-
Expiration of time restrictions	15,000	(15,000)	-	125,000	(125,000)	-
	<b>6,621,981</b>	<b>(186,186)</b>	<b>6,435,795</b>	<b>6,456,422</b>	<b>(1,158,915)</b>	<b>5,297,507</b>
<b>EXPENSES (Notes 10 and 11)</b>						
Program services:						
Learning community	4,725,197	-	4,725,197	3,549,812	-	3,549,812
Applied learning	775,504	-	775,504	758,174	-	758,174
	<b>5,500,701</b>	<b>-</b>	<b>5,500,701</b>	<b>4,307,986</b>	<b>-</b>	<b>4,307,986</b>
Support services:						
Management and general	702,744	-	702,744	596,446	-	596,446
Fund raising	110,138	-	110,138	126,067	-	126,067
	<b>812,882</b>	<b>-</b>	<b>812,882</b>	<b>722,513</b>	<b>-</b>	<b>722,513</b>
	<b>6,313,583</b>	<b>-</b>	<b>6,313,583</b>	<b>5,030,499</b>	<b>-</b>	<b>5,030,499</b>
<b>EXCESS OF REVENUE, GAINS AND OTHER SUPPORT OVER EXPENSES</b>	<b>308,398</b>	<b>(186,186)</b>	<b>122,212</b>	<b>1,425,923</b>	<b>(1,158,915)</b>	<b>267,008</b>
Translation gain (loss)	46,885	-	46,885	(311,057)	-	(311,057)
<b>CHANGE IN NET ASSETS</b>	<b>\$355,283</b>	<b>(\$186,186)</b>	<b>\$169,097</b>	<b>\$1,114,866</b>	<b>(\$1,158,915)</b>	<b>(\$44,049)</b>

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							
	2016				2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance at beginning of year	\$2,324,588	\$1,767,375	\$717,982	\$4,809,945	\$1,209,722	\$2,926,290	\$717,982	\$4,853,994
Change in net assets	355,283	(186,186)	–	169,097	1,114,866	(1,158,915)	–	(44,049)
Balance at end of year	\$2,679,871	\$1,581,189	\$717,982	\$4,979,042	\$2,324,588	\$1,767,375	\$717,982	\$4,809,945

*See accompanying Notes to Financial Statements.*



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

**STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of revenue, gains and other support over expenses	<b>\$122,212</b>	\$267,008
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization (Notes 6 and 11)	<b>98,137</b>	102,592
Loss (gain) on changes in market value of investments (Note 3)	<b>(58,649)</b>	5,376
Effect of foreign exchange rate changes on translation	<b>28,601</b>	(307,288)
Interest and dividend income (Note 3)	<b>(12,305)</b>	(13,924)
Loss on disposal of property and equipment (Note 6)	–	110
Working capital adjustments:		
Decrease (increase) in:		
Contribution receivables	<b>(542,618)</b>	1,125,150
Other receivables	<b>(548,217)</b>	80,927
Prepayment and other assets	<b>2,372</b>	(34,154)
Pension asset	<b>(73,507)</b>	–
Increase (decrease) in:		
Accounts payable and other current liabilities	<b>63,840</b>	(691,667)
Pension liability	–	58,227
Other noncurrent liabilities	<b>7,486</b>	2,973
Net cash provided by (used in) operating activities	<b>(912,648)</b>	595,330
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Withdrawal of investments (Note 3)	<b>84,660</b>	19,407
Additions to property and equipment (Note 6)	<b>(70,949)</b>	(124,646)
Net cash provided by (used in) investing activities	<b>13,711</b>	(105,239)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(898,937)</b>	490,091
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,502,082</b>	2,011,991
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)</b>	<b>\$1,603,145</b>	\$2,502,082

*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:

	2016	2015
Cash in banks	\$1,023,432	\$2,102,000
Cash on hand	18,621	2,681
	<b>1,042,053</b>	2,104,681
Cash equivalents	561,092	397,401
	<b>\$1,603,145</b>	\$2,502,082

Cash in banks earn interest at their respective bank deposit rates. Cash equivalents 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 in bank includes restricted cash amounting to \$678,302 and \$1,686,918 in 2016 and 2015, 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:

	2016			Total
	Equity Stocks	Short-term Money Market Placements	Long-term 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
	<b>\$625,353</b>	<b>\$2,926</b>	<b>\$97,375</b>	<b>\$725,654</b>



2016				
	Equity Stocks	Short-term		Total
		Money Market Placements	U.S. Treasury Notes	
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
	<b>\$625,353</b>	<b>\$2,926</b>	<b>\$97,375</b>	<b>\$725,654</b>
2015				
	Equity Stocks	Short-term		Total
		Money Market Placements	U.S. Treasury Notes	
Cost at January 1, 2015	\$408,162	\$1,158	\$38,652	\$447,972
Gain on changes in market value at January 1, 2015	206,994	-	95,253	302,247
Market value at January 1, 2015	615,156	1,158	133,905	750,219
Interest and dividends	12,219	-	1,705	13,924
Withdrawals	(18,736)	-	(671)	(19,407)
Loss due to change in market value	(5,007)	-	(369)	(5,376)
	<b>\$603,632</b>	<b>\$1,158</b>	<b>\$134,570</b>	<b>\$739,360</b>
Cost at December 31, 2015	\$401,645	\$1,158	39,686	442,489
Gain on changes in market value at December 31, 2015	201,987	-	94,884	296,871
	<b>\$603,632</b>	<b>\$1,158</b>	<b>\$134,570</b>	<b>\$739,360</b>

Gain (loss) due to change in market value during the year is shown as “Others” in the statements of activities (see Note 4).

As at December 31, 2016 and 2015, 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:

	2016		2015	
	Original currency	Functional currency	Original currency	Functional currency
Cash deposits:				
In Kenyan shillings	36,902,944	\$353,748	14,104,450	\$135,450
In Ethiopian birr	4,571,120	201,282	6,865,218	325,674
In United Kingdom pound	4,996	6,168	125,937	187,966
In Philippine peso	12,538,594	252,184	6,796,961	144,432
In Sudanese pound	274,682	41,872	2,594	423
In Ugandan shillings	69,902,608	19,099	136,235,088	39,829
In Euro	6,891	7,254	7,606	8,267
		<b>\$881,607</b>		<b>\$842,041</b>

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

	2016	2015
Kenyan shillings	104.32	104.13
Ethiopian birr	22.71	21.08
United Kingdom pounds	0.81	0.67
Philippine peso	49.72	47.06
Sudanese pound	6.56	6.13
Ugandan shillings	3,660.00	3,420.50
Euro	0.95	0.92

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, 2016 and 2015:

	Increase (Decrease) In Excess of Revenue, Gains And Other Support Over Expenses	
	2016	2015
Appreciation of US\$ by 7% of all of the Above-mentioned currencies	(\$57,676)	(\$55,086)
Depreciation of US\$ by 7% of all of the Above-mentioned currencies	66,359	26,044

#### 4. Contributions Receivable

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

	2016	2015
In one year or less	\$1,660,733	\$1,052,771
Between one and three years	231,344	296,688
	<b>\$1,892,077</b>	<b>\$1,349,459</b>



## 5. Other Receivables

This account consists of:

	2016	2015
Trade receivables	\$765,139	\$230,796
Advances to officers and employees	24,198	7,446
Others	898	3,776
	<b>\$790,235</b>	<b>\$242,018</b>

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

Advances to officers and employees 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
<b>Cost</b>						
Balance at January 1, 2015	\$50,947	\$712,780	\$817,807	\$552,466	\$198,326	\$2,332,326
Additions	-	-	49,663	64,020	10,963	124,646
Disposals	-	-	(349)	-	-	(349)
Cumulative translation adjustments	(2,572)	(35,442)	(75,667)	(41,855)	(1,532)	(157,068)
Balance at December 31, 2015	<b>48,375</b>	<b>677,338</b>	<b>791,454</b>	<b>574,631</b>	<b>207,757</b>	<b>2,299,555</b>
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	<b>\$45,787</b>	<b>\$641,101</b>	<b>\$784,442</b>	<b>\$589,885</b>	<b>\$202,489</b>	<b>\$2,263,704</b>
<b>Accumulated Depreciation and Amortization</b>						
Balance at January 1, 2015	\$49,837	\$676,974	\$751,901	\$418,559	\$163,424	\$2,060,695
Depreciation and amortization	276	4,980	43,283	41,908	12,145	102,592
Disposals	-	-	(239)	-	-	(239)
Cumulative translation adjustments	(2,438)	(33,826)	(98,962)	(20,176)	2,103	(153,299)
Balance at December 31, 2015	<b>47,675</b>	<b>648,128</b>	<b>695,983</b>	<b>440,291</b>	<b>177,672</b>	<b>2,009,749</b>
Depreciation and amortization	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	<b>\$45,273</b>	<b>\$617,846</b>	<b>\$702,540</b>	<b>\$441,812</b>	<b>\$175,331</b>	<b>\$1,982,802</b>
<b>Net Book Value</b>						
At December 31, 2016	<b>\$514</b>	<b>\$23,255</b>	<b>\$81,902</b>	<b>\$148,073</b>	<b>\$27,158</b>	<b>\$280,902</b>
At December 31, 2015	\$700	\$29,210	\$95,471	\$134,340	\$30,085	\$289,806





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 \$12,556 in 2016 and \$13,102 in 2015 is recognized as part of other revenues and program services in the statements of activities.

As at December 31, 2016 and 2015, fully depreciated assets amounting to \$1,612,332 and \$1,776,755, respectively, were still in use by the Institute.

---

## 7. Accounts Payable and Other Current Liabilities

This account consists of:

	2016	2015
Accrued expenses	<b>\$145,253</b>	\$47,910
Fund set aside for field partners	<b>144,676</b>	225,285
Accounts payable	<b>65,899</b>	24,785
Others	<b>13,809</b>	7,817
	<b>\$369,637</b>	\$305,797

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 \$94,301 and \$143,328 in 2016 and 2015, 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:

	2016	2015
Projected benefit obligation (PBO)	<b>\$235,679</b>	\$325,222
Plan assets at fair value	<b>(250,959)</b>	(266,995)
Pension liability (asset)	<b>(\$15,280)</b>	\$58,227

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

	2016	2015
Benefit cost:		
Service cost	<b>\$38,023</b>	\$41,298
Interest cost on PBO	<b>16,828</b>	4,687
Expected return on plan assets	<b>(2,972)</b>	(6,706)
Amortization of actuarial loss	<b>1,053</b>	13,949
Pension cost	<b>\$52,932</b>	\$53,228
Benefits paid	<b>\$36,401</b>	\$3,279
Contributions made	<b>\$32,577</b>	\$41,298

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, 2016 and 2015 are shown below:

	2016	2015
Discount rate	<b>5.29%</b>	5.22%
Expected rate of return on plan assets	<b>0.79%</b>	1.50%
Expected rate of salary increases	<b>2.50%</b>	2.50%



The changes in PBO are as follows:

	<b>2016</b>	2015
PBO at beginning of year	<b>\$325,222</b>	\$249,343
Service cost	<b>38,023</b>	41,298
Interest cost on PBO	<b>16,828</b>	4,687
Benefits paid	<b>(36,401)</b>	(3,279)
Actuarial loss (gain)	<b>(94,002)</b>	48,602
Translation adjustment (Philippine peso to U.S. dollar)	<b>(13,991)</b>	(15,429)
<b>PBO at end of year</b>	<b>\$235,679</b>	<b>\$325,222</b>

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

	<b>2016</b>	2015
Fair value of plan assets at beginning of year	<b>\$266,995</b>	\$249,343
Expected return on plan assets	<b>2,972</b>	6,706
Contributions made	<b>32,577</b>	41,298
Benefits paid	<b>(36,401)</b>	(3,279)
Actuarial loss	<b>(982)</b>	(13,643)
Translation adjustment (Philippine peso to U.S. dollar)	<b>(14,202)</b>	(13,430)
<b>Fair value of plan assets at end of year</b>	<b>\$250,959</b>	<b>\$266,995</b>

The Plan is funded by contributions of the Institute to a trust fund managed by a Philippine bank. 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 2016 and 2015. There are no U.S. dollar denominated investments in 2016 and 2015. The fair value of plan assets is categorized under Level 1.

- Pension Plan for Other Countries

Net pension cost for the defined contribution pension plan amounted to \$53,309 in 2016 and \$68,571 in 2015.



---

9. Net Assets

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

	2016	2015
Program services	<b>\$1,580,907</b>	\$1,766,721
The Reader's Digest Endowment for Publications	<b>282</b>	654
	<b>\$1,581,189</b>	\$1,767,375

- b. Permanently restricted net assets consist of the following endowment funds as at December 31, 2016 and 2015:

	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
	<b>\$717,982</b>

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, 2016 and 2015 amounted to \$75,838 and \$70,742, 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 \$116,861 in 2016 and \$127,924 in 2015 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:

	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	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
	\$4,725,197	\$775,504	\$5,500,701	\$702,744	\$110,138	\$812,882	\$6,313,583

	2015						
	Program Services			Supporting Services			Total Expenses
	Learning Community	Applied Learning	Subtotal	Management and General	Fund Raising	Subtotal	
Field program expenses	\$2,396,820	\$181,209	\$2,578,029	\$-	\$-	\$-	\$2,578,029
Staff cost (Note 8)	921,837	417,539	1,339,376	93,951	70,789	164,740	1,504,116
Contractual services	126,901	77,123	204,024	38,962	16,867	55,829	259,853
Rental and maintenance	-	-	-	319,366	24,405	343,771	343,771
Travel	57,325	60,246	117,571	25,466	3,283	28,749	146,320
Depreciation (Note 6)	-	-	-	98,600	3,992	102,592	102,592
Supplies and materials	7,009	6,381	13,390	1,404	227	1,631	15,021
Communication	20,722	11,510	32,232	3,804	2,445	6,249	38,481
Printing and publication	11,263	1,377	12,640	895	895	1,790	14,430
Others	7,935	2,789	10,724	13,998	3,164	17,162	27,886
	\$3,549,812	\$758,174	\$4,307,986	\$596,446	\$126,067	\$722,513	\$5,030,499



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, 2016 through April 21, 2017, the date on which the financial statements were available for issuance. It was determined that there were no subsequent events or transactions that were material in the financial statements at December 31, 2016.

---

**13. Approval of the Financial Statements**

The financial statements were approved and authorized for issue by the BOT on April 21, 2017.

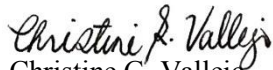


**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY SCHEDULE ON STATEMENT OF  
ACTIVITIES - OPERATING BASIS**

The Board of Trustees  
International Institute of Rural Reconstruction

We have audited the financial statements of International Institute of Rural Reconstruction as at and for the years ended December 31, 2016 and 2015 and have issued our report thereon dated April 21, 2017. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Statement of Activities - Operating Basis to accompany the financial statements of the Institute is the responsibility of the Institute's management. The supplementary schedule presented is not part of the basic financial statements. The supplementary schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

  
Christine G. Vallejo  
Partner

April 21, 2017



**INTERNATIONAL INSTITUTE OF RURAL RECONSTRUCTION**  
**STATEMENT OF ACTIVITIES - OPERATING BASIS\***  
**For the Years Ended December 31**  
**In US Dollars**

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>OPERATING REVENUES</b>						
<b>Unrestricted Grants/Contribution</b>	<b>\$108,903</b>	<b>\$-</b>	<b>\$108,903</b>	<b>\$20,737</b>	<b>\$-</b>	<b>\$20,737</b>
Individuals	50,047	-	50,047	20,737	-	20,737
Corporations	2,712	-	2,712	-	-	-
Foundations	56,144	-	56,144	-	-	-
<b>Restricted Grants/Contributions</b>	<b>-</b>	<b>3,895,506</b>	<b>3,895,506</b>	<b>-</b>	<b>4,895,464</b>	<b>4,895,464</b>
Individuals	-	21,634	21,634	-	67,251	67,251
Corporations	-	836,635	836,635	-	330,194	330,194
Foundations	-	2,142,271	2,142,271	-	3,041,415	3,041,415
Governments	-	894,966	894,966	-	1,456,604	1,456,604
<b>Earned Income</b>	<b>1,538,171</b>	<b>-</b>	<b>1,538,171</b>	<b>1,201,037</b>	<b>-</b>	<b>1,201,037</b>
Writesshops	196,237	-	196,237	266,080	-	266,080
Trainings, Study Missions, Technical Assistance	745,438	-	745,438	424,225	-	424,225
Publications Sales	375	-	375	12,835	-	12,835
Campus Facilities	596,121	-	596,121	497,897	-	497,897
Others	458,014	-	458,014	128,551	-	128,551
Satisfaction of program restrictions	3,886,528	(3,886,528)	-	5,071,410	(5,071,410)	-
Expiration of time restrictions	15,000	(15,000)	-	125,000	(125,000)	-
<b>TOTAL OPERATING REVENUES</b>	<b>6,006,616</b>	<b>(6,022)</b>	<b>6,000,594</b>	<b>6,546,735</b>	<b>(300,946)</b>	<b>6,245,789</b>
<b>OPERATING EXPENSES</b>						
Staff costs	2,133,393	-	2,133,393	1,504,116	-	1,504,116
Travel	202,194	-	202,194	146,320	-	146,320
Contractual services	950,710	-	950,710	259,853	-	259,853
Field program expenses	1,957,345	-	1,957,345	2,578,029	-	2,578,029
Printing and publications	12,549	-	12,549	14,430	-	14,430
Repairs and maintenance	418,417	-	418,417	343,771	-	343,771
Communications	41,719	-	41,719	38,481	-	38,481
Supplies and materials	70,653	-	70,653	15,021	-	15,021
Others	78,466	-	78,466	27,886	-	27,886
<b>TOTAL OPERATING EXPENSES</b>	<b>5,865,446</b>	<b>-</b>	<b>5,865,446</b>	<b>4,927,907</b>	<b>-</b>	<b>4,927,907</b>
<b>EXCESS OF OPERATING REVENUE OVER OPERATING EXPENSES</b>	<b>141,170</b>	<b>(6,022)</b>	<b>135,148</b>	<b>1,618,828</b>	<b>(300,946)</b>	<b>1,317,882</b>
<b>ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES</b>						
Restricted amounts for future periods	-	3,728,472	3,728,472	-	2,628,730	2,628,730
Restricted amounts from prior periods	-	3,901,528	3,901,528	-	(2,993,621)	(2,993,621)
Adjustments per audit	191,771	(7,810,164)	(7,618,393)	(111,731)	(493,078)	(604,809)
Investments transactions	73,594	-	73,594	21,418	-	21,418
Depreciation expenses	(98,137)	-	(98,137)	(102,592)	-	(102,592)
<b>EXCESS OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES</b>	<b>\$308,398</b>	<b>(\$186,186)</b>	<b>\$122,212</b>	<b>\$1,425,923</b>	<b>(\$1,158,915)</b>	<b>\$267,008</b>

\*Operating Basis: This means unrestricted revenues are recognized in the period it was received while the restricted revenues are recognized in the period when made available for use in the operations (i.e. a time restriction expires or the purpose of the restrictions is accomplished).

