

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

Financial Statements
December 31, 2018 and 2017

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, 2018 and 2017, and the statements of activities and 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, 2018 and 2017, 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, 2019



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

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	\$1,949,858	\$1,688,736
Investments (Note 3)	663,552	756,541
Current portion of contribution receivables (Note 4)	2,062,093	1,921,369
Other receivables (Note 5)	106,992	1,302,158
Prepayments and other current assets	25,619	23,025
Total Current Assets	4,808,114	5,691,829
Noncurrent Assets		
Noncurrent portion of contribution receivables (Note 4)	1,537,275	315,381
Property and equipment - net (Note 6)	214,685	271,169
Pension asset - net (Note 8)	32,948	33,509
Other noncurrent assets	42,706	-
Total Noncurrent Assets	1,827,614	620,059
	\$6,635,728	\$6,311,888
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other current liabilities (Note 7)	\$884,921	\$319,151
Other noncurrent liabilities	2,107	1,282
Total Liabilities	887,028	320,433
Net Assets		
Without donor restrictions (Note 9)	1,842,049	4,193,184
With donor restrictions (Note 9)	3,906,651	1,798,271
Total Net assets	5,748,700	5,991,455
	\$6,635,728	\$6,311,888

See accompanying Notes to Financial Statements.



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

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Years Ended December 31					
	2018			2017		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
OPERATING ACTIVITIES						
Operating revenues:						
Contributions/Grants						
Foundations (Note 4)	\$117,343	\$2,528,608	\$2,645,951	\$139,107	\$1,836,007	\$1,975,114
Government	–	1,321,232	1,321,232	–	226,918	226,918
Individual	881,718	26,100	907,818	187,478	33,003	220,481
Corporation	39,275	10	39,285	–	357,038	357,038
Use of campus facilities	556,538	–	556,538	636,790	–	636,790
Training courses, study missions and technical assistance	142,207	–	142,207	1,327,571	–	1,327,571
Workshops	78,203	–	78,203	242,143	–	242,143
Publication sales	651	–	651	838	–	838
Others (Note 3)	20,682	–	20,682	244,663	–	244,663
Total operating revenues before releases	1,836,617	3,875,950	5,712,567	2,778,590	2,452,966	5,231,556
Net assets released from restrictions:						
Satisfaction of program activities	1,752,570	(1,752,570)	–	2,938,866	(2,938,866)	–
Expiration of time restrictions	15,000	(15,000)	–	15,000	(15,000)	–
	3,604,487	2,108,380	5,712,567	5,732,456	(500,900)	5,231,556
Operating expenses (Notes 10 and 11):						
Learning community	4,639,787	–	4,639,787	2,515,422	–	2,515,422
Applied learning	624,512	–	624,512	1,180,364	–	1,180,364
Management and general	551,382	–	551,382	498,218	–	498,218
Fund raising	110,275	–	110,275	76,132	–	76,132
	5,925,956	–	5,925,956	4,270,136	–	4,270,136
Change in net assets from operating activities	(\$2,321,769)	\$2,108,380	(\$213,389)	\$1,462,320	(\$500,900)	\$961,420

(Forward)



Years Ended December 31

	2018			2017		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
NON-OPERATING ACTIVITIES (Note 11)						
Contributions	\$6,249	\$-	\$6,249	\$-	\$-	\$-
Interest income	799	-	799	-	-	-
Interest expense	(2,435)	-	(2,435)	-	-	-
Translation and exchange gain (loss)	(28,869)	-	(28,869)	50,993	-	50,993
Others	(5,110)	-	(5,110)	-	-	-
Change in net assets from non-operating activities	(29,366)	-	(29,366)	50,993	-	50,993
Change in net assets	(2,351,135)	2,108,380	(242,755)	1,513,313	(500,900)	1,012,413
Net assets, beginning of the year	4,193,184	1,798,271	5,991,455	2,679,871	2,299,171	4,979,042
Net assets, end of the year	\$1,842,049	\$3,906,651	\$5,748,700	\$4,193,184	\$1,798,271	\$5,991,455

See accompanying Notes to Financial Statements.



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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	(\$242,755)	\$1,012,413
Noncash adjustments:		
Depreciation and amortization (Notes 6 and 11)	74,191	83,370
Effect of foreign exchange rate changes translation (Note 3)	57,807	25,603
Loss (gain) on changes in market value on investments (Note 3)	34,289	(63,679)
Interest and dividend income (Note 3)	(14,015)	(14,764)
Net movement in pension asset	561	(18,229)
Working capital adjustments:		
Decrease (increase) in:		
Current portion of contribution receivables	(140,724)	(260,636)
Other receivables	1,195,166	(512,524)
Prepayment and other assets	(2,594)	29,421
Increase (decrease) in:		
Accounts payable and other current liabilities	565,770	(50,486)
Other noncurrent liabilities	825	(9,177)
Cash generated from operations	1,528,521	221,312
Interest received	791	932
Net cash provided by operating activities	1,529,312	222,244
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in noncurrent portion of contribution receivables	(1,221,894)	(84,037)
Net withdrawal of investments (Note 3)	71,924	46,624
Additions to:		
Property and equipment (Note 6)	(75,514)	(99,240)
Other noncurrent assets	(42,706)	-
Net cash used in investing activities	(1,268,190)	(136,653)
NET INCREASE IN CASH AND CASH EQUIVALENTS	261,122	85,591
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF YEAR	1,688,736	1,603,145
CASH AND CASH EQUIVALENTS		
AT END OF YEAR (Note 3)	\$1,949,858	\$1,688,736

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 non-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 Presentation

The financial statements of IIRR have been presented on the accrual basis in accordance with accounting principles generally accepted in the U.S.A. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). ASC 958-205 was effective on January 1, 2018.

Financial Statement Presentation

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of IIRR and changes therein are classified as follows:

- Net assets without donor restrictions

Net assets that are not subject to any donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. IIRR's Board of Trustees (BOT) may designate assets without restrictions for specific operational purposes from time to time.

- Net assets with donor restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.



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.

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the organization's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, bank charges, and other activities considered to be of a more unusual or nonrecurring nature.

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. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is presented in the statement of activities in accordance with donor restrictions as investment return. Investment return is presented net of investment fees. The average cost method is primarily used to determine the basis for computing realized gains or losses.

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 recorded at cost, and depreciated or amortized on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are recorded at cost and amortized on a straight-line basis over the shorter of the remaining lease term or the useful life of the improvement. Contributed items are recorded at fair value at date of donation. If donors stipulate



how long the assets must be used, the contributions are recorded as with donor restrictions. In the absence of such stipulation, contributions of equipment are recorded as without donor restrictions.

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

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 without donor restrictions support. Contributions and grants received intended for projects to be undertaken in future years are accounted for as with donor restrictions net assets. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in under the without donor restrictions net assets unless their use is restricted by explicit donor stipulation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

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 without donor restrictions 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.

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.



The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Staff costs	Time and effort
Contractual services	Time and effort
Rental and maintenance	Square footage or utilization
Travel	Time and effort
Supplies and materials	Time and effort
Communications	Time and effort
Printing and publications	Full time equivalent
Others	Time and effort

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 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 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, contribution 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.

New Accounting Pronouncements

On August 18, 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. IIRR has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

3. Cash and Cash Equivalents and Investments

Cash and cash equivalents

	2018	2017
Cash in banks	\$554,767	\$1,067,979
Cash on hand	4,704	8,068
	559,471	1,076,047
Short-term placements	1,390,387	612,689
	\$1,949,858	\$1,688,736

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.

Interest earned on cash in banks amounted to \$791 in 2018 and \$932 in 2017.

Cash and cash equivalents include restricted cash in banks and short-term placements amounting to \$1,631,866 and \$1,476,625 in 2018 and 2017, 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:

	2018			Total
	Equity Stocks	Short-term	Long-term	
		Money Market Placements	U.S. Treasury Notes	
Cost at January 1, 2018	\$304,056	\$32,373	\$96,042	\$432,471
Gain on changes in market value at January 1, 2018	324,070	-	-	324,070
Market value at January 1, 2018	628,126	32,373	96,042	756,541
Interest and dividends	11,253	1,971	-	13,224
Withdrawals	(71,374)	-	(550)	(71,924)
Loss due to change in market value	(34,225)	(5)	(59)	(34,289)
	\$533,780	\$34,339	\$95,433	\$663,552



	2018			Total
	Equity Stocks	Short-term	Long-term	
		Money Market Placements	U.S. Treasury Notes	
Cost at December 31, 2018	\$268,053	\$28,520	\$78,000	\$374,573
Gain on changes in market value at December 31, 2018	265,727	5,819	17,433	288,979
	\$533,780	\$34,339	\$95,433	\$663,552
	2017			
	Equity Stocks	Short-term	Long-term	Total
		Money Market Placements	U.S. Treasury Notes	
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
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

Gains 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, 2018 and 2017, 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:

	2018		2017	
	Original currency	Functional currency	Original currency	Functional currency
Cash deposits:				
In Kenyan shillings	1,550,174	\$15,214	50,103,476	\$481,486
In Ethiopian birr	1,677,377	59,083	547,582	19,641
In United Kingdom pound	17,279	22,153	81	92
In Philippine peso	6,864,701	130,557	2,169,645	43,454
In Sudanese pound	58,764	451	555,201	4,262
In Ugandan shillings	275,893,840	74,251	182,779,520	49,988
In Cambodian Riel	1,371,910	341	-	-
In Euro	1,608	1,848	4,635	5,518
		\$303,898		\$604,441

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

	2018	2017
Kenyan shillings	101.89	104.06
Ethiopian birr	28.39	27.88
United Kingdom pounds	0.78	0.88
Philippine peso	52.58	49.93
Sudanese pound	130.26	130.26
Ugandan shillings	3,715.70	3,656.45
Cambodian Riel	4,021.68	-
Euro	0.87	0.84

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, 2018 and 2017:

	Increase (Decrease) In Changes in Net Assets	
	2018	2017
Appreciation of US\$ by 10% of all of the above-mentioned currencies	(\$27,730)	(\$56,451)
Depreciation of US\$ by 10% of all of the above-mentioned currencies	33,641	65,324

4. Contributions Receivable

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

	2018	2017
In one year or less - current portion	\$2,062,093	\$1,921,369
Between one and five years - noncurrent portion	1,537,275	315,381
	\$3,599,368	\$2,236,750



5. Other Receivables

	2018	2017
Trade receivables	\$73,916	\$1,249,040
Advances to officers and employees	33,076	53,118
	\$106,992	\$1,302,158

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.

6. Property and Equipment

	Leasehold Improvements	Buildings	Furniture and Office Equipment	Transportation Equipment	Other Equipment	Total
Cost						
Balance at January 1, 2017	\$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
Additions	-	-	42,614	32,900	-	75,514
Cumulative translation adjustments	(2,229)	(32,175)	-	-	(83,379)	(117,783)
Balance at December 31, 2018	\$43,366	\$606,229	\$807,718	\$574,854	\$189,337	\$2,221,504

	Leasehold Improvements	Buildings	Furniture and Office Equipment	Transportation Equipment	Other Equipment	Total
Accumulated Depreciation and Amortization						
Balance at January 1, 2017	\$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
Depreciation and amortization (see Note 11)	114	4,318	28,922	33,904	6,933	74,191
Cumulative translation adjustments	(2,231)	(25,080)	30,484	(7,847)	(55,302)	(59,976)
Balance at December 31, 2018	\$42,693	\$593,373	\$726,324	\$470,014	\$174,415	\$2,006,819

Net Book Value

At December 31, 2018	\$673	\$12,856	\$81,394	\$104,840	\$14,922	\$214,685
At December 31, 2017	785	24,270	98,186	97,997	49,931	271,169

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 \$11,317 in 2018 and \$11,827 in 2017.

7. Accounts Payable and Other Current Liabilities

	2018	2017
Accounts payable	\$155,549	\$130,758
Fund set aside for field partners	682,681	92,069
Statutory payables	23,649	64,177
Others	23,042	32,147
	<u>\$884,921</u>	<u>\$319,151</u>

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

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.

Statutory payables represents liabilities from withholding taxes, social security premiums and other liabilities to governments.

Other payables comprise mainly of the obligations relating to employee benefits and other funds that are expected to be settled within one year 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 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:

	2018	2017
Projected benefit obligation (PBO)	\$299,240	\$271,672
Fair value of plan assets (FVPA)	(332,188)	(305,181)
Pension asset	(\$32,948)	(\$33,509)

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

	2018	2017
Benefit cost:		
Service cost	\$40,624	\$39,859
Interest cost on PBO	164	12,166
Expected return on plan assets	(142)	(2,118)
Amortization of transition obligation	83	-
Amortization of actuarial gain	(3,619)	(2,931)
Pension cost	\$37,110	\$46,976
Benefits paid	(\$1,659)	(\$5,107)
Contributions made	\$40,952	\$39,859

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

The principal assumptions used in determining projected benefit obligation as at December 31, 2018 and 2017 are shown below:

	2018	2017
Discount rate	7.27%	5.78%
Expected rate of return on plan assets	0.70%	0.79%
Expected rate of salary increases	2.50%	2.50%

The changes in PBO are as follows:

	2018	2017
PBO at beginning of year	\$271,672	\$235,679
Service cost	40,624	39,859
Interest cost on PBO	164	12,166
Benefits paid	(1,659)	(5,107)
Actuarial loss (gain)	1,440	(10,282)
Translation adjustment	(13,001)	(643)
PBO at end of year	\$299,240	\$271,672



The changes in FVPA are as follows:

	2018	2017
FVPA at beginning of year	\$305,181	\$250,959
Expected return on plan assets	142	2,118
Contributions made	40,952	39,859
Benefits paid	(1,659)	(5,107)
Actuarial gain	3,204	17,888
Translation adjustment	(15,632)	(536)
FVPA at end of year	\$332,188	\$305,181

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 2018 and 2017.

▪ Pension Plan for Other Countries

Net pension cost for the defined contribution pension plan amounted to \$61,119 in 2018 and \$63,634 in 2017.

9. **Net Assets:**

- a. With Donor Restrictions net assets consist of the following purposes as at December 31, 2018 and 2017:

Subject to expenditures for specified purpose:

Learning Community Program	2018	2017
CM170801 GMS Biodiveristy Conservation. ADB	\$659,930	\$545,437
UG18005 PROFIRA MidNorth Strengthening Mature Community Save	505,498	-
MY181102 Food Security Myanmar IDRC	387,331	185,427
KE19002 CTA CLIMARK	372,418	-
MY181102 Food Security Myanmar IDRC	348,444	-
AS18827 Leyte Restoration Initiative FFP	338,705	124,765
UG18006 PROFIRA North East Establishment Community Savings	266,278	-
AS17822 NGO Disaster Preparedness Platform. P2 G2A	251,737	-

(Forward)



Subject to expenditures for specified purpose:

Learning Community Program	2018	2017
UG18004 WFP Capacity Support Smallholder farmers Agri.Market	\$187,275	\$167,162
UG17101 Agricultural .Extension Service	184,619	133,312
KE19001 WSP3 Giving Girls 2 nd Chance	140,000	59,038
UG18010 VODP2 Consultancy		
Agricultural Extension	128,992	–
MY191103 CIAT De-RISK	107,389	–
ET17002 Bldg Resilient Communities		
Livestock CTA	28,035	–
CM161009 Promoting Resielint Comm EU	–	168,111
UG16108 Community Save & Credit MOFED	–	415,019
	\$3,906,651	\$1,798,271

- b. The board designated net assets comprised of the following funds without donor restrictions as at December 31, 2018 and 2017:

Without donor restrictions:	2018	2017
Endowment funds:		
The Alice Yen Fund	\$431,453	\$508,145
The Reader's Digest Endowment for Publications	101,233	100,136
The Employees' Welfare Fund	54,265	64,032
The Mr. & Mrs. Yen Mei Tang Memorial Fund	48,081	55,967
The Jimmy Yen Go to the People Fund	28,520	28,261
	\$663,552	\$756,541
Other unrestricted funds	1,178,497	3,436,643
	\$1,842,049	\$4,193,184

Endowment Funds

Earnings and appreciation of endowment funds were included as part of without donor restrictions 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, 2018 and 2017 amounted to \$71,088 and \$106,449, respectively.

Changes in the Endowment Net Assets for the year ended December 31, 2018 and 2017:

	2018		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$756,541	\$-	\$756,541
Investment return, net	84,881	-	84,881
Contributions	28,520	-	28,520
Amount appropriated for expenditure	(84,881)	-	(84,881)
Changes in the market value	(121,509)	-	(121,509)
Endowment net assets, end of year	\$663,552	\$-	\$663,552

	2017		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$725,654	\$-	\$725,654
Investment return, net	13,832	-	13,832
Contributions	28,254	-	28,254
Amount appropriated for expenditure	(74,878)	-	(74,878)
Changes in the market value	63,679	-	63,679
Endowment net assets, end of year	\$756,541	\$-	\$756,541



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 \$67,834 in 2018 and \$63,761 in 2017 and is shown as part of “Rental and maintenance” under “Operating expenses” account in the statements of activities (see Note 11).

11. Operating Expenses

	2018						
	Program Services			Supporting Services			
	Learning Community	Applied Learning	Subtotal	Management and General	Fund Raising	Subtotal	Total
Field program expenses	\$1,918,159	\$-	\$1,918,159	\$-	\$-	\$-	\$1,918,159
Staff cost (see Note 8)	1,316,305	111,012	1,427,317	295,495	59,099	354,594	1,781,911
Contractual services	427,827	440,875	868,702	30,562	6,112	36,674	905,376
Travel	464,971	37,267	502,238	33,766	6,753	40,519	542,757
Rental and maintenance (see Note 10)	197,373	9,687	207,060	121,084	24,217	145,301	352,361
Supplies and materials	155,900	15,826	171,726	4,526	905	5,431	177,157
Communication	82,142	5,009	87,151	16,196	3,239	19,435	106,586
Depreciation (see Note 6)	28,702	3,189	31,891	34,328	7,972	42,300	74,191
Printing and publications	43,247	1,073	44,320	2,720	544	3,264	47,584
Others	5,161	574	5,735	12,705	1,434	14,139	19,874
	\$4,639,787	\$624,512	\$5,264,299	\$551,382	\$110,275	\$661,657	\$5,925,956

	2017						
	Program Services			Supporting Services			
	Learning Community	Applied Learning	Subtotal	Management and General	Fund Raising	Subtotal	Total
Field program expenses	\$1,368,751	\$600,547	\$1,969,298	\$-	\$-	\$-	\$1,969,298
Staff cost (see 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 (see 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

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. **Liquidity**

IIRR's financial assets available within one year of the financial reporting date for general expenditure are as follows:

	2018	2017
Cash and cash equivalents	\$311,643	\$212,111
Investments	663,552	756,541
Contribution receivables	2,062,093	1,921,369
Other receivables	113,617	1,302,759
Total assets	\$3,150,905	\$4,192,780

IIRR's financial assets have been reduced by amounts not available for general use because of donor imposed restrictions within one year of the financial reporting date and amounts set aside for long-term investing in endowments.

IIRR's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure.

As part of IIRR's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

13. **Subsequent Events**

The Institute evaluated events subsequent to December 31, 2018 through June 1, 2019. It was determined that there were no subsequent events or transactions that were material in the financial statements at December 31, 2018.

14. **Approval of the Financial Statements**

The financial statements were approved and authorized for issue by the BOT on June 1, 2019.



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

	2018			2017		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
OPERATING REVENUES						
Grants/Contribution						
Foundations	117,343	2,164,999	2,282,342	139,107	1,836,007	1,975,114
Governments	–	1,408,628	1,408,628	–	753,943	753,943
Individuals	881,718	26,100	907,818	187,478	33,003	220,481
Corporations	39,275	10	39,285	–	943,268	943,268
	\$1,038,336	\$3,599,737	\$4,638,073	\$326,585	\$3,566,221	\$3,892,806
Earned Income						
Use of campus facilities	556,538	–	556,538	636,790	–	636,790
Trainings, courses, study missions, technical assistance	142,207	–	142,207	1,327,571	–	1,327,571
Workshops	78,203	–	78,203	242,143	–	242,143
Publications sales	651	–	651	838	–	838
	777,599	–	777,599	2,207,342	–	2,207,342
Others - net	20,682	–	20,682	134,060	–	134,060
Satisfaction of program restrictions	1,752,570	(1,752,570)	–	2,938,866	(2,938,866)	–
Expiration of time restrictions	15,000	(15,000)	–	15,000	(15,000)	–
TOTAL OPERATING REVENUES	3,604,187	1,832,167	5,436,354	5,621,853	612,355	6,234,208
OPERATING EXPENSES						
Field program expenses	1,918,159	–	1,918,159	1,969,298	–	1,969,298
Staff costs	1,781,911	–	1,781,911	1,482,645	–	1,482,645
Contractual services	905,376	–	905,376	182,327	–	182,327
Rental and maintenance	352,361	–	352,361	322,974	–	322,974
Travel	542,757	–	542,757	93,773	–	93,773
Supplies and materials	177,157	–	177,157	10,023	–	10,023
Communications	106,586	–	106,586	46,359	–	46,359
Printing and publications	47,584	–	47,584	7,293	–	7,293
Others	14,338	–	14,338	72,074	–	72,074
TOTAL OPERATING EXPENSES	5,846,229	–	5,846,229	4,186,766	–	4,186,766

(Forward)



	2018			2017		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
OPERATING EXCESS (DEFICIT)	(\$2,242,042)	\$1,832,167	(\$409,875)	\$1,435,087	\$612,355	\$2,047,442
ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES						
Grants for future and prior periods	–	276,213	276,213	–	(454,592)	(454,592)
Translation and exchange loss	(28,869)	–	(28,869)	–	–	–
Adjustments per audit	15,645	–	15,645	–	(658,663)	(658,663)
Investment transactions	13,224	–	13,224	110,603	–	110,603
Depreciation expense	(79,727)	–	(79,727)	(83,370)	–	(83,370)
EXCESS (DEFICIENCY) OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES	(\$2,321,769)	\$2,108,380	(\$213,389)	\$1,462,320	(\$500,900)	\$961,420

* *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).*

