

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

Financial Statements
December 31, 2019 and 2018

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
International Institute of Rural Reconstruction

Report on the Financial Statements

We have audited the accompanying financial statements of International Institute of Rural Reconstruction (a nonstock, nonprofit organization), incorporated in Delaware, United States of America, which comprise the statements of financial position as at December 31, 2019 and 2018, and the related statements of activities, statement of changes in net assets and statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the International Institute of Rural Reconstruction as at December 31, 2019 and 2018, and the results of its activities and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

SYCIP GORRES VELAYO & CO.

Christine G. Vallejo
Christine G. Vallejo
Partner

September 3, 2020



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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 3 and 13)	\$1,393,239	\$1,949,858
Investments (Note 3)	766,401	663,552
Contribution receivables (Notes 4 and 13)	1,769,817	2,062,093
Other receivables (Notes 5 and 13)	104,007	106,992
Prepayments and other current assets	53,310	25,619
Total Current Assets	4,086,774	4,808,114
Noncurrent Assets		
Noncurrent portion of contributions receivable (Notes 4 and 13)	709,017	1,537,275
Property and equipment - net (Note 6)	226,309	214,685
Pension asset - net (Note 8)	59,161	32,948
Other noncurrent assets	37,682	42,706
Total Noncurrent Assets	1,032,169	1,827,614
	\$5,118,943	\$6,635,728
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other current liabilities (Notes 7 and 13)	\$723,082	\$884,921
Other noncurrent liabilities	2,637	2,107
Total Liabilities	725,719	887,028
Net Assets		
Without donor restrictions (Note 9)	1,329,447	1,842,049
With donor restrictions (Note 9)	3,063,777	3,906,651
Total Net assets	4,393,224	5,748,700
	\$5,118,943	\$6,635,728

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					
	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
OPERATING ACTIVITIES						
Operating revenues:						
Contributions/Grants						
Foundations (Note 4)	\$-	\$1,755,764	\$1,755,764	\$117,343	\$2,528,608	\$2,645,951
Government	-	241,168	241,168	-	1,321,232	1,321,232
Corporation	29,555	200,409	229,964	39,275	10	39,285
Individual	168,562	30,376	198,938	881,718	26,100	907,818
Use of campus facilities	644,802	-	644,802	556,538	-	556,538
Training courses, study missions and technical assistance	388,837	-	388,837	142,207	-	142,207
Workshops	28,411	-	28,411	78,203	-	78,203
Publication sales	3,901	-	3,901	651	-	651
Others	67,809	-	67,809	20,682	-	20,682
Total operating revenues before releases	1,331,877	2,227,717	3,559,594	1,836,617	3,875,950	5,712,567
Net assets released from restrictions:						
Satisfaction of program activities	3,070,591	(3,070,591)	-	1,752,570	(1,752,570)	-
Expiration of time restrictions	-	-	-	15,000	(15,000)	-
	4,402,468	(842,874)	3,559,594	3,604,187	2,108,380	5,712,567
Operating expenses (Notes 10 and 11):						
Learning community	3,656,815	-	3,656,815	4,639,787	-	4,639,787
Applied learning	730,477	-	730,477	624,512	-	624,512
Management and general	506,123	-	506,123	551,382	-	551,382
Fund raising	126,529	-	126,529	110,275	-	110,275
	5,019,944	-	5,019,944	5,925,956	-	5,925,956
Change in net assets from operating activities	(\$617,476)	(\$842,874)	(\$1,460,350)	(\$2,321,769)	\$2,108,380	(\$213,389)

(Forward)



Years Ended December 31

	2019			2018		
	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	24,312	—	24,312	799	—	799
Interest expense	—	—	—	(2,435)	—	(2,435)
Translation and exchange loss	(72,408)	—	(72,408)	(28,869)	—	(28,869)
Others (Note 3)	152,970	—	152,970	(5,110)	—	(5,110)
Change in net assets from non-operating activities	104,874	—	104,874	(29,366)	—	(29,366)
Change in net assets	(512,602)	(842,874)	(1,355,476)	(2,351,135)	2,108,380	(242,755)
Net assets, beginning of the year	1,842,049	3,906,651	5,748,700	4,193,184	1,798,271	5,991,455
Net assets, end of the year	\$1,329,447	\$3,063,777	\$4,393,224	\$1,842,049	\$3,906,651	\$5,748,700

See accompanying Notes to Financial Statements.



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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	(\$1,355,476)	(\$242,755)
Adjustments for:		
Depreciation and amortization (Notes 6 and 11)	66,784	74,191
Effect of foreign exchange rate changes translation (Note 3)	16,588	63,911
Loss (gain) on changes in market value on investments (Note 3)	(149,851)	34,289
Interest and dividend income (Note 3)	(14,422)	(13,224)
Net movement in pension asset	(27,822)	561
Working capital adjustments:		
Decrease (increase) in:		
Contributions receivables	1,127,179	(1,362,618)
Other receivables	1,618	1,195,166
Prepayment and other assets	(27,920)	(2,594)
Increase (decrease) in:		
Accounts payable and other current liabilities	(160,571)	565,770
Other noncurrent liabilities	576	825
Net cash provided by (used in) operating activities	(523,317)	313,522
CASH FLOWS FROM INVESTING ACTIVITIES		
Net withdrawal of investments (Note 3)	61,424	71,924
Additions to:		
Property and equipment (Note 6)	(98,569)	(75,514)
Other noncurrent assets	5,024	(42,706)
Net cash used in investing activities	(32,121)	(46,296)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	(1,181)	(6,104)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(556,619)	261,122
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
	1,949,858	1,688,736
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)		
	\$1,393,239	\$1,949,858

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 and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide").

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, whereby 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 statement of activities reports 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 amount at which asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. 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.

3. Cash and Cash Equivalents and Investments

Cash and cash equivalents

	2019	2018
Cash in banks	\$586,607	\$554,767
Cash on hand	17,937	4,704
	604,544	559,471
Short-term placements	788,695	1,390,387
	\$1,393,239	\$1,949,858

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

Cash and cash equivalents include restricted cash in banks and short-term placements amounting to \$1,174,047 and \$1,631,866 in 2019 and 2018, 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:

	2019			Total
	Equity Stocks	Short-term	Long-term	
		Money Market Placements	U.S. Treasury Notes	
Cost at January 1, 2019	\$268,053	\$28,520	\$78,000	\$374,573
Gain on changes in market value at January 1, 2019	265,727	5,819	17,433	288,979
Market value at January 1, 2019	533,780	34,339	95,433	663,552
Interest and dividends	11,679	2,743	-	14,422
Withdrawals	(58,300)	-	(3,124)	(61,424)
Gain due to change in market value	148,347	6	1,498	149,851
Market value at December 31, 2019	\$635,506	\$37,088	\$93,807	\$766,401

	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)
Market value at December 31, 2018	\$533,780	\$34,339	\$95,433	\$663,552



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, 2019 and 2018, 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.

4. Contributions Receivable

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

	2019	2018
In one year or less	\$1,769,817	\$2,062,093
Between one and five years	709,017	1,537,275
	\$2,478,834	\$3,599,368

5. Other Receivables

	2019	2018
Trade receivables	\$65,071	\$73,916
Advances to officers and employees	38,936	33,076
	\$104,007	\$106,992

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, 2018	\$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
Additions	32,247	–	18,211	46,040	2,071	98,569
Cumulative translation adjustments	1,696	20,983	6,871	8,263	7,636	45,449
Balance at December 31, 2019	\$77,309	\$627,212	\$832,800	\$629,157	\$199,044	\$2,365,522
Accumulated Depreciation and Amortization						
Balance at January 1, 2018	\$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
Depreciation and amortization (see Note 11)	838	4,366	25,466	31,109	5,005	66,784
Cumulative translation adjustments	2,570	20,026	26,499	10,711	5,804	65,610
Balance at December 31, 2019	\$46,101	\$617,765	\$778,289	\$511,834	\$185,224	\$2,139,213
Net Book Value						
At December 31, 2019	\$31,208	\$9,447	\$54,511	\$117,323	\$13,820	\$226,309
At December 31, 2018	673	12,856	81,394	104,840	14,922	214,685

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 amounted to \$11,510 in 2019 and \$11,317 in 2018.

7. Accounts Payable and Other Current Liabilities

	2019	2018
Accounts payable	\$165,956	\$155,549
Fund set aside for field partners	489,895	682,681
Statutory payables	66,341	23,649
Others	890	23,042
	\$723,082	\$884,921

Accounts payable are normally due to suppliers and service providers and are noninterest-bearing settled generally on 30 to 60 days term.



Funds 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 represent 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 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:

	2019	2018
Projected benefit obligation (PBO)	\$342,258	\$299,240
Fair value of plan assets (FVPA)	(401,419)	(332,188)
Pension asset	(\$59,161)	(\$32,948)



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

	2019	2018
Benefit cost:		
Service cost	\$38,416	\$40,624
Interest cost on PBO	27,152	164
Expected return on plan assets	(29,907)	(142)
Amortization of actuarial gain	(5,583)	(3,619)
Amortization of transition obligation	-	83
Pension cost	\$30,078	\$37,110
Benefits paid	(\$7,867)	(\$1,659)
Contributions made	\$38,416	\$40,952

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:

	2019	2018
Discount rate	4.85%	7.27%
Expected rate of return on plan assets	0.70%	0.70%
Expected rate of salary increases	2.50%	2.50%

The changes in PBO are as follows:

	2019	2018
PBO at beginning of year	\$299,240	\$271,672
Service cost	38,416	40,624
Interest cost on PBO	27,152	164
Benefits paid	(7,867)	(1,659)
Actuarial loss (gain)	(25,650)	1,440
Translation adjustment	10,967	(13,001)
PBO at end of year	\$342,258	\$299,240

The changes in FVPA are as follows:

	2019	2018
FVPA at beginning of year	\$332,188	\$305,181
Expected return on plan assets	29,907	142
Contributions made	38,416	40,952
Benefits paid	(7,867)	(1,659)
Actuarial gain (loss)	(3,801)	3,204
Translation adjustment	12,576	(15,632)
FVPA at end of year	\$401,419	\$332,188

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 2019 and 2018.

▪ Pension Plan for Other Countries

Net pension cost for the defined contribution pension plan amounted to \$63,353 in 2019 and \$61,119 in 2018.

9. **Net Assets:**

a. Net assets with donor restrictions consist of the following purposes as at December 31, 2019 and 2018:

<u>Learning Community Program</u>	<u>2019</u>	<u>2018</u>
UG18005.PROFIRA.MidNorth.Strengthening Mature.Community.Save	\$390,070	\$505,498
CM170801GMSBiodiveristyConservation. ADB	351,326	669,441
ET19001.NSA.FHI	266,764	-
AS18827.Leyte.RestorationInitiative.FFP	242,250	338,705
UG18006.PROFIRA.North.East.Establishment.Community .Savings	241,848	266,278
MY181102.FoodSecurity.Myanmar.IDRC	189,520	387,331
UG19001.WSP3.Giving.Girls.2nd.Chance	107,000	-
KE19002.CTA.CLIMARK	106,328	372,418
SS19006.PLEFS	101,114	-
PH19914.UNOPS.Scaling.Up.Nutrition. Movement.Pooled.fund	60,000	-
MY191103.CIAT.De-RISK	53,695	107,389
CM1911003.CIAT.De.RISK	53,695	-
CM191027.SUCRA	45,251	-
UG18004.WFP.Capacity.Support.Smallholder. farmers.Agri.Market	34,464	187,275
KE19005.CMDRR.ARCHENOVA	30,692	-
UG18010.VODP2.Consultancy AgriculturalExtension	23,359	128,992
AS17822.NGO.Disaster.Preparedness.Platform.P2.G2A	-	251,737
ET17002.Bldg.Resilient.Communities.Livestock.CTA	-	28,035
	2,297,376	3,243,099
Endowment funds:		
The Alice Yen Fund	514,627	431,453
The Reader's Digest Endowment for Publications	101,692	101,233
The Employees' Welfare Fund	56,238	54,265
The Mr. & Mrs. Yen Mei Tang Memorial Fund	64,661	48,081
The Jimmy Yen Go to the People Fund	29,183	28,520
	766,401	663,552
	\$3,063,777	\$3,906,651



- b. The Other unrestricted fund which comprised of the funds without donor restrictions as at December 31, 2019 and 2018:

<u>Other unrestricted fund</u>	<u>\$1,329,447</u>	<u>\$1,842,049</u>
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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, 2019 and 2018 amounted to \$80,271 and \$71,088, respectively.



Changes in the Endowment Net Assets for the year ended December 31, 2019 and 2018:

	2019		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$663,552	\$-	\$663,552
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	74,329	-	74,329
Endowment net assets, end of year	\$766,401	\$-	\$766,401

	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

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 \$59,445 in 2019 and \$67,834 in 2018 and is shown as part of “Rental and maintenance” under “Operating expenses” account in the statements of activities (see Note 11).

11. Operating Expenses

	2019						
	Program Services			Supporting Services			
	Learning Community	Applied Learning	Subtotal	Management and General	Fund Raising	Subtotal	Total
Staff cost (see Note 8)	\$1,384,992	\$193,181	\$1,578,173	\$229,430	\$57,358	\$286,788	\$1,864,961
Travel	707,945	62,368	770,313	61,215	15,304	76,519	846,832
Contractual services	424,167	319,206	743,373	61,146	15,286	76,432	819,805
Field program expenses	811,506	-	811,506	-	-	-	811,506
Rental and maintenance (see Note 10)	99,938	72,799	172,737	91,372	22,843	114,215	286,952
Supplies and materials	118,728	15,237	133,965	6,720	1,680	8,400	142,365
Depreciation (see Note 6)	23,374	16,696	40,070	21,371	5,343	26,714	66,784
Communication	29,111	7,968	37,079	10,059	2,515	12,574	49,653
Printing and publications	31,961	1,541	33,502	1,868	467	2,335	35,837
Others	25,093	41,481	66,574	22,942	5,733	28,675	95,249
	\$3,656,815	\$730,477	\$4,387,292	\$506,123	\$126,529	\$632,652	\$5,019,944



	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
Rental and maintenance (see Note 10)	427,827	440,875	868,702	30,562	6,112	36,674	905,376
Contractual services	464,971	37,267	502,238	33,766	6,753	40,519	542,757
Travel	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 publication	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

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:

	2019	2018
Cash and cash equivalents	\$219,192	\$317,992
Investments	766,401	663,552
Contribution receivables	1,769,817	2,062,093
Other receivables	104,007	113,617
Total assets	\$2,859,417	\$3,157,254

IIRR's financial assets have been reduced by amounts not available for general use because of donor imposed restrictions for the implementation of program services.

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. Financial Risk Management Objectives and Policies

The Institute's principal financial instruments consist mainly of cash and cash equivalents, investments, contribution and other receivables, accounts payable and other current liabilities (excluding statutory payables). The main purpose of these financial instruments 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.

Concentration 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. Foreign exchange risk is the risk that the value of the Institute's financial instrument will fluctuate due to changes in foreign exchange rates. The Institute has recognized in the statements of activities and changes in net assets net foreign exchange loss of \$72,408 and \$28,869 in 2019 and 2018, respectively.

The Institute's foreign currency-denominated monetary assets and liabilities as of December 31, 2019 and 2018, and their functional currency equivalent follow:

	Original Currency									Functional Currency
	PHP	ETB	KES	UGX	KHR	SSP	EUR	GBP	MMK	
December 31, 2019										
Financial assets:										
Cash and cash equivalents	4,647,175	1,066,014	4,255,578	24,949,103	655,677	24,224	30,947	408	2,306	\$209,677
Contribution receivables	4,030,429	5,373,086	202,103	1,637,513,388	-	-	-	-	-	701,953
Other receivables	3,325,832	275,884	48,132	27,360,675	-	-	-	-	-	82,173
Financial liabilities -										
Accounts payable and other current liabilities	(4,395,394)	(858,563)	(328,971)	(231,490,376)	-	-	-	-	-	(180,633)
Net foreign currency - denominated financial assets	7,608,042	5,856,421	4,176,842	1,458,332,790	655,677	24,224	30,947	408	2,306	\$813,170

	Original Currency									Functional Currency
	PHP	ETB	KES	UGX	KHR	SSP	EUR	GBP	MMK	
December 31, 2018										
Financial assets:										
Cash and cash equivalents	6,864,701	1,677,377	1,550,174	275,893,840	1,371,910	58,764	1,608	17,279	-	\$303,899
Receivables	17,228,277	2,050,038	-	5,097,310,106	-	-	-	-	-	1,771,699
Other receivables	3,477,690	149,533	215,212	30,274,310	5,926,066	-	-	-	-	83,141
Financial liabilities -										
Accounts payable and other current liabilities	(2,947,729)	(1,152,382)	(2,046,068)	(2,526,834,813)	-	-	-	-	-	(796,777)
Net foreign currency - denominated financial assets	24,622,939	2,724,566	(280,682)	2,876,643,443	7,297,976	58,764	1,608	17,279	-	\$1,361,962



In the revaluation of its foreign currency-denominated financial assets and liabilities, the Institute used the following exchange rates as of December 31, 2019, and 2018:

	2019	2018
Philippine peso	50.82	52.58
Kenyan shillings	100.33	101.89
Euro	0.90	0.87
Ethiopian birr	31.65	28.39
Ugandan shillings	3,631.94	3,715.70
United Kingdom pounds	0.77	0.78
Sudanese pound	130.26	130.26
Cambodian Riel	4,005.11	4,021.68
Myanmar Kyats	1,468.96	1,550.00

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 at December 31, 2019 and 2018:

	PHP	ETB	KES	UGX	KHR	SSP	EUR	GBP	MMK
December 31, 2019									
Increase by 10%	(\$13,610)	(\$16,822)	(\$3,785)	(\$36,503)	(\$15)	(\$17)	(\$3,126)	(\$48)	\$-
Decrease by 10%	16,634	20,560	4,626	44,614	18	21	3,821	59	-
December 31, 2018									
Increase by 10%	(\$42,572)	(\$8,724)	\$250	(\$70,381)	(\$165)	(\$41)	(\$168)	(\$2,014)	\$-
Decrease by 10%	52,033	10,663	(306)	86,021	202	50	205	2,461	-

14. Subsequent Events

The outbreak of novel coronavirus (COVID-19) continues to spread throughout countries across the world. The World Health Organization declared the outbreak a “public health emergency of international concern” (PHEIC), affecting many people’s lives and their ways of living. Countries across the world has imposed stringent social distancing measures and community quarantines. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The Institute considers the measure taken above as non-adjusting subsequent event, which does not impact its financial position and performance as of and for the year ended December 31, 2019. However, it could have a material impact on its 2020 financial results and even periods thereafter. Given the dynamic nature of these circumstances, the management is in close monitoring of the impact of COVID-19 on its 2020 operations through developing different scenarios with forecast that will require managerial decision if the specific situation will arise, such as cost-cutting measures, deferring activities to other periods, pre-arrangement and negotiations with funders of revised timeline and mode of grant activities. The Institute’s general plan on the worst-case scenario is to operate within its available funds wherein its operations will not be exposed to substantial obligations.

15. Approval of the Financial Statements

The financial statements were approved and authorized for issue by the BOT on September 3, 2020.

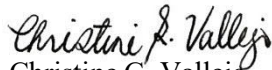


**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULE ON STATEMENT OF
ACTIVITIES - OPERATING BASIS**

The Board of Trustees
International Institute of Rural Reconstruction

We have audited the financial statements of International Institute of Rural Reconstruction (the Institute) as at and for the years ended December 31, 2019 and 2018 and have issued our report thereon dated September 3, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule on Statement of Activities - Operating Basis to accompany the financial statements of the Institute is the responsibility of the Institute's management. The schedule presented is not part of the basic financial statements. The 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

September 3, 2020



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

	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
OPERATING REVENUES						
Grants/Contribution	\$198,117	\$3,210,789	\$3,408,906	\$1,038,336	\$3,599,737	\$4,638,073
Foundations	–	2,364,369	2,364,369	117,343	2,164,999	2,282,342
Governments	–	708,121	708,121	–	1,408,628	1,408,628
Individuals	168,562	30,376	198,938	881,718	26,100	907,818
Corporations	29,555	107,923	137,478	39,275	10	39,285
Earned Income	1,065,951	–	1,065,951	777,599	–	777,599
Use of campus facilities	644,802	–	644,802	556,538	–	556,538
Trainings, courses, study missions, technical assistance	388,837	–	388,837	142,207	–	142,207
Workshops	28,411	–	28,411	78,203	–	78,203
Publications sales	3,901	–	3,901	651	–	651
Others - net	92,121	–	92,121	20,682	–	20,682
Satisfaction of program restrictions	3,070,591	(3,070,591)	–	1,752,570	(1,752,570)	–
Expiration of time restrictions	–	–	–	15,000	(15,000)	–
TOTAL OPERATING REVENUES	4,426,780	140,198	4,566,978	3,604,187	1,832,167	5,436,354
OPERATING EXPENSES						
Staff costs	1,864,961	–	1,864,961	1,781,911	–	1,781,911
Travel	846,832	–	846,832	542,757	–	542,757
Contractual services	819,805	–	819,805	905,376	–	905,376
Field program expenses	811,506	–	811,506	1,918,159	–	1,918,159
Rental and maintenance	286,952	–	286,952	352,361	–	352,361
Supplies and materials	142,365	–	142,365	177,157	–	177,157
Communications	49,653	–	49,653	106,586	–	106,586
Printing and publications	35,837	–	35,837	47,584	–	47,584
Others	95,249	–	95,249	15,261	–	15,261
TOTAL OPERATING EXPENSES	\$4,953,160	\$–	\$4,953,160	\$5,847,152	\$–	\$5,847,152

(Forward)



	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
OPERATING EXCESS (DEFICIT)	(\$526,380)	\$140,198	(\$386,182)	(\$2,242,965)	\$1,832,167	(\$410,798)
ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES						
Grants for future and prior periods	–	(983,072)	(983,072)	–	276,213	276,213
Translation and exchange loss	(72,408)	–	(72,408)	(28,869)	–	(28,869)
Investment transactions	152,970	–	152,970	(5,110)	–	(5,110)
Depreciation expense	(66,784)	–	(66,784)	(74,191)	–	(74,191)
EXCESS (DEFICIENCY) OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES	(\$512,602)	(\$842,874)	(\$1,355,476)	(\$2,351,135)	\$2,108,380	(\$242,755)

* *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).*

