International Institute of Rural Reconstruction

(A Nonprofit, Nonstock Organization)

Financial Statements
December 31, 2012 and 2011

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV & Co
Ernst & Young

SGV & Co
Ernst & Young

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
International Institute of Rural Reconstruction

We have audited the accompanying statements of financial position of International Institute of Rural Reconstruction (a nonprofit, nonstock organization), incorporated in Delaware, United States of America, as of December 31, 2012 and 2011, and the related statements of activities, statements of changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these 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 of material misstatement. We were not engaged to perform an audit of the Institute's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Institute of Rural Reconstruction as of December 31, 2012 and 2011, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

SYCIP GORRES VELAYO & CO.

Juanito A. Fullecido
Partner

March 27, 2013

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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	2011
ASSETS		
Cash and Cash Equivalents (Note 3)	**$1,951,146**	$1,309,991
Investments (Note 3)	**1,000,069**	757,156
Contributions Receivable (Note 4)	**3,110,697**	2,271,889
Other Receivables (Note 5)	**665,250**	272,647
Property and Equipment - net (Note 6)	**251,565**	228,850
Prepayments and Other Assets	**16,739**	17,848
Pension Asset (Note 8)	**2,437**	2,606
	$6,997,903	$4,860,987
LIABILITIES AND NET ASSETS		
Accounts Payable and Other Current Liabilities (Note 7)	**$670,544**	$343,773
Net Assets		
Unrestricted	**651,309**	125,925
Temporarily restricted (Note 9)	**4,958,068**	3,673,307
Permanently restricted (Note 9)	**717,982**	717,982
Total Net Assets	**6,327,359**	4,517,214
	$6,997,903	$4,860,987

See accompanying Notes to Financial Statements.

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

STATEMENTS OF ACTIVITIES

	Years Ended December 31							
	2012				2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CONTINUING OPERATIONS								
REVENUES, GAINS AND OTHER SUPPORT								
Contributions/Grants:								
Foundations - inclusive of $10,086 and $12,884 accretion income in 2012 and 2011, respectively (Note 4)	**$183,747**	**$3,182,528**	**$–**	**$3,366,275**	$256,743	$1,636,598	$–	$1,893,341
Individuals	**123,105**	**85,438**	**–**	**208,543**	162,069	109,758	–	271,827
Governments	**–**	**501,095**	**–**	**501,095**	–	10,766	–	10,766
Corporations	**1,710**	**425,269**	**–**	**426,979**	2,099	4,939	–	7,038
Technical assistance	**344,691**	**–**	**–**	**344,691**	344,826	–	–	344,826
Workshops	**320,578**	**–**	**–**	**320,578**	168,974	–	–	168,974
Use of campus facilities	**317,014**	**–**	**–**	**317,014**	201,061	–	–	201,061
Training courses	**300,633**	**–**	**–**	**300,633**	276,037	–	–	276,037
Study programs	**487,099**	**–**	**–**	**487,099**	125,266	–	–	125,266
Publication sales	**37,596**	**–**	**–**	**37,596**	26,329	–	–	26,329
Gain on changes in market value of investments (Note 3)	**83,560**	**–**	**–**	**83,560**	2,814	–	–	2,814
Others (Notes 3, 6 and 9)	**150,300**	**–**	**–**	**150,300**	90,415	–	–	90,415
Net assets released from restrictions:								
Satisfaction of program restrictions	**2,784,569**	**(2,784,569)**	**–**	**–**	1,789,580	(1,789,580)	–	–
Expiration of time restrictions	**125,000**	**(125,000)**	**–**	**–**	125,000	(125,000)	–	–
	5,259,602	**1,284,761**	**–**	**6,544,363**	3,571,213	(152,519)	–	3,418,694
EXPENSES (Note 11)								
Program services (Notes 6, 8, 10 and 11):								
Learning community	**2,571,696**	**–**	**–**	**2,571,696**	2,211,111	–	–	2,211,111
Applied learning	**1,270,337**	**–**	**–**	**1,270,337**	955,517	–	–	955,517
	3,842,033	**–**	**–**	**3,842,033**	3,166,628	–	–	3,166,628
Support services (Notes 6, 8, 10 and 11):								
Management and general	**603,119**	**–**	**–**	**603,119**	362,442	–	–	362,442
Fund raising	**171,515**	**–**	**–**	**171,515**	78,225	–	–	78,225
	774,634	**–**	**–**	**774,634**	440,667	–	–	440,667
	4,616,667	**–**	**–**	**4,616,667**	3,607,295	–	–	3,607,295
EXCESS (DEFICIENCY) OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES	**642,935**	**1,284,761**	**–**	**1,927,696**	(36,082)	(152,519)	–	(188,601)
Translation loss	**(117,551)**	**–**	**–**	**(117,551)**	(138,675)	–	–	(138,675)
CHANGE IN NET ASSETS	**$525,384**	**$1,284,761**	**$–**	**$1,810,145**	($174,757)	($152,519)	$–	($327,276)

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CHANGES IN NET ASSETS

	Years Ended December 31							
	2012				2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	**$125,925**	**$3,673,307**	**$717,982**	**$4,517,214**	$300,682	$3,825,826	$717,982	$4,844,490
Change in net assets	**525,384**	**1,284,761**	**–**	**1,810,145**	(174,757)	(152,519)	–	(327,276)
Balance at end of year	**$651,309**	**$4,958,068**	**$717,982**	**$6,327,359**	$125,925	$3,673,307	$717,982	$4,517,214

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues, gains and other support over expenses	**$1,927,696**	($188,601)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Effect of foreign exchange rate changes on translation	**(119,505)**	(134,729)
Depreciation and amortization (Notes 6 and 11)	**79,302**	59,987
Interest and dividend income (Note 3)	**(9,503)**	(9,692)
Gain on changes in market value of investments (Note 3)	**(83,560)**	(2,814)
Loss on disposal of property and equipment	**–**	1,194
Decrease (increase) in:		
Contributions receivable	**(838,808)**	97,186
Other receivables	**(392,603)**	(143,808)
Prepayments and other assets	**1,109**	16,317
Pension asset	**169**	–
Increase (decrease) in:		
Accounts payable and other current liabilities	**326,771**	93,961
Pension asset/liability	**–**	(32,461)
Net cash provided by (used in) operating activities	**891,068**	(243,460)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 6)	**(100,063)**	(154,677)
Net (deposits) withdrawal of investments (Note 3)	**(149,850)**	15,335
Net cash used in investing activities	**(249,913)**	(139,342)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**641,155**	(382,802)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,309,991**	1,692,793
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	**$1,951,146**	$1,309,991

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Organization Information

The International Institute of Rural Reconstruction (IIRR or the Institute) is a not-for-profit organization formed in 1960 under the laws of the State of Delaware, United States of America (U.S.A.). IIRR Headquarter 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. In the opinion of the management, IIRR has operated under this tax-exempt code.

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

2. Summary of Significant Accounting and Financial Reporting Policies

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

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

- Unrestricted Net Assets

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

- Temporarily Restricted Net Assets

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

- Permanently Restricted Net Assets

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

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

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

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

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

Contributions and Other Receivables
Contributions and other receivables are recognized initially at fair value. After initial measurement, contributions and other receivables are carried at amortized cost using the effective interest rate method, less any allowance for impairment. The allowance is established by charges to the statement of activities in the form of provision for doubtful accounts.

Property and Equipment
Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and amortization and any impairment in value.

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

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

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

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

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

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

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

Revenue and Expense Recognition

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

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

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

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

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

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

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

Pension Cost
IIRR's pension cost is based on the defined benefit pension plan for employees in the Philippines and defined contribution pension plan for employees in the U.S.A. and Africa Regional Center. Defined benefit pension plan includes the service cost determined under the projected unit credit method. This method reflects benefits earned by the employees to the date of the valuation taking into consideration the employees' projected salaries. Under the defined contribution pension plan, the Institute's obligation for each reporting period is determined by the amounts to be contributed for that reporting period. No actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gains or losses to the Institute.

Translation of Philippine and Other Regional Centers' Financial Statements
Financial statements of IIRR's Philippine and other Regional Centers are translated in accordance with Statement of Financial Accounting Standard No. 52, "Foreign Currency Translation." Under this method, assets and liabilities, expressed in Philippine pesos, Kenyan shillings, Ugandan shillings, Ethiopian birr, South Sudan 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. The accumulated loss on translation adjustment of $2,136,150 and $2,018,599 as of December 31, 2012 and 2011, respectively, is reflected as a component of unrestricted net assets.

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 of financial instruments is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale.

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

The fair value of contributions receivable is based on the discounted value of future cash flows using the prevailing risk free Euro and U.S. dollar interest rates plus spread.

3. Cash and Cash Equivalents and Investments

Cash and cash equivalents
The cash and cash equivalents account consists of:

	2012	2011
Cash in banks	**$1,893,571**	$1,258,968
Short-term investments	**55,214**	50,548
Cash on hand	**2,361**	475
	$1,951,146	$1,309,991

Cash in banks earn interest at the 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 the respective short-term investment rates.

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

		2012		
	Equity Stocks	**Short-term Money Market Placements**	**Long-term U.S. Treasury Notes**	**Total**
Cost at January 1, 2012	**$492,832**	**$56,583**	**$101,321**	**$650,736**
Gain (loss) on changes in market value at January 1, 2012	**107,830**	**–**	**(1,410)**	**106,420**
Market value at January 1, 2012	**600,662**	**56,583**	**99,911**	**757,156**
Interest and dividends	**7,326**	**1,546**	**631**	**9,503**
Deposits	**111,034**	**38,966**	**–**	**150,000**
Withdrawals	**–**	**(150)**	**–**	**(150)**
Gain due to change in market value during the year	**29,928**	**53,524**	**108**	**83,560**
Market value at December 31, 2012	**$748,950**	**$150,469**	**$100,650**	**$1,000,069**
Cost at December 31, 2012	**$611,192**	**$96,945**	**$101,952**	**$810,089**
Gain (loss) on changes in market value at December 31, 2012	**137,758**	**53,524**	**(1,302)**	**189,980**
	$748,950	**$150,469**	**$100,650**	**$1,000,069**

		2011		
	Equity Stocks	Short-term Money Market Placements	Long-term U.S. Treasury Notes	Total
Cost at January 1, 2011	$497,740	$56,722	$101,917	$656,379
Gain (loss) on changes in market value at January 1, 2011	104,646	–	(1,040)	103,606
Market value at January 1, 2011	602,386	56,722	100,877	759,985
Interest and dividends	8,402	11	1,279	9,692
Withdrawals	(13,310)	(150)	(1,875)	(15,335)
Gain (loss) due to change in market value during the year	3,184	–	(370)	2,814
Market value at December 31, 2011	$600,662	$56,583	$99,911	$757,156
Cost at December 31, 2011	$492,832	$56,583	$101,321	$650,736
Gain (loss) on changes in market value at December 31, 2011	107,830	–	(1,410)	106,420
	$600,662	$56,583	$99,911	$757,156

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 for 2012 and 2011 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:

	2012		2011	
	Original Currency	**Functional Currency**	Original Currency	Functional Currency
Cash deposits:				
In Euro	**438,320**	**$579,372**	66,024	$85,435
In Ethiopian birr	**7,570,417**	**411,194**	4,896,737	280,746
In Kenyan shillings	**8,635,113**	**100,375**	4,952,110	58,213
In Philippine peso	**4,032,263**	**98,228**	750,618	17,122
In Ugandan shillings	**32,441,242**	**12,064**	63,360,684	25,243
		$1,201,233		$466,759

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

	2012	2011
Euro	**0.76**	0.77
Ethiopian Birr	**18.41**	17.44
Kenyan Shillings	**86.03**	85.07
Philippine peso	**41.05**	43.84
Ugandan Shillings	**2,689**	2,510.03

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 of December 31, 2012 and 2011:

	Increase (Decrease) in Excess of Revenue, Gains and Other Support Over Expenses	
	2012	2011
Appreciation of US$ by 10% of all of the above-mentioned currencies	**($109,203)**	($42,433)
Depreciation of US$ by 10% of all of the above-mentioned currencies	**133,470**	51,862

4. Contributions Receivable

These receivables are covered by signed grant agreements.

Realization of the pledges is expected in the following periods:

	2012	2011
In one year or less	**$2,425,665**	$1,482,605
Between one and five years	**697,799**	812,137
	3,123,464	2,294,742
Less discount	**12,767**	22,853
	$3,110,697	$2,271,889

Movement in discount on contributions receivable are as follows:

	2012	2011
Balance at beginning of year	**$22,853**	$35,737
Accretion income	**(10,086)**	(12,884)
Balance at end of year	**$12,767**	$22,853

5. Other Receivables

This account consists of:

	2012	2011
Advances to officers and employees	**$5,381**	$8,383
Other receivables	**659,869**	264,264
	$665,250	$272,647

Other receivables include receivables arising from training courses, workshops, study programs, technical assistance, publication sales, deposits to suppliers and creditors, and other staff receivables.

6. Property and Equipment

This account consists of:

	Leasehold Improvements	Buildings	Furniture and Office Equipment	Transportation Equipment	Other Equipment	Total
Cost						
Balance at January 1, 2011	$51,994	$675,847	$728,766	$438,235	$151,592	$2,046,434
Additions	–	21,112	43,465	72,303	17,797	154,677
Disposals	–	–	(2,614)	(47,671)	–	(50,285)
Cumulative translation adjustments	(34)	(409)	(12,014)	(7,271)	(159)	(19,887)
Balance at December 31, 2011	$51,960	$696,550	$757,603	$455,596	$169,230	$2,130,939
Additions	–	27,305	30,267	18,611	23,880	100,063
Disposals	–	–	(6,742)	–	–	(6,742)
Others	–	–	–	63,875	–	63,875
Cumulative translation adjustments	3,498	49,250	27,968	8,001	13,758	102,475
Balance at December 31, 2012	$55,458	$773,105	$809,096	$546,083	$206,868	$2,390,610
Accumulated Depreciation and Amortization						
Balance at December 31, 2010	$47,957	$666,491	$683,166	$372,837	$136,683	$1,907,134
Depreciation and amortization	1,328	6,369	24,247	22,490	5,553	59,987
Disposals	–	–	(1,420)	(47,671)	–	(49,091)
Cumulative translation adjustments	(192)	(829)	(10,569)	(4,330)	(21)	(15,941)
Balance at December 31, 2011	49,093	672,031	695,424	343,326	142,215	1,902,089
Depreciation and amortization	1,229	7,715	26,465	34,221	9,672	79,302
Disposals	–	–	(6,742)	–	–	(6,742)
Others	–	–	–	63,875	–	63,875
Cumulative translation adjustments	3,574	47,065	28,744	10,724	10,414	100,521
Balance at December 31, 2012	$53,896	$726,811	$743,891	$452,146	$162,301	$2,139,045
Net Book Value						
At December 31, 2012	**$1,562**	**$46,294**	**$65,205**	**$93,937**	**$44,567**	**$251,565**
At December 31, 2011	2,867	24,519	62,179	112,270	27,015	228,850

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 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 of $14,513 in 2012 and $14,316 in 2011 is recognized as part of other revenues and program services in the statements of activities.

As of December 31, 2012 and 2011, fully depreciated assets amounting to $1,457,053 and $1,449,502, respectively, were still in use.

7. Accounts Payable and Other Current Liabilities

This account consists of:

	2012	2011
Vouchers payable	**$622,837**	$324,010
Accrued expenses	**47,707**	19,763
	$670,544	$343,773

Vouchers payable are noninterest-bearing and are generally on 30 to 60 days' term. Accrued expenses represent statutory payables such as withholding taxes, social security premiums and other liabilities to the government.

8. Pension Plans

IIRR has a defined benefit pension plan for its employees in the Philippines and a defined contribution pension plan covering its employees in the U.S.A. and Africa Regional Center. Pension cost for these plans amounted to $82,580 and $80,682 in 2012 and 2011, respectively.

- Pension Plan for the Philippines

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

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

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

The following table sets forth IIRR Plan's status:

	2012	2011
Projected benefit obligation (PBO)	**$188,328**	$148,197
Plan assets at fair value	**190,765**	150,803
Pension asset	**$2,437**	$2,606

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

	2012	2011
Benefit cost:		
Service cost	**$20,753**	$23,377
Interest cost on PBO	**13,608**	5,822
Expected return on assets	**(11,101)**	(8,473)
Amortization of actuarial loss	**(4)**	556
Amortization of past service cost	**269**	263
Pension cost	**$23,525**	$21,545
Benefits paid	**$2,672**	$6,083
Contributions made	**$20,449**	$19,942

The projected benefit obligation assumes a discount rate of 3.24% in 2012 and 6.23% in 2011; and a rate of 5.00% compensation increase in 2012 and 2011. The expected long-term rate of return on Plan assets is 6.30% in 2012 and 4.00% in 2011.

The changes in PBO are as follows:

	2012	2011
PBO at beginning of year	**$148,197**	$158,681
Service cost	**20,753**	23,377
Interest cost on PBO	**13,608**	5,822
Benefits paid	**(2,672)**	(6,083)
Actuarial gain	**(2,475)**	(33,622)
Translation adjustment (Philippine peso to U.S. dollar)	**10,917**	22
PBO at end of year	**$188,328**	$148,197

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

	2012	2011
Fair value of Plan assets at beginning of year	**$150,803**	$128,826
Expected return on plan assets	**11,101**	8,473
Contributions made	**20,449**	19,942
Benefits paid	**(2,672)**	(6,083)
Translation adjustment (Philippine peso to U.S. dollar)	**11,084**	(355)
Fair value of Plan assets at end of year	**$190,765**	$150,803

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.

Allocation of the trust fund is as follows:

	2012	2011
Type of Investment (Philippine peso-denominated):		
Short-term money market	**45%**	40%
Government securities	**42%**	38%
Commercial loan	**13%**	22%
	100%	100%
Type of Investment (U.S. dollar-denominated):		
Mutual fund	**100%**	100%
Short-term money market	**–**	–
	100%	100%

- Pension Plan for Other Countries

Net pension cost for the defined contribution pension plan amounted to $59,055 in 2012 and $59,137 in 2011.

9. Net Assets

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

	2012	2011
Program services	**$4,939,672**	$3,663,975
The Mr. & Mrs. Yen Mei Tang Memorial Fund	**16,902**	8,777
The Reader's Digest Endowment for Publications	**1,494**	555
	$4,958,068	$3,673,307

b. Permanently restricted net assets consist of the following endowment funds:

	2012	2011
The Alice Yen Fund	**$500,000**	$500,000
The Reader's Digest Endowment for Publications	**100,000**	100,000
The Employees' Welfare Fund	**62,982**	62,982
The Mr. & Mrs. Yen Mei Tang Memorial Fund	**55,000**	55,000
	$717,982	$717,982

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

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

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

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

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

a. Send promising IIRR staff members, holding bachelor's degrees, to study for master's degrees at the University of the Philippines.

b. Enable promising young staff members to attend short-term courses or to receive training in subjects related to IIRR's mission and language, computer science or to other subjects relating to their work for IIRR.

c. Provide grants to finance on-site study of successful rural reconstruction efforts.

d. Finance expenditures on facilities and equipment that improve staff effectiveness.

e. Finance publications of IIRR staff members related to rural reconstruction.

In 2003, the Institute transferred the Rural Reconstruction Endowment Fund amounting to $50,128 to an endowment trust, which is a separate entity. The endowment trust is organized exclusively for the benefit of the Institute and shall operate as a supporting organization of the Institute in accordance with Section 509 (a)(3) of the U.S. Internal Revenue Code. The Institute has no control over the trust. The earnings of the fund will be for the benefit of the Institute only upon the determination of the distributable amount by the trustees of the endowment trust. Any earnings not distributed shall be accumulated to the principal. The value of the endowment trust as of December 31, 2012 and 2011 amounted to $62,605 and $59,962, respectively.

10. **Commitments and Contingencies**

IIRR leases various office spaces for its operations. The terms of these leases range from one to three years. Total rent expense amounted to $74,916 in 2012 and $77,648 in 2011 (see Note 11).

11. **Expenses**

This account consists of expenses from continuing operation of IIRR:

2012

	Program Services			**Supporting Services**			
	Learning Community	**Applied Learning**	**Total**	**Management and General**	**Fund Raising**	**Total**	**Total Expenses**
Staff cost (see Note 8)	**$689,731**	**$505,656**	**$1,195,387**	**$278,819**	**$95,276**	**$374,095**	**$1,569,482**
Collaborating agency expenses	**911,754**	**3,385**	**915,139**	**–**	**–**	**–**	**915,139**
Field program expenses	**325,038**	**402,821**	**727,859**	**45,309**	**1,767**	**47,076**	**774,935**
Travel	**135,649**	**111,209**	**246,858**	**27,413**	**2,095**	**29,508**	**276,366**
Food and accommodation	**131,864**	**47,592**	**179,456**	**27,470**	**27,230**	**54,700**	**234,156**
Contractual services	**92,568**	**84,578**	**177,146**	**18,951**	**11,392**	**30,343**	**207,489**
Rental and maintenance of premises (see Note 10)	**64,540**	**34,946**	**99,486**	**82,250**	**14,696**	**96,946**	**196,432**
Rental and maintenance of furniture, equipment and vehicle	**67,576**	**21,551**	**89,127**	**11,619**	**2,130**	**13,749**	**102,876**
Depreciation and amortization (see Note 6)	**1,002**	**1,876**	**2,878**	**75,906**	**518**	**76,424**	**79,302**
Printing and publication	**37,028**	**16,173**	**53,201**	**2,364**	**875**	**3,239**	**56,440**
Supplies and materials	**31,581**	**17,314**	**48,895**	**2,002**	**974**	**2,976**	**51,871**
Consultants	**45,312**	**1,129**	**46,441**	**2,383**	**2,193**	**4,576**	**51,017**
Communication	**23,316**	**12,661**	**35,977**	**11,143**	**2,802**	**13,945**	**49,922**
Staff education	**858**	**–**	**858**	**2,708**	**–**	**2,708**	**3,566**
Others (see Note 6)	**13,879**	**9,446**	**23,325**	**14,782**	**9,567**	**24,349**	**47,674**
	$2,571,696	**$1,270,337**	**$3,842,033**	**$603,119**	**$171,515**	**$774,634**	**$4,616,667**

2011

	Program Services			Supporting Services			
	Learning Community	Applied Learning	Total	Management and General	Fund Raising	Total	Total Expenses
Staff cost (see Note 8)	$796,699	$365,056	$1,161,755	$108,688	$63,677	$172,365	$1,334,120
Collaborating agency expenses	558,543	–	558,543	–	–	–	558,543
Food and accommodation	340,718	98,758	439,476	3,237	1,789	5,026	444,502
Rental and maintenance of premises (see Note 10)	59,203	102,948	162,151	46,632	4,898	51,530	213,681
Travel	105,802	73,508	179,310	20,591	1,378	21,969	201,279
Rental and maintenance of furniture, equipment and vehicle	100,008	68,741	168,749	10,609	112	10,721	179,470
Contractual services	83,489	77,940	161,429	5,098	491	5,589	167,018
Field program expenses	62,686	83,236	145,922	–	–	–	145,922
Supplies and materials	40,521	26,287	66,808	6,264	503	6,767	73,575
Communication	27,941	27,952	55,893	8,316	2,537	10,853	66,746
Depreciation and amortization (see Note 6)	–	–	–	59,987	–	59,987	59,987
Printing and publication	19,262	17,119	36,381	9,736	440	10,176	46,557
Consultants	10,310	6,726	17,036	2,400	2,400	4,800	21,836
Staff education	–	–	–	1,994	–	1,994	1,994
Others (see Note 6)	5,929	7,246	13,175	78,890	–	78,890	92,065
	$2,211,111	$955,517	$3,166,628	$362,442	$78,225	$440,667	$3,607,295

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.