International Institute of Rural Reconstruction

(A Nonprofit, Nonstock Organization)

Financial Statements
and Supplementary Schedule on
Statement of Activities
December 31, 2014 and 2013

and

Independent Auditors' Report

SGV

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INDEPENDENT AUDITORS' 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 nonprofit, nonstock organization), incorporated in Delaware, United States of America, which comprise the statements of financial position as at December 31, 2014 and 2013, and the related statements of activities, statements 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 these financial statements in accordance with U.S. generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit 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.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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. Accordingly, we express no such opinion. 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 referred to above present fairly, in all material respects, the financial position of International Institute of Rural Reconstruction as of December 31, 2014 and 2013, 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
Partner

March 31, 2015

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

STATEMENTS OF FINANCIAL POSITION

	Notes	December 31 **2014**	2013
ASSETS			
Cash and cash equivalents	3	**$2,011,991**	$1,462,588
Investments	3	**750,219**	1,086,229
Contributions receivables	4	**2,474,609**	1,387,577
Other receivables	5	**322,945**	559,901
Property and equipment - net	6	**271,631**	236,572
Prepayments and other assets		**20,063**	18,003
		$5,851,458	$4,750,870
LIABILITIES AND NET ASSETS			
Accounts payable and other current liabilities	7	**$997,464**	$363,341
Pension liability	8	**-**	2,997
Total Liabilities		**997,464**	366,338
Net Assets			
Unrestricted		**$1,209,722**	$214,022
Temporarily restricted	9	**2,926,290**	3,452,528
Permanently restricted	9	**717,982**	717,982
Total Net Assets		**4,853,994**	4,384,532
		$5,851,458	$4,750,870

See accompanying Notes to Financial Statements.

INTERNATIONAL INSTITUTE OF RURAL RECONSTRUCTION

(A Nonprofit, Nonstock Organization)

STATEMENTS OF ACTIVITIES

		Years Ended December 31							
		2014				2013			
	Notes	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT									
Contributions/Grants:									
Foundations - inclusive of $5,548 and $7,219 accretion income in 2014 and 2013, respectively	4	**$22,836**	**$4,264,230**	**$ -**	**$4,287,066**	$111,386	$1,734,733	$-	$1,846,119
Individuals		**35,924**	**78,817**	**-**	**114,741**	84,406	116,834	-	201,240
Government		**-**	**348,379**	**-**	**348,379**	-	50,919	-	50,919
Corporations		**18,463**	**657,857**	**-**	**676,320**	18,188	49,149	-	67,337
Training courses, study missions and technical assistance		**678,250**	**-**	**-**	**678,250**	1,411,334	-	-	1,411,334
Use of campus facilities		**395,950**	**-**	**-**	**395,950**	415,085	-	-	415,085
Workshops		**92,131**	**-**	**-**	**92,131**	314,970	-	-	314,970
Gain on changes in market value of investments - net	3	**47,310**	**-**	**-**	**47,310**	118,176	-	-	118,176
Publication sales		**4,991**	**-**	**-**	**4,991**	7,581	-	-	7,581
Others - net	3	**52,746**	**-**	**-**	**52,746**	165,629	-	-	165,629
Net assets released from restrictions -				**-**				-	
Satisfaction of program restrictions		**5,700,521**	**(5,700,521)**	**-**	**-**	3,282,175	(3,282,175)	-	-
Expiration of time restrictions		**175,000**	**(175,000)**	**-**	**-**	175,000	(175,000)	-	-
		7,224,122	**(526,238)**	**-**	**6,697,884**	6,103,930	(1,505,540)	-	4,598,390
EXPENSES	10, 11								
Program services:									
Learning community		**3,913,156**	**-**	**-**	**3,913,156**	4,077,821	-	-	4,077,821
Applied learning		**1,384,225**	**-**	**-**	**1,384,225**	1,585,613	-	-	1,585,613
		5,297,381			**5,297,381**	5,663,434			5,663,434
Support services:									
Management and general		**612,742**	**-**	**-**	**612,742**	574,093	-	-	574,093
Fund raising		**207,902**	**-**	**-**	**207,902**	182,954	-	-	182,954
		820,644	**-**	**-**	**820,644**	757,047	-	-	757,047
		6,118,025	**-**	**-**	**6,118,025**	6,420,481	-	-	6,420,481
EXCESS (DEFICIENCY) OF REVENUE, GAINS AND OTHER SUPPORT OVER EXPENSES		**$1,106,097**	**($526,238)**	**$-**	**$579,859**	($316,551)	($1,505,540)	$ -	($1,822,091)
Translation loss		**(110,397)**	**-**	**-**	**(110,397)**	(120,736)	-	-	(120,736)
CHANGE IN NET ASSETS		**$995,700**	**($526,238)**	**$-**	**$469,462**	($437,287)	($1,505,540)	$-	($1,942,827)

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							
	2014				2013			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	**$214,022**	**$3,452,528**	**$717,982**	**$4,384,532**	$651,309	$4,958,068	$717,982	$6,327,359
Change in net assets	**995,700**	**(526,238)**	**-**	**469,462**	(437,287)	(1,505,540)	-	(1,942,827)
Balance at end of year	**$1,209,722**	**$2,926,290**	**$717,982**	**$4,853,994**	$214,022	$3,452,528	$717,982	$4,384,532

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Notes	Years Ended December 31 **2014**	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenue, gains and other support over expenses		**\$579,859**	(\$1,822,091)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization	6, 11	**85,188**	99,252
Effect of foreign exchange rate changes on translation		**(80,425)**	(105,288)
Gain on changes in market value of investments	3	**(47,310)**	(118,176)
Interest and dividend income	3	**(14,976)**	(18,984)
Accretion income	4	**(5,548)**	(7,219)
Decrease (increase) in:			
Contributions receivables		**(1,081,484)**	1,730,339
Other receivables		**236,956**	105,349
Prepayments and other assets		**(2,060)**	(1,264)
Increase (decrease) in:			
Accounts payable and other current liabilities		**634,123**	(307,203)
Pension liability		**(2,997)**	5,434
Net cash provided by (used in) operating activities		**301,326**	(439,851)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	6	**(150,219)**	(99,707)
Withdrawal of investments	3	**398,296**	51,000
Net cash provided by (used in) investing activities		**248,077**	(48,707)
NET INCREASE (DECREASE) IN CASH		**549,403**	(488,558)
CASH AT BEGINNING OF YEAR		**1,462,588**	1,951,146
CASH AT END OF YEAR		**\$2,011,991**	\$1,462,588

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.

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. Non-exchange transactions, in which IIRR receives value without directly giving equal value in exchange, include grants and private donations. On an accrual basis, revenue from these transactions is recognized in the year in which all criteria are satisfied, if measurable and probable of collection.

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

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

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

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

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

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

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

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

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

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

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

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.

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
The Institute values its investments in accordance with Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurements and Disclosures.* ASC 820 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. ASC 820 defines fair value, requires expanded disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs are prioritized according to the valuation techniques used to measure fair value. The highest priority is given to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs), and the lowest priority to measurements involving insignificant unobservable inputs (Level 3 inputs).

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

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

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

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

In July 2013, the FASB issued an amendment to ASC 820, *Fair Value Measurements and Disclosures* which indefinitely defers the requirement for employee benefit plans within the standard's scope to disclose quantitative information about significant unobservable inputs used in Level 3 fair value measurements of certain equity investments. In January 2010, the FASB issued updated guidance requiring new fair value disclosures about significant transfers between Level 1 and Level 2 measurement categories and the separate presentation of purchases, sales, issuances, and settlements within the rollforward of Level 3 activity. Also, this updated fair value guidance clarifies the disclosure requirements about the level of disaggregation and valuation techniques and inputs. These amendments have no material impact in the Institute's financial statements since all financial instruments are categorized as Level 1 and there were no transfers made to Level 2.

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 Institute employs the methods as described in ASC 820 to value its financial assets and liabilities. ASC 820 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, ASC 820 does not require any new fair value measurements. Fair value measurements are applied based on the unit of account from the reporting entity's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

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:

	2014	2013
Cash in banks	**$1,556,390**	$1,460,325
Short-term placements	**437,858**	-
Cash on hand	**17,743**	2,263
	$2,011,991	$1,462,588

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.

Cash in bank includes restricted cash amounting to $1,086,640 and $835,859 in 2014 and 2013, 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:

	2014			
	Equity Stocks	**Short-term Money Market Placements**	**Long-term U.S. Treasury Notes**	**Total**
Cost at January 1, 2014	**$624,939**	**$47,062**	**$106,072**	**$778,073**
Gain on changes in market value at January 1, 2014	**158,760**	**53,219**	**96,177**	**308,156**
Market value at January 1, 2014	**783,699**	**100,281**	**202,249**	**1,086,229**
Interest and dividends	**12,191**	**-**	**2,785**	**14,976**
Withdrawals	**(228,968)**	**(99,123)**	**(70,205)**	**(398,296)**
Gain due to change in market value during the year	**48,234**	**-**	**(924)**	**47,310**
	$615,156	**$1,158**	**$133,905**	**$750,219**
Cost at December 31, 2014	**$408,162**	**$1,158**	**$38,652**	**$447,972**
Gain on changes in market value at December 31, 2014	**206,994**	**-**	**95,253**	**302,247**
	$615,156	**$1,158**	**$133,905**	**$750,219**

	2013			
	Equity Stocks	Short-term Money Market Placements	Long-term U.S. Treasury Notes	Total
Cost at January 1, 2013	$611,192	$96,945	$101,952	$810,089
Gain (loss) on changes in market value at January 1, 2013	137,758	53,524	(1,302)	189,980
Market value at January 1, 2013	748,950	150,469	100,650	1,000,069
Interest and dividends	13,747	1,117	4,120	18,984
Withdrawals	-	(51,000)	-	(51,000)
Gain due to change in market value during the year	21,002	(305)	97,479	118,176
	$783,699	$100,281	$202,249	$1,086,229
Cost at December 31, 2013	$624,939	$47,062	$106,072	$778,073
Gain on changes in market value at December 31, 2013	158,760	53,219	96,177	308,156
	$783,699	$100,281	$202,249	$1,086,229

Gain due to change in market value during the year is shown as Gain on changes in market value of investment - net in the Statement of Activities.

As of December 31, 2014 and 2013, the Institute's investments in equity stocks, money market placements and U.S. Treasury Notes are classified as Level 1, with fair values based on readily available determinable market prices. There were no changes in valuation techniques that resulted in transfer in or out of an investment's assigned level within the hierarchy.

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

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

Foreign Currency Risk. IIRR has no significant foreign currency investments for 2014 and 2013 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:

	2014		2013	
	Original currency	**Functional Currency**	Original currency	Functional Currency
Cash deposits:				
In Kenyan shillings	**72,852,884**	**$804,135**	49,100,360	$568,886
In Philippine peso	**7,170,429**	**160,341**	2,195,213	49,447
In Ethiopian birr	**3,008,037**	**149,636**	1,450,214	74,894
In Ugandan shillings	**218,888,188**	**77,769**	3,545,427	1,408
In Euro	**1,478**	**1,805**	52,261	71,560
In Sudanese pound	**7,639**	**1,328**	24,025	4,172
		$1,195,014		$770,367

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

	2014	2013
Euro	**0.88**	0.73
Ethiopian Birr	**20.10**	19.36
Kenyan Shillings	**90.60**	86.31
Philippine peso	**44.72**	44.40
Ugandan Shillings	**2,814.60**	2,518.00
In Sudanese pound	**5.7543**	5.7583

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, 2014 and 2013:

	Increase (Decrease) in Excess of Revenue, Gains and Other Support Over Expenses	
	2014	2013
Appreciation of US$ by 10% of all of the above-mentioned currencies	**($97,605)**	($70,033)
Depreciation of US$ by 10% of all of the above-mentioned currencies	**143,786**	85,596

4. **Contributions Receivable**

These receivables are covered by signed grant agreements.

Realization of the pledges is expected in the following periods:

	2014	2013
In one year or less	**$1,812,905**	$1,072,436
Between one and five years	**661,704**	320,689
	2,474,609	1,393,125
Less discount	**-**	5,548
	$2,474,609	$1,387,577

Movement in discount on contributions receivable are as follows:

	2014	2013
Balance at beginning of year	**$5,548**	$12,767
Accretion income	**(5,548)**	(7,219)
Balance at end of year	**$-**	$5,548

Accretion income is included as part of Unrestricted Contribution/Grants – Foundation in the Statements of Activities.

5. Other Receivables

This account consists of:

	2014	2013
Receivables from training courses, study missions, technical assistance, use of campus facilities, workshops and publication sales	**$265,443**	$508,305
Advances to officers and employees	**14,754**	15,237
Others	**42,748**	36,359
	$322,945	$559,901

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

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, 2013	$55,458	$773,105	$809,096	$546,083	$206,868	$2,390,610
Additions	-	729	39,688	47,838	11,452	99,707
Disposals	-	-	-	(17,052)	-	(17,052)
Cumulative translation adjustments	(4,141)	(58,306)	(9,524)	(28,621)	(15,815)	(116,407)
Balance at December 31, 2013	51,317	715,528	839,260	548,248	202,505	2,356,858
Additions	-	2,511	68,483	75,267	3,958	150,219
Disposals	-	-	(15,343)	(9,965)	(12,195)	(37,503)
Cumulative translation adjustments	(370)	(5,259)	(74,593)	(61,084)	4,058	(137,248)
Balance at December 31, 2014	$50,947	$712,780	$817,807	$552,466	$198,326	$2,332,326
Accumulated Depreciation and Amortization						
Balance at January 1, 2013	$53,896	$726,811	$743,891	$452,146	$162,301	$2,139,045
Depreciation and amortization	263	5,204	38,478	41,947	13,360	99,252
Disposals	-	-	-	(17,052)	-	(17,052)
Cumulative translation adjustments	(4,043)	(55,154)	(8,409)	(20,752)	(12,601)	- (100,959)
Balance at December 31, 2013	50,116	676,861	773,960	456,289	163,060	2,120,286
Depreciation and amortization	206	5,033	32,569	33,466	13,914	85,188
Disposals	-	-	(15,343)	(9,965)	(12,195)	(37,503)
Cumulative translation adjustments	(485)	(4,920)	(39,285)	(61,231)	(1,355)	(107,276)
Balance at December 31, 2014	$49,837	$676,974	$751,901	$418,559	$163,424	$2,060,695
Net Book Value						
At December 31, 2014	**$1,110**	**$35,806**	**$65,906**	**$133,907**	**$34,902**	**$271,631**
At December 31, 2013	$1,201	$38,667	$65,300	$91,959	$39,445	$236,572

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 of $13,428 in 2014 and $14,089 in 2013 is recognized as part of other revenues and program services in the statements of activities.

As of December 31, 2014 and 2013, fully depreciated assets amounting to $1,867,232 and $2,159,432, respectively, were still in use.

7. Accounts Payable and Other Current Liabilities

This account consists of:

	2014	2013
Funds set aside for field partners	**$875,568**	$257,244
Accrued expenses	**62,764**	34,894
Vouchers payable	**40,177**	70,359
Others	**18,955**	844
	$997,464	$363,341

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 governments.

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 $116,510 and $99,442 in 2014 and 2013, 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:

	2014	2013
Projected benefit obligation (PBO)	**$249,343**	$214,382
Plan assets at fair value	**249,343**	211,385
Pension liability	**$-**	$2,997

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

	2014	2013
Benefit cost:		
Service cost	**$39,208**	$28,326
Interest cost on PBO	**10,441**	7,791
Expected return on assets	**(4,597)**	(10,287)
Amortization of past service cost	**256**	268
Pension cost	**$45,308**	$26,098
Benefits paid	**$2,494**	$939
Contributions made	**$37,680**	$27,267

Pension cost is presented as part of Staff cost under Expenses account in the Statement of Activities (see Note 11).

The principal assumptions used in determining projected benefit obligation for both years 2014 and 2013 are shown below:

Discount rates	4.84%
Expected rate of return on plan assets	6.30%
Expected rate of salary increases	5.00%

The changes in PBO are as follows:

	2014	2013
PBO at beginning of year	**$214,382**	$188,328
Service cost	**39,208**	28,326
Interest cost on PBO	**10,441**	7,791
Benefits paid	**(2,494)**	(939)
Actuarial loss (gain)	**(10,369)**	6,931
Translation adjustment (Philippine peso to U.S. dollar)	**(1,825)**	(16,055)
PBO at end of year	**$249,343**	$214,382

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

	2014	2013
Fair value of plan assets at beginning of year	**$211,385**	$190,765
Expected return on plan assets	**4,597**	10,287
Contributions made	**37,680**	27,267
Benefits paid	**(2,494)**	(939)
Translation adjustment (Philippine peso to U.S. dollar)	**(1,825)**	(15,995)
Fair value of plan assets at end of year	**$249,343**	$211,385

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:

Type of Investment (Philippine peso-denominated)	2014	2013
Short-term money market	**1%**	75%
Government securities	**22%**	25%
Commercial loan	**76%**	-
	100%	100%

Type of Investment (U.S. dollar-denominated)	2014	2013
Short-term money market	**100%**	-
Mutual fund	**-**	100%
	100%	100%

- Pension Plan for Other Countries

  Net pension cost for the defined contribution pension plan amounted to $90,311 in 2014 and $73,344 in 2013.

9. **Net Assets**

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

	2014	2013
Program services	**$2,925,566**	$3,424,166
The Mr. & Mrs. Yen Mei Tang Memorial Fund	**296**	27,299
The Reader's Digest Endowment for Publications	**428**	1,063
	$2,926,290	$3,452,528

b. Permanently restricted net assets consist of the following endowment funds as at December 31, 2014 and 2013:

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

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

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

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

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

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

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

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

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

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

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

In 2003, the Institute transferred the Rural Reconstruction Endowment Fund amounting to $50,128 to an endowment trust, which is a separate entity. The endowment trust is organized exclusively for the benefit of the Institute and shall operate as a supporting organization of the Institute in accordance with Section 509 (a)(3) of the U.S. Internal Revenue Code. The Institute has no control over the trust. The earnings of the fund will be for the benefit of the Institute only upon the determination of the distributable amount by the trustees of the endowment trust. Any earnings not distributed shall be accumulated to the principal. The value of the endowment trust as at December 31, 2014 and 2013 amounted to $72,188 and $62,605, 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 $99,581 in 2014 and $84,301 in 2013 and is shown as part of Rental and maintenance under Expenses account in the Statement of Activities (see Note 11).

11. Expenses

This account consists of expenses from continuing operation of IIRR:

		2014						
		Program Services			**Supporting Services**			
	Notes	**Learning Community**	**Applied Learning**	**Total**	**Management and General**	**Fund Raising**	**Total**	**Total Expenses**
Field program expenses		**$2,455,826**	**$298,207**	**$2,754,033**	**$-**	**$-**	**$-**	**$2,754,033**
Staff cost	8	**866,979**	**560,660**	**1,427,639**	**219,115**	**117,909**	**337,024**	**1,764,663**
Contractual services		**179,453**	**240,125**	**419,578**	**136,300**	**52,972**	**189,272**	**608,850**
Rental and maintenance	10	**150,661**	**82,994**	**233,655**	**84,235**	**19,827**	**104,062**	**337,717**
Travel		**153,343**	**96,150**	**249,493**	**15,253**	**8,495**	**23,748**	**273,241**
Printing and publication		**39,047**	**57,863**	**96,910**	**4,837**	**2,325**	**7,162**	**104,072**
Depreciation and amortization	6	**6,052**	**4,445**	**10,497**	**74,630**	**61**	**74,691**	**85,188**
Communication		**25,273**	**19,930**	**45,203**	**9,058**	**3,789**	**12,847**	**58,050**
Supplies and materials		**18,971**	**15,543**	**34,514**	**3,968**	**1,665**	**5,633**	**40,147**
Others	6	**17,551**	**8,308**	**25,859**	**65,346**	**859**	**66,205**	**92,064**
		$3,913,156	**$1,384,225**	**$5,297,381**	**$612,742**	**$207,902**	**$820,644**	**$6,118,025**

		2013						
		Program Services			Supporting Services			
	Notes	Learning Community	Applied Learning	Total	Management and General	Fund Raising	Total	Total Expenses
Field program expenses		$1,892,089	$963,925	$2,856,014	$58,187	$14	$58,201	$2,914,215
Staff cost	8	1,262,310	272,833	1,535,143	224,874	94,873	319,747	1,854,890
Contractual services		280,642	92,657	373,299	58,175	51,100	109,275	482,574
Rental and maintenance	10	180,856	86,835	267,691	114,211	26,944	141,155	408,846
Travel		226,181	101,833	328,014	17,454	2,435	19,889	347,903
Printing and publication		62,741	38,766	101,507	-	2,257	2,257	103,764
Depreciation and amortization	6	7,042	5,173	12,215	86,844	193	87,037	99,252
Supplies and materials		49,675	10,816	60,491	204	714	918	61,409
Communication		33,112	8,555	41,667	14,144	4,424	18,568	60,235
Others	6	83,173	4,220	87,393	-	-	-	87,393
		$4,077,821	$1,585,613	$5,663,434	$574,093	$182,954	$757,047	$6,420,481

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

a. Learning Community Program

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

b. Applied Learning Program

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

12. Subsequent Events

The Institute evaluated events subsequent to December 31, 2014 through March 31, 2015, the date on which the financial statements were available for issuance. It was determined that there were no subsequent events to be recognized or disclosed in these financial statements.

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

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

The Board of Trustees
International Institute of Rural Reconstruction

We have audited the financial statements of International Institute of Rural Reconstruction as at and for the years ended December 31, 2014 and 2013 and have issued our report thereon dated March 31, 2015. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule on statement of activities - operating basis to accompany the financial statements of the Institute is the responsibility of the Institute's management. The supplementary schedule presented is not part of the basic financial statements. The supplementary schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Christine G. Vallejo
Partner

March 31, 2015

INTERNATIONAL INSTITUTE OF RURAL RECONSTRUCTION — ANNEX

STATEMENT OF ACTIVITIES - OPERATING BASIS*

Years Ended December 31

In US Dollars

	2014				2013			
OPERATING REVENUES:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Unrestricted Grants/Contributions	248,732	-	-	248,732	391,737	-	-	391,737
Individuals	35,336	-	-	35,336	84,752		-	84,752
Corporations	20,760	-	-	20,760	18,866		-	18,866
Foundations	192,636	-	-	192,636	288,119		-	288,119
Restricted Grants/Contributions	-	3,874,514	-	3,874,514	-	3,173,599	-	3,173,599
Individuals	-	76,392	-	76,392	-	42,334	-	42,334
Corporations	-	469,765	-	469,765	-	386,164	-	386,164
Foundations	-	2,771,199	-	2,771,199	-	2,152,650	-	2,152,650
Governments	-	557,157	-	557,157	-	592,451	-	592,451
Earned Income	2,118,925	-	-	2,118,926	1,649,738	-	-	1,649,738
Writeshops	449,691	-	-	449,691	314,970	-	-	314,970
Trainings, Study Missions, Technical Assistance	1,206,269	-	-	1,206,269	881,561	-	-	881,561
Publication Sales	4,391	-	-	4,391	7,716	-	-	7,716
Campus Facilities	458,574	-	-	458,574	445,491	-	-	445,491
Others	39,091	-	-	39,091	165,629	-	-	165,629
Satisfaction of program restrictions	3,699,514	(3,699,514)	-	-	2,998,599	(2,998,599)	-	-
Expiration of time restrictions	175,000	(175,000)	-	-	175,000	(175,000)	-	-
TOTAL OPERATING REVENUES	6,281,262	-	-	6,281,262	5,380,703	-	-	5,380,703
OPERATING EXPENSES:								
Staff costs	1,764,663	-	-	1,764,663	1,871,439	-	-	1,871,439
Travel	273,241	-	-	273,241	355,178	-	-	355,178
Contractual services	608,850	-	-	608,850	500,482	-	-	500,482
Field program expenses	2,754,033	-	-	2,754,033	1,762,145	-	-	1,762,145
Printing and publications	104,072	-	-	104,072	96,819	-	-	96,819
Repairs and maintenance	337,717	-	-	337,717	409,169	-	-	409,169
Communications	58,050	-	-	58,050	65,463	-	-	65,463
Supplies and materials	40,147	-	-	40,147	55,267	-	-	55,267
Miscellaneous	92,064	-	-	92,064	27,507	-	-	27,507
TOTAL OPERATING EXPENSES	6,032,837	-	-	6,032,837	5,143,469	-	-	5,143,469
OPERATING EXCESS (DEFICIT)	248,425	-	-	248,425	237,234	-	-	237,234
ADJUSTMENTS to OPERATING REVENUES and EXPENSES:								
Restricted amounts for future periods	-	3,051,673	-	3,051,673	-	2,267,029	-	2,267,029
Restricted amounts from prior periods	-	(2,363,284)	-	(2,363,284)	-	(2,657,660)	-	(2,657,660)
Adjustments per audit	878,353	(1,214,627)	-	(336,274)	(599,568)	(1,114,909)	-	(1,714,477)
Investment Transactions	64,508	-	-	64,508	118,176	-	-	118,176
Depreciation Expenses	(85,188)	-	-	(85,188)	(72,394)	-	-	(72,394)
EXCESS (DEFICIENCY) OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES	1,106,098	(526,238)	-	579,860	(316,552)	(1,505,540)	-	(1,822,092)

** 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.*