



Nineteenth Regular Meeting of the Inter-American
Board of Agriculture (IABA)

**IICA's Financial Statements for 2015 and 2016 and
Reports of the External Auditors**

IICA/JIA/Doc. 382 (17)
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San Jose, Costa Rica
25-26 October 2017

INDEPENDENT AUDITORS' REPORT

To the Inter-American Board of Agriculture
of the Inter-American Institute for Cooperation on Agriculture (IICA)

Qualified Opinion

We have audited the accompanying financial statements of the Inter-American Institute for Cooperation on Agriculture (IICA), which comprise the statements of financial position as at December 31, 2016 and 2015 and the statement of activities of unrestricted net assets, changes in net assets, and of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the effects of the matter explained in first and second paragraph explained in "*Basis for Qualified Opinion*", the financial statements present fairly, in all material respects, the financial position of IICA as of December 31, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended, in accordance with the generally accepted accounting principles in the United States of America.

Basis for Qualified Opinion

1. As at December 31, 2016 and 2015, IICA presented within the account "Other termination benefits" provisions for US\$2,987,811 and US\$2,648,739, respectively, which do not have actuarial or similar studies to support the amounts of the obligation. Amount of other termination benefits must be adequately supported by the corresponding actuarial studies; therefore, liabilities and net assets as of December 31, 2016 and 2015, and changes in net assets for the years then ended were affected in amounts not determined by the Administration. As at December 31, 2016 and 2015, in the same account there are other items in the amount of US\$3,304,717 and US\$3,201,018, respectively, on which actuarial studies were performed, that showed that such provisions were overstated by US\$732,425 and US\$512,713, respectively, in turn an undervaluation of the net assets by said amounts.
2. As disclosed in the statement of movement of quotas receivable in Exhibit No.1 of the supplementary financial information, as of December 31, 2016 and 2015, IICA presents quotas receivable of Member States in the amount of US\$4,779,591 and US\$2,491,179, respectively, with aging greater than 365 days, registered in accordance with the commitments made by Member States. Since it was not possible to establish the collection period of these quotas, the Administration was unable to determine the possible effect of impairment on the carrying value. Accordingly, the accompanying financial statements are affected in amounts not yet determined.

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of IICA in accordance with the Code of Professional Ethics of the Association of Certified Public Accountant of Costa Rica and the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with such requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Supplementary Information in Relation to the Financial Statements and the Auditor's Report

Management is responsible for the other information. The other information comprises the details included in Exhibits No.1 to 3 the movements of Member States quotas receivable, budget and expenses by chapter and the execution of external resources by financing source, which include for the benefit of the reader.

Our opinion on the financial statements does not cover the other information, and we do not express any form of opinion on it.

In relation to our audit of the financial statements, is our responsibility to read the other information and, by doing so, consider if that is materially consistent with the financial statements or with our knowledge we obtained during our audit, or otherwise if it seems to be materially distorted. If, based on the work that we have done, we are able to conclude that there is an important inaccuracy of this other information, we are obliged to report such matter to you. We do not have nothing to report on it.

Emphasis of Matter

Without qualifying our audit opinion, as stated in Note 13 to the financial statements, IICA is facing possible legal claims related to the execution in Colombia of the Agro-Ingreso Seguro Program.

Responsibilities of Management and Those Charged with the IICA's Governance with the Financial Statements

Management is responsible for the preparation and fair presentation of IICA's accompanying financial statements according to the generally accepted accounting principles in the United States of America and for the internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of financial statements, Management is responsible for assessing the IICA ability to continue as a going concern, disclosing as it may be necessary, the matters related to the going concern principle and using such accounting basis, unless management either intends to liquidate of IICA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance of IICA are responsible for overseeing the financial reporting process of Inter-American Institute for Cooperation on Agriculture.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing (ISA), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IICA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements in the context of the applicable financial reporting framework. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on IICA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on information available at the date of the auditor's report. However, future events or conditions may cause IICA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We obtained sufficient appropriate audit evidence regarding the financial information of the entity or business activities to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit of IICA. We remain solely responsible for our audit opinion.

We are required to communicate with those charged with governance at IICA regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Anayancy Porras Barrientos - C.P.A. No.2863
Insurance Policy No.0116 FIG 7
Expires: September 30, 2017
Law stamp of Law No.6663 for ₡1.000, attached and paid



May 24, 2017

INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015 (Stated in United States Dollars)

| | Notes | December 31, 2016 | | | Total | December 31, 2015 |
|--|-----------|------------------------|------------------------|------------------------|------------------------|-----------------------|
| | | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| ASSETS | | | | | | |
| CURRENT ASSETS: | | | | | | |
| Cash | 1e, 2 | US\$ 34,344,664 | | | US\$ 34,344,664 | US\$16,655,224 |
| Cash equivalents | 1e, 3 | 40,832,687 | | | 40,832,687 | 30,753,011 |
| Investments held to maturity | 1f, 4 | <u>15,647,000</u> | | | <u>15,647,000</u> | <u>21,097,461</u> |
| Subtotal | | <u>90,824,351</u> | | | <u>90,824,351</u> | <u>68,505,696</u> |
| Receivables: | | | | | | |
| Quotas from Member States | | 13,159,464 | | | 13,159,464 | 7,269,542 |
| Payments made on behalf of contracts, agreements and grants | | 759,733 | | | 759,733 | 815,572 |
| Due from regular fund to trust fund | 1g | (69,098,912) | US\$69,098,912 | | | |
| Other | | <u>623,121</u> | | | <u>623,121</u> | <u>196,928</u> |
| Receivables - net | | <u>(54,556,594)</u> | <u>69,098,912</u> | | <u>14,542,318</u> | <u>8,282,042</u> |
| Inventories | 1h | 73,976 | | | 73,976 | 80,922 |
| Advances of External Resources Allocated | 1p | 252,108 | | | 252,108 | 792,322 |
| Prepaid expenses | | 5,433 | | | 5,433 | 6,719 |
| Other assets | | <u>75,086</u> | | | <u>75,086</u> | <u>85,007</u> |
| Total current assets | | <u>36,674,360</u> | <u>69,098,912</u> | | <u>105,773,272</u> | <u>77,752,708</u> |
| PROPERTY, FURNITURE AND EQUIPMENT - Net | 1i, 1j, 5 | <u>1,533,760</u> | | US\$8,713,171 | <u>10,246,931</u> | <u>10,087,034</u> |
| TOTAL ASSETS | | <u>US\$ 38,208,120</u> | <u>US\$69,098,912</u> | <u>US\$8,713,171</u> | <u>US\$116,020,203</u> | <u>US\$87,839,742</u> |
| LIABILITIES AND NET ASSETS | | | | | | |
| CURRENT LIABILITIES: | | | | | | |
| Accounts payable and accrued expenses | | US\$ 4,369,125 | | | US\$ 4,369,125 | US\$ 1,358,190 |
| Other accruals | | <u>317,883</u> | | | <u>317,883</u> | <u>383,921</u> |
| Total current liabilities | | <u>4,687,008</u> | | | <u>4,687,008</u> | <u>1,742,111</u> |
| Provisions for: | | | | | | |
| Repatriation and transfer of international professional personnel | 1k | 1,304,939 | | | 1,304,939 | 1,327,903 |
| Recognition of years of service for international professional personnel | 1k | 1,296,028 | | | 1,296,028 | 1,259,190 |
| Recognition of years of service for local personnel | 1k | 3,092,027 | | | 3,092,027 | 2,787,765 |
| Other termination benefits | 1k, 12 | 7,822,178 | | | 7,822,178 | 7,128,213 |
| Other liabilities of projects | 12 | <u>8,614,462</u> | | | <u>8,614,462</u> | <u>6,489,897</u> |
| Total provisions | | <u>22,129,634</u> | | | <u>22,129,634</u> | <u>18,992,968</u> |
| Total liabilities | | <u>26,816,642</u> | | | <u>26,816,642</u> | <u>20,735,079</u> |
| NET ASSETS: | | | | | | |
| Unrestricted funds: | | | | | | |
| Regular fund: | | | | | | |
| General sub-fund | 1b | 4,273,487 | | | 4,273,487 | 4,273,414 |
| Working sub-fund | 1b | 4,094,736 | | | 4,094,736 | 4,094,736 |
| Miscellaneous income fund | 1b | 741,360 | | | 741,360 | 1,588,293 |
| Indirect cost recovery fund | 1b | 748,135 | | | 748,135 | 492,630 |
| Fixed assets fund | 1b | 1,533,760 | | | 1,533,760 | 1,373,863 |
| Temporarily restricted funds: | | | | | | |
| Trust funds | 1b | | US\$69,098,912 | | 69,098,912 | 46,568,556 |
| Permanently restricted fund - land | 1b | | | US\$8,713,171 | <u>8,713,171</u> | <u>8,713,171</u> |
| Total net assets | | <u>11,391,478</u> | <u>69,098,912</u> | <u>8,713,171</u> | <u>89,203,561</u> | <u>67,104,663</u> |
| TOTAL LIABILITIES AND NET ASSETS | | <u>US\$ 38,208,120</u> | <u>US\$69,098,912</u> | <u>US\$8,713,171</u> | <u>US\$116,020,203</u> | <u>US\$87,839,742</u> |
| CONTINGENCIES | 13 | <u>US\$</u> | <u>US\$</u> | <u>US\$</u> | <u>US\$</u> | <u>US\$</u> |

See accompanying notes to the financial statements.

INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)

STATEMENTS OF ACTIVITIES OF UNRESTRICTED NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Stated in United States Dollars)

| | Notes | 2016 | | | | 2015 | | | | | |
|--|-------|---------------------|---------------------------|-----------------------------|--------------------|-----------------------|-----------------------|---------------------------|-----------------------------|-------------------|-------------------------|
| | | Regular Fund Quotas | Miscellaneous Income Fund | Indirect Cost Recovery Fund | Trust Funds | Total | Regular Fund Quotas | Miscellaneous Income Fund | Indirect Cost Recovery Fund | Trust Funds | Total |
| REVENUES: | | | | | | | | | | | |
| Quotas from Member States | 1c | US\$30,064,900 | | | | US\$ 30,064,900 | | | | US\$ 27,810,000 | |
| Recovery of Indirect Cost Recovery (ICR) | 6 | | | US\$7,914,285 | | 7,914,285 | | | US\$6,528,171 | | 6,528,171 |
| Temporarily restricted fund assets released from restrictions | 1g | | | | US\$109,997,513 | 109,997,513 | | | | US\$94,359,148 | 94,359,148 |
| Total revenues | | <u>30,064,900</u> | | <u>7,914,285</u> | <u>109,997,513</u> | <u>147,976,698</u> | <u>27,810,000</u> | | <u>6,528,171</u> | <u>94,359,148</u> | <u>128,697,319</u> |
| EXPENSES: | | | | | | | | | | | |
| International professional personnel | | 9,568,533 | | | | 9,568,533 | 9,458,481 | | | | 9,458,481 |
| Local professional and general service | | 10,855,110 | | | | 10,855,110 | 10,181,119 | | | | 10,181,119 |
| Training and technical events | | 2,477,288 | | | | 2,477,288 | 1,766,428 | | | | 1,766,428 |
| Official travel | | 649,422 | | | | 649,422 | 707,758 | | | | 707,758 |
| Documents and materials and supplies | | 594,128 | | | | 594,128 | 349,540 | | | | 349,540 |
| Plant, equipment and furniture | | 868,237 | | | | 868,237 | 207,386 | | | | 207,386 |
| General services | | 2,082,900 | | | | 2,082,900 | 1,970,298 | | | | 1,970,298 |
| Performance contracts and transfers | | 1,151,926 | | | | 1,151,926 | 1,369,714 | | | | 1,369,714 |
| Annual allowance to CATIE | 8 | 804,100 | | | | 804,100 | 948,000 | | | | 948,000 |
| Annual allowance to Caribbean Agricultural Research and Development Institute (CARDI) | | 200,000 | | | | 200,000 | 200,000 | | | | 200,000 |
| Other costs | | 813,183 | | | | 813,183 | 650,717 | | | | 650,717 |
| Sub-total of expenses related to quota budget and working sub-fund | | <u>30,064,827</u> | | | | <u>30,064,827</u> | <u>27,809,441</u> | | | | <u>27,809,441</u> |
| Temporarily restricted fund assets released from restrictions | 1g | | | | 109,997,513 | 109,997,513 | | | | 94,359,148 | 94,359,148 |
| Disbursements financed with funds from the Indirect Cost Recovery (ICR) | 6 | | | 7,658,780 | | 7,658,780 | | | 6,934,217 | | 6,934,217 |
| Commercial and miscellaneous operations - net | 7 | | US\$ 846,933 | | | 846,933 | | US\$ 1,690,505 | | | 1,690,505 |
| Total expenses | | <u>30,064,827</u> | <u>846,933</u> | <u>7,658,780</u> | <u>109,997,513</u> | <u>148,568,053</u> | <u>27,809,441</u> | <u>1,690,505</u> | <u>6,934,217</u> | <u>94,359,148</u> | <u>130,793,311</u> |
| Increase (decrease) in unrestricted net assets for the year, before excluding net expenses capitalized as property, furniture and equipment and including depreciation of the year | 73 | | (846,933) | 255,505 | | (591,355) | 559 | (1,690,505) | (406,046) | | (2,095,992) |
| Exclusion of net capitalized expenses as property, furniture and equipment | | <u>774,638</u> | | | | <u>774,638</u> | <u>382,431</u> | | | | <u>382,431</u> |
| Increase in unrestricted net assets for the year, before including depreciation of the year | | 774,711 | (846,933) | 255,505 | | 183,283 | 382,990 | (1,690,505) | (406,046) | | (1,713,561) |
| Inclusion of depreciation of the year | | <u>(614,741)</u> | | | | <u>(614,741)</u> | <u>(684,633)</u> | | | | <u>(684,633)</u> |
| Decrease in unrestricted net assets | | <u>US\$ 159,970</u> | <u>US\$(846,933)</u> | <u>US\$ 255,505</u> | <u>US\$</u> | <u>US\$ (431,458)</u> | <u>US\$ (301,643)</u> | <u>US\$(1,690,505)</u> | <u>US\$ (406,046)</u> | <u>US\$</u> | <u>US\$ (2,398,194)</u> |

See accompanying notes to the financial statements.

INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)

STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Stated in United States Dollars)

| | Net Assets | | | | | | | Total |
|--|----------------------|----------------------|---------------------------|-----------------------------|----------------------|------------------------|------------------------|------------------------|
| | Regular Fund | | Unrestricted | | | Temporarily Restricted | Permanently Restricted | |
| | General Sub-fund | Working Sub-fund | Miscellaneous Income Fund | Indirect Cost Recovery Fund | Fixed Assets Fund | Trust Funds | Land | |
| BALANCE AT DECEMBER 31, 2014 | US\$4,272,855 | US\$4,094,736 | US\$ 3,278,798 | US\$ 898,676 | US\$1,676,065 | US\$ 59,259,096 | US\$8,713,171 | US\$ 82,193,397 |
| Increase (decrease) in unrestricted net assets | 382,990 | | (1,690,505) | (406,046) | (684,633) | | | (2,398,194) |
| Restricted contributions received from donors | | | | | | 81,326,919 | | 81,326,919 |
| Net assets released from restrictions | | | | | | (94,359,148) | | (94,359,148) |
| Capitalization of net disbursements as property, furniture and equipment | (382,431) | | | | 382,431 | | | |
| Net decrease in disbursements made on behalf of contracts, agreements, and grants receivable from donors | | | | | | 341,689 | | 341,689 |
| BALANCE AT DECEMBER 31, 2015 | 4,273,414 | 4,094,736 | 1,588,293 | 492,630 | 1,373,863 | 46,568,556 | 8,713,171 | 67,104,663 |
| Increase (decrease) in unrestricted net assets | 774,711 | | (846,933) | 255,505 | (614,741) | | | (431,458) |
| Restricted contributions received from donors | | | | | | 132,583,708 | | 132,583,708 |
| Net assets released from restrictions | | | | | | (109,997,513) | | (109,997,513) |
| Capitalization of net disbursements as property, furniture and equipment | (774,638) | | | | 774,638 | | | |
| Net decrease in disbursements made on behalf of contracts, agreements, and grants receivable from donors | | | | | | (55,839) | | (55,839) |
| BALANCE AT DECEMBER 31, 2016 | <u>US\$4,273,487</u> | <u>US\$4,094,736</u> | <u>US\$ 741,360</u> | <u>US\$ 748,135</u> | <u>US\$1,533,760</u> | <u>US\$ 69,098,912</u> | <u>US\$8,713,171</u> | <u>US\$ 89,203,561</u> |

See accompanying notes to the financial statements.

**INTER-AMERICAN INSTITUTE FOR COOPERATION
ON AGRICULTURE (IICA)**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
(Stated in United States Dollars)

| | 2016 | 2015 |
|--|------------------------|------------------------|
| OPERATING ACTIVITIES | | |
| Decrease in unrestricted net assets | US\$ (431,458) | US\$ (2,398,194) |
| Plus: Items not requiring cash: | | |
| Interest income from investments | (3,621,089) | (3,669,756) |
| Depreciation | 614,741 | 684,633 |
| Cash provided by (used in) changes in: | | |
| Quotas receivable from Member States | (5,889,922) | (1,447,361) |
| Other receivables | (426,193) | (61,805) |
| Inventories | 6,946 | 5,116 |
| Prepaid expenses | 541,500 | 317,605 |
| Other assets | (8,644) | 27,822 |
| Accounts payable and accrued expenses | 3,010,935 | (122,135) |
| Other accruals | (66,038) | 219,211 |
| Provisions | <u>3,136,666</u> | <u>(1,148,409)</u> |
| Net cash used in operating activities | <u>(3,132,556)</u> | <u>(7,593,273)</u> |
| INVESTING ACTIVITIES | | |
| Disposals of investments held to maturity | 5,450,461 | 11,606,047 |
| Interest income received on investments | 3,639,654 | 3,666,592 |
| Additions to furniture and equipment | (784,097) | (412,933) |
| Disposal of furniture and equipment | <u>9,459</u> | <u>30,502</u> |
| Net cash provided by investing activities | <u>8,315,477</u> | <u>14,890,208</u> |
| FINANCING ACTIVITIES | | |
| Restricted contributions received from donors | 132,583,708 | 81,326,919 |
| Disbursements made in the execution of trust funds | <u>(109,997,513)</u> | <u>(94,359,148)</u> |
| Net cash provided by (used in) financing activities | <u>22,586,195</u> | <u>(13,032,229)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 27,769,116 | (5,735,294) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>47,408,235</u> | <u>53,143,529</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>US\$ 75,177,351</u> | <u>US\$ 47,408,235</u> |

See accompanying notes to the financial statements.

INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (Stated in United States Dollars)

1. NATURE OF BUSINESS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

- a. **Nature of Business** - The Inter-American Institute for Cooperation on Agriculture (IICA), formerly the Inter-American Institute of Agricultural Sciences was established on October 7, 1942 pursuant to an initiative of the Organization of American States (OAS) in the District of Columbia, United States of America for an indefinite term. IICA is an autonomous international legal entity of Inter-American scope, whose main objective is to stimulate, promote, and support the efforts of the Member States to achieve agricultural development and rural well-being. Its regulations and operating procedures currently in use were approved at the First Ordinary Meeting of the Inter-American Board of Agriculture, held in August 1981 in Argentina.

IICA has the following formal authority structures:

- Inter-American Board of Agriculture (IABA), consisting of a representative from each Member State.
- Executive Committee, consisting of twelve Member States.
- General Directorate.

At present, IICA consists of 34 Member States with central headquarters located in San José, Costa Rica.

- b. **Basis of Presentation and Funds Managed** - The financial statements have been prepared in accordance with the generally accepted accounting principles in the United States of America (USGAAP), and are presented according to the American Institute of Certified Public Accountants (AICPA)'s fund accounting policies for not-for-profit organizations, except for other termination benefits that do not have actuarial studies that support part of the provision and quotas receivable on which were unable to quantify impairment on the carrying value. Funds managed by IICA are classified in the accompanying financial statements, according to the accounting policies established by IICA, as Unrestricted Funds, Temporarily Restricted Funds, and Permanently Restricted Funds. Additionally, such funds are classified according to their source and purpose, as follows:

- **Unrestricted Funds** -

- *Regular Fund* - This fund consists of two sub-funds:

- i. General Sub-fund - Activities of this sub-fund are mainly financed by mandatory contributions from Member States, as established by IABA, based on the quota computation system of the Organization of American States (OAS). In addition, the miscellaneous income is recorded in this fund, unless the IABA or the Executive Committee has approved it for specific

purposes. The purpose of the General Sub-fund is to finance execution of the regular activities planned and budgeted by IICA, including administration and management.

ii. Working Sub-fund - The purpose of this sub-fund is to ensure the normal financial operation of IICA. According to Article No.89 of the Rules of the General Directorate, the sub-fund balance shall not exceed 15% of annual quotas approved for the corresponding fiscal year, unless otherwise decided by IABA or the Executive Committee. This fund is constituted by the proceeds from the balances of uncommitted appropriations financed by quotas outstanding at each fiscal year-end and by additional funds specifically assigned by IABA or the Executive Committee.

- *Fixed Assets Fund* - The Fixed Assets Fund is used by IICA to control unrestricted property, furniture and equipment, which have been either acquired with resources from the Regular Fund and the Indirect Cost Recovery (ICR) Fund or donated thereto by a national or international organization. The balance of the Fixed Assets Fund represents the carrying amount, net of depreciation, of fixed assets owned by IICA, except for land with permanent use restrictions.
- *Indirect Cost Recovery (ICR) Fund* - The objective of this Fund is to finance additional costs incurred by IICA, in the execution of contracts, agreements, and grants subscribed by donors (Member States, international organizations, and others) for specific purposes and to contribute to the Institute's pre-investment activities. The Indirect Cost Recovery Fund balance consists of the recovery of Indirect Cost (ICR) in the management of projects executed by IICA with external resources.
- *Miscellaneous Income Fund* - This fund was created by the IABA through resolution IICA/IABA/Res.400 (XII-O/03) dated November 13, 2003, with the purpose of covering immediate financial needs of IICA. The Miscellaneous Income Fund consists of the balance of those proceeds from the General Sub-fund that are not committed in the Regular Fund budget at the end of the fiscal year in which they were received.

- **Temporarily Restricted Funds -**

Trust Funds - The Trust Funds have been established according to contracts, agreements, and grants subscribed by donors (Member States, international organizations, and others) for specific purposes. For control purposes, separate records are maintained to account for income and expenses related to those funds. Moreover, financial resources pertaining to some funds are managed through separate bank accounts according to the agreement terms executed by IICA and the donors.

- **Permanently Restricted Fund - Land** - This fund is represented by the original contribution of land to IICA, which has permanent use restrictions (Note 5).

c. **Budget** - A summary of significant aspects of each fund budget is provided below:

- **Regular Fund** - On October 22, 2015, through Resolution IICA/IABA/Res.493 (XVII-O/15) IABA approved the 2016 and 2017 budget for the Regular Fund made up of Member State quotas and other miscellaneous income amounting to US\$30,064,900 and US\$4,300,000, respectively. Miscellaneous income consists of estimated income to be generated and of resources from the miscellaneous income fund.

The above resolution authorizes the Director General to transfer amounts between budget chapters, provided that the total transfers do not significantly affect the priorities approved.

In the Exhibit No.2, a comparative analysis is shown of the detailed budget, actual expenses and respective over/under execution.

- **Trust Funds** - Through resolution IICA/IABA/Res.254 (VIII-O/95) dated September 19, 1995, IABA authorized the Director General to use the resources provided to IICA through the institutions and Member States related to contracts, agreements, and grants, for the agreed upon purposes. The mentioned resolution authorized the Director General to accept contributions and donations, and to perform contracts or agreements, as long as they are consistent with the objectives of IICA programs and that the Executive Committee of IICA is notified in advance of contracts or agreements exceeding US\$500,000.
- d. **Monetary Unit and Foreign Exchange Transactions** - The accounting records of IICA are kept in United States dollars (US\$), and the financial statements are expressed in such currency. Assets and liabilities in currencies of the countries where IICA's activities are developed are translated into U.S. dollars at official exchange rates in effect in each country. Transactions in such currencies are translated into U.S. Dollars using monthly average exchange rates. When determining its financial position and results of activities, IICA values and adjusts the balances of assets and liabilities that are recoverable or payable in the local currency of countries where activities are developed. The resulting differences are applied to the results of the period in which they are incurred.
- e. **Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value with original maturity of less than 3 months.
- f. **Investments Held to Maturity** - Investments held to maturity are those that IICA intends and has the capacity hold until they mature. They are recorded at cost and valued using the amortized cost method.
- g. **Due from Regular Fund and Temporarily Restricted Net Assets** - Funds contributed by institutions and Member States (donors) to establish Trust Funds for executing contracts, agreements, and grants are recorded as restricted contributions received from donors within temporarily restricted net assets. As the funds are used in the agreed-upon activities, IICA recognizes simultaneously an income for funds released from restrictions and an expense of Trust Funds in the Statement of Activities of Unrestricted Net Assets. Generally, funds received

from donors to execute contracts, agreements, and grants are managed by IICA as part of current assets of the Regular Fund. To identify the portion of funds corresponding to resources received from donors, an asset account entitled "Due from Regular Fund to Trust Funds" is used.

Whenever expenses incurred by IICA in the execution of a particular contract, agreement, or grant exceed the amounts contributed to date or are reimbursable, the resulting difference is recorded as an account receivable from the respective donor.

- h. **Inventories** - Inventories consist primarily of office supplies stated at average cost, which does not exceed market value.
- i. **Property, Furniture, and Equipment** - IICA has adopted the policy of charging the amounts disbursed and/or committed for the acquisition of fixed assets to current period expenses, and, subsequently, capitalizing those amounts in the Fixed Assets Fund. Such capitalization is recorded at original acquisition cost of the asset or the market value in effect at the donation date, if they are donated. Minor repairs and maintenance expenses are charged to results of the annual activities. Such practice enables IICA to compare expenditures with annual budgeted amounts for the acquisition of fixed assets and, at the same time, to present such amounts as capitalized assets in the statement of financial position.
- j. **Accumulated Depreciation** - The historical cost of fixed assets is depreciated over their estimated useful lives using the straight-line method.

Below is a detail of estimated useful lives:

| Property, Furniture, and Equipment | Estimated Useful Lives |
|------------------------------------|------------------------|
| Buildings | 25 years |
| Furniture and office equipment | 3 to 10 years |
| Vehicles | 4 years |

- k. **Provisions** - According to the organization's regulations, in case of resignation or dismissal, IICA pays expenses for transfer, repatriation and recognition of years of service of international professional personnel. Such expenses are computed based on years of service of each official and the number of his/her dependents. Likewise, the national personnel may be entitled to recognition of years of service once they leave IICA, except in those countries where local laws require either payment of fourteen or more salaries per year, or payment of severance equal to half or more of monthly salaries per year of service, in the event of voluntary or involuntary departure.

Where IICA offices are located, local personnel may be entitled to termination benefits according with applicable legislation in each country. IICA follows the policy of recording an accrual for severance indemnities to cover future disbursements for this concept. Additionally, a provision for post-employment benefits for contractual agreements is recorded based upon the different national labor legislations and on the assumption that these would be settled at the closing date and without considering the actuarial probabilities of future events, future salary increases and the time value of money. Actual termination payments are charged to the provision.

- i. **Net Assets - Restricted and Unrestricted Funds** - IICA applies the accounting standards contained in the Statement of Financial Accounting Standards FASB ASC Topic 958, Not-For-Profit Entities. In accordance with those standards, IICA records contributions received from donors for specific purposes, as well as any income generated by such contributions, as Net Assets-Temporarily Restricted Funds. The balance of each Temporarily Restricted Fund decreases when available resources are used for established purposes, and it is disclosed as "net assets released from restrictions" in the Statement of Changes in Net Assets and in the Statement of Activities of Unrestricted Net Assets.

The balance of Unrestricted Funds increases with the excess of income over expenses from IICA's activities (increase in unrestricted net assets), as determined at year-end. Likewise, such balance decreases when there is an excess of expenses over income (decrease in unrestricted net assets).

- m. **Revenue Recognition** - IICA recognizes the revenue from the quotas of the Member States at beginning of period according to resolution of the Inter-American Board of Agriculture, as well as miscellaneous income as the services are provided.
- n. **Indirect Cost Recovery (ICR)** - As established in certain contract agreements signed with donors (Member States, international organizations, etc.), IICA recovers indirect costs incurred in the execution of these agreements, as a recognition of the administrative efforts devoted by IICA to manage such contracts. Such reimbursement is recognized by IICA as income when earned and increases the balance of the Indirect Cost Recovery (ICR) Fund.
- o. **Accounts Payable** - IICA recognizes liabilities in its financial statements when it transfers the ownership of the goods and receives the corresponding service.
- p. **Advances of External Resources Allocated** - IICA delivers advances to external entities that carry out activities related to Institute projects. The expenditures for such projects are recorded as soon as the settlement of account paperwork is submitted. These advances are related to projects financed with external resources.
- q. **Use of Estimates** - The preparation of financial statements in accordance with USGAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the related notes. Results could differ from these estimates. Material estimates that are particularly susceptible to significant changes relate mainly to the determination of the useful lives of property, furniture and equipment, other assets and provisions for accrued expenses and other liabilities.
- r. **Financial Instruments** - Financial instruments of IICA are initially recorded at fair value and consist of cash on hand and due from banks, investments, accounts receivable, accounts payable and other liabilities. As of December 31, 2016 and 2015, the carrying amount of short-term financial instruments approximates their fair value due to their current nature.

IICA has not signed any contracts involving derivative financial instruments.

- s. **New Accounting Standards** - The following standard was updated in 2016 by the Financial Accounting Standards Board ("FASB"), with effect on IICA's financial statements:

In January 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU 2015-01, Income Statement-Extraordinary and Unusual Items (Subtopic 225-20). The amendments in this ASU eliminate the concept of extraordinary items and will no longer require separate classification of them within the statement of operations. Presentation and disclosure guidance for items that are unusual in nature or occur infrequently are retained and are expanded to include items that are both unusual in nature and infrequently occurring. The guidance in this ASU is effective for fiscal years beginning after December 15, 2015. The adoption of this ASU did not have a material impact on the Company's financial statements

t. ***Recently Issued Accounting Pronouncements Pending Adoption -***

- In May 2014 the FASB issued ASU 2014-09, Revenue Recognition (Topic 606) Revenue from Contracts with Customers. This ASU prescribes a single comprehensive model for entities to use in the accounting of revenue arising from contracts with customers and requires expanded disclosures surrounding the Company's revenue transactions. Entities are required to adopt this ASU in annual reporting periods beginning after December 15, 2018 with early adoption permitted only as of annual reporting periods beginning after December 15, 2016. There are two transition options available to entities: the full retrospective approach or the modified retrospective approach. Under the full retrospective approach, the Company would restate prior periods in compliance with Accounting Standards Codification 250, Accounting Changes and Error Corrections. Alternatively, the Company may elect the modified retrospective approach, which allows for the new revenue standard to be applied to existing contracts as of the effective date and record a cumulative catch-up adjustment to retained earnings. The Company is currently evaluating the impact of this ASU.
- In August 2014, the FASB issued ASU No.2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern). This ASU requires that in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the assessment date. If conditions or events raise substantial doubt about an entity's ability to continue as a going concern, but the substantial doubt is alleviated as a result of consideration of management's plans, the entity is required to disclose information that enables users of the financial statements to understand the principal conditions or events that raised the substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations and management's plans that alleviated that substantial doubt. If conditions or events raise substantial doubt about an entity's ability to continue as a going concern, and substantial doubt is not alleviated after consideration of management's plans, an entity should include a statement in the footnotes indicating that

there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued), as well as include other required disclosures. The amendments in this ASU are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted.

- In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this ASU also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition the amendments in this ASU eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. This ASU is effective for annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact of this ASU.

2. RESTRICTED CASH

Cash due from banks as of December 31, 2016 and 2015 includes funds held in separate bank accounts of US\$27,429,910 and US\$12,114,745, respectively, which may only be used to cover expenditures related to contracts signed by IICA and the respective donors.

3. CASH EQUIVALENTS

Cash equivalents are as follows:

| | 2016 | 2015 |
|--|--------------|----------------|
| In Argentinean pesos: | | |
| Time deposits, interest of 20% and per annum (2015: between 22.4% and 22.75% per annum) | US\$ 639,897 | US\$ 2,341,605 |
| In Mexican pesos: | | |
| Money market funds, interest of 2.41% per annum | 10,913,505 | 8,636,399 |
| In Brazilian reais: | | |
| Money market funds, interest between 13.57% and 13.90% per annum (2015: 12.86% and 13.44% per annum) | 27,361,936 | 16,542,065 |

(Continues)

| | 2016 | 2015 |
|---|-----------------------|-----------------------|
| In U.S. dollars: | | |
| Overnight deposits, interest between 0.5% and 2.5% per annum | US\$ 14,608 | US\$ 6,941 |
| Time deposits and mutual funds, interest of 0.31% per annum (2015: 0.29% per annum) | <u>1,902,741</u> | <u>3,226,001</u> |
| Total | <u>US\$40,832,687</u> | <u>US\$30,753,011</u> |

As of December 31, 2016 and 2015, cash equivalents of US\$40,202,503 and US\$29,575,554, respectively, are restricted to cover expenditures of contracts signed by IICA and the respective donors.

4. INVESTMENTS HELD TO MATURITY

Investments held to maturity are detailed below:

| | 2016 | 2015 |
|--|-----------------------|-----------------------|
| In US dollars: | | |
| Time deposits at BAC San José, annual interest rate from 3.44% (2015: 2.4% to 2.78% annual), with maturity between February and June 2016 | US\$ 1,647,000 | US\$ 1,597,461 |
| Time deposits at Bank of America, annual interest rate from 0.86% to 0.95% (2015: 0.31% to 0.60% annual), with maturity between January and April 2016 | <u>14,000,000</u> | <u>19,500,000</u> |
| Total | <u>US\$15,647,000</u> | <u>US\$21,097,461</u> |

As of December 31, 2016 and 2015, investments held to maturity for US\$9,808,949 and US\$12,887,874; respectively, are restricted to cover disbursements for contracts signed between IICA and the respective counterparts.

5. PROPERTY, FURNITURE AND EQUIPMENT - NET

The property, furniture and equipment, including their useful lives, are detailed as follows:

| | 2016 | 2015 |
|--|------------------------|------------------------|
| Unrestricted: | | |
| Buildings (25 years) | US\$ 5,418,053 | US\$ 5,205,177 |
| Vehicles (4 years) | 2,586,402 | 2,516,904 |
| Furniture and equipment (3, 4, 5 and 10 years) | <u>5,226,034</u> | <u>5,173,419</u> |
| Total unrestricted fixed assets | 13,230,489 | 12,895,500 |
| Less: Accumulated depreciation | <u>(11,696,729)</u> | <u>(11,521,637)</u> |
| Total unrestricted fixed assets - net | 1,533,760 | 1,373,863 |
| Permanently restricted - land | <u>8,713,171</u> | <u>8,713,171</u> |
| Total | <u>US\$ 10,246,931</u> | <u>US\$ 10,087,034</u> |

Property, furniture and equipment do not include fixed assets acquired with resources from specific funds (Trust Funds), since such disbursements are considered expenditures related to the execution of specific agreements related to those funds. However, in accordance with the provisions of each agreement, when assets are donated, exchanged, or sold to IICA, they are recognized in the accounting records as part of the Fixed Assets Fund.

Land located in Costa Rica (San Isidro de Coronado, Turrialba and Limón) was donated to IICA by the Government of Costa Rica. However, once IICA concludes its official mission or terminates its functions in Costa Rica, this property and any improvements thereto shall be returned to the Government of Costa Rica. Income capitalized for this donation is shown in the financial statements of IICA as part of Net Assets - Permanently Restricted Funds. Throughout the years, IICA has built several administrative facilities and related infrastructure on the properties donated by the Government of Costa Rica. These improvements to donated properties have no restrictions of use and are being amortized over their estimated useful lives. As of December 31, 2015, the net carrying amount of such assets is US\$17,566, which were fully depreciated during 2016.

According to an agreement entered into between the Government of Costa Rica and IICA, the Tropical Agricultural Research and Training Center (CATIE) was granted usufruct rights to land and buildings located in Turrialba and Limón, Costa Rica.

6. INCOME AND EXPENSES RELATED TO INDIRECT COST RECOVERY (ICR)

On October 13, 1997, through Resolution IICA/IABA/Res.310 (IX-O/97), the Inter-American Board of Agriculture agreed to establish the Indirect Cost Recovery (ICR) Fund. The purpose of this fund is to finance the additional costs incurred by the Institute in the execution of contracts and to contribute to the institutional pre-investment activities.

Income and expenses related to Indirect Cost Recovery (ICR) are broken down as follows:

| | 2016 | 2015 |
|---|-------------|-------------|
| Income: | | |
| Ministry of Agriculture and Livestock - Ecuador | US\$ 50,714 | US\$ 52,579 |
| Secretariat of Agriculture, Livestock, Fisheries and Food - Argentina | 278,811 | 543,007 |
| Ministry of Agriculture and Livestock - Guatemala | 79,742 | 13,070 |
| National Health Service, Food Safety and Food Quality (SENASICA) - Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) - National Agrarian Registry (RAN) - México | 5,196,392 | 3,565,551 |
| Government of the United States of America | 178,312 | 288,205 |
| Ministries of Agriculture, Livestock and Procurement, Agrarian Development, Mines and Energy - Brazilian Institute of Environment and Renewable Natural Resources - Brazil | 613,965 | 590,236 |
| Secretariat of Agriculture and Livestock - Honduras | 83,408 | 48,771 |

(Continues)

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Agencies and Organizations of International Cooperation | US\$ 948,858 | US\$ 762,602 |
| Secretariat of Central American Agricultural Council (SCAC) | 70,194 | 146,464 |
| Ministry for Foreign Affairs of Finland | 103,988 | 208,505 |
| Other institutions | <u>309,901</u> | <u>309,181</u> |
| Total | <u>US\$7,914,285</u> | <u>US\$6,528,171</u> |
| Expenses: | | |
| International professional personnel | US\$1,029,527 | US\$1,262,948 |
| Local professional and general services personnel | 4,080,489 | 3,124,824 |
| Training and technical events | 122,450 | 84,601 |
| Documents and materials and supplies | 200,018 | 190,412 |
| Plant, equipment and furniture | 281,673 | 152,031 |
| General services | 982,466 | 979,881 |
| Performance, contracts and transfers | 494,752 | 731,381 |
| Other costs | <u>235,698</u> | <u>143,388</u> |
| Total | <u>US\$7,658,780</u> | <u>US\$6,934,217</u> |

7. COMMERCIAL AND MISCELLANEOUS OPERATIONS

A breakdown of revenues and expenses from commercial and miscellaneous operations is as follows:

| | 2016 | 2015 |
|---|-----------------------|------------------------|
| Revenues: | | |
| Interest earned from investments and cash equivalents | US\$2,151,397 | US\$2,629,910 |
| Proceeds from equipment sale | 164,296 | 236,382 |
| Purchase discounts | 106,305 | 155,644 |
| Sale of services | 19,961 | 12,323 |
| Others | 94,354 | 527,724 |
| Miscellaneous services | <u>29,668</u> | <u>10,572</u> |
| Total revenues from commercial and miscellaneous operations | <u>2,565,981</u> | <u>3,572,555</u> |
| Expenses: | | |
| International professional personnel | 377,613 | 262,493 |
| Local professional and general services personnel | 1,081,875 | 2,823,028 |
| Training and technical events | 204,902 | 503,057 |
| Official travel | 102,338 | 124,121 |
| Documents and materials and supplies | 98,586 | 119,146 |
| Plant, equipment and furniture | 31,703 | 331,252 |
| General services | 617,263 | 611,940 |
| Performance, contracts and transfers | 369,670 | 505,518 |
| Other costs | <u>44,245</u> | <u>32,368</u> |
| Subtotal | 2,928,195 | 5,312,923 |
| Exchange (gains) losses - net | <u>484,719</u> | <u>(49,863)</u> |
| Total expenses from commercial and miscellaneous operations | <u>3,412,914</u> | <u>5,263,060</u> |
| Excess of expenses over income | <u>US\$ (846,933)</u> | <u>US\$(1,690,505)</u> |

8. TROPICAL AGRICULTURE RESEARCH AND TRAINING CENTER (CATIE)

On September 12, 2000, under Law No.6873 the Costa Rican Legislative Assembly ratified CATIE's creation contract entered into by the Government of Costa Rica, IICA and CATIE. The most significant terms of this Law are as follows:

- a. The Inter-American Board of Agriculture will be the superior governing body of CATIE.
- b. CATIE's members (partners) may be regular or special. The regular members will be IICA, the Government of Costa Rica, and the Governments of the remaining member countries of IICA, which incorporate into CATIE via acceptance of the Contract. Special members will include international governmental and non-governmental organizations, international centers, and private organizations with similar purposes as those of CATIE.
- c. IICA will contribute up to a maximum of 5% of IICA's quotas budget to CATIE's basic budget. The use of those contributions may be subject to an audit by IICA, when considered necessary. Each member country of CATIE will annually contribute US\$50,000 to cover CATIE's expenses.
- d. The new agreement will be for a 20-year period, effective from its enacting date, and may be renewed for equal consecutive terms.
- e. CATIE is entitled to the following: i) usufruct rights to land, buildings, equipment, and other property contributed by IICA, plus improvements thereto, during the entire term of the contract, and ii) all assets CATIE has acquired or will acquire in the future.
- f. Upon termination of the contract, all usufruct property as well as improvements thereto, will be returned to IICA. The remaining assets will be distributed between IICA, the Government of Costa Rica, and regular active members based on quotas paid.

During the years ended December 31, 2016 and 2015, IICA contributed to CATIE US\$804,100 and US\$948,000 per annum, respectively, in accordance with the approved allocation in the Program Budget.

9. DISBURSEMENTS SUBJECT TO APPROVAL

Some grant agreements entered into with international organizations, establish that disbursements for agreed-upon programs executed with grant funds are subject to approval or rejection by those same organizations, depending on compliance with the agreement terms.

As of December 31, 2016, management of IICA is not aware of any expenses not yet reimbursed, that would have been questioned or disallowed by the respective donors.

10. TAXES

As an international organization, IICA is exempt from income and sales taxes in Costa Rica and other countries where it operates. With respect to other taxes, such as contributions and present or future national and municipal taxes, customs duties, national licenses, among others, the exemption is dependent upon the agreements entered into with the Governments of those countries.

11. INACTIVE FUNDS

The Inter-American Board of Agriculture (IABA) approved, through various resolutions, the establishment of the following funds. Nevertheless, as of December 31, 2016, these funds have not yet received any contributions and therefore, remain inactive.

- a. **Patrimonial Fund** - The purpose of this fund is to establish an endowment for the partial financing of IICA's activities. The fund balance would be made up of donations and other voluntary contributions from governments, individuals, private institutions, and other donors, as well as a portion of the Fund's annual income deposited in the endowment to increase and preserve its real value.

Capital Assets donated to the Fund, including all reinvested income to increase and maintain the real value of the Fund's Capital Assets, shall not be expensed for a 20 year-period from the date of the IABA resolution creating the Fund.

- b. **IICA Associates Trust Fund** - In Resolution IICA/IABA/Res.312 (IX-O/97), dated October 13, 1997, the Inter-American Board of Agriculture approved the creation of IICA Associates Trust Fund. The status of IICA associate is granted to certain permanent observers, international, regional, and national organizations, and other non-IICA member states. The Fund's balance is to be made up of contributions from such associates, Member States and other donors to this Fund, and will be governed by the corresponding rules and regulations of the Institute and its Statutes approved by the Executive Committee.

12. OTHER TERMINATION BENEFITS

IICA conducted actuarial studies for some provisions for personnel benefits as at 31 December 2016 and 2015. The following is a summary of the actuarial calculations:

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Amounts recognized in statement of financial position: | | |
| Defined benefit obligation | US\$2,572,292 | US\$2,688,305 |
| Current liabilities | 4,807 | 4,379 |
| Unrecognized net actuarial (gain)/loss | (3,104) | (1,524) |
| Net liability / (asset) recognized | 66,566 | 69,088 |
| AOCI | <u>(3,104)</u> | <u>(1,524)</u> |
| Total liability / (asset) after AOCI | <u>US\$2,572,292</u> | <u>US\$2,688,305</u> |
| Net periodic benefit cost / (income): | | |
| Current service cost | US\$ 315,108 | US\$ 301,512 |
| Interest cost | 138,585 | 150,379 |
| Unrecognized net actuarial (gain)/loss | <u>(195,729)</u> | <u>57,283</u> |
| Net periodic benefit cost / (income) final | <u>US\$ 257,964</u> | <u>US\$ 509,174</u> |
| Net liability / (asset) recognized at beginning of the year | US\$2,620,825 | US\$2,349,843 |
| Net periodic benefit cost / (income) | 255,275 | 495,014 |
| Benefit payments | (369,792) | (234,454) |

(Continues)

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Net liability / (asset) recognized at end of the year | US\$ 66,566 | US\$ 69,088 |
| AOCI | <u>(3,104)</u> | <u>(1,524)</u> |
| Total liability / (asset) after AOCI | <u>US\$2,572,292</u> | <u>US\$2,688,305</u> |
| Projections: | | |
| Net periodic benefit cost / (income) | <u>US\$ 427,228</u> | <u>US\$ 453,508</u> |
| Expected benefits payments | <u>US\$ 500,593</u> | <u>US\$ 487,525</u> |

Census information and actuarial assumptions used to determine obligations for termination benefits at date of the statement of financial position and the net cost for the year were as follows:

| | Termination Benefits | | | | Recognition of Years of Service | |
|-----------------------------------|---|-------------------------------|---|-------------------------------|---|-------------------------------|
| | Local Personnel Headquarters and Costa Rica Office | | Local Personnel of Mexico Office | | International Professional Personnel | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Census information: | | | | | | |
| Number of employees | 230 | 227 | 30 | 30 | 70 | 74 |
| Average age | 42,95 | 42,74 | 46,67 | 45,51 | 54,77 | 55,90 |
| Average seniority | 10,93 | 10,49 | 7,32 | 6,31 | 7,69 | 7,80 |
| Annual base salary | CRC\$2,902,052,316 | CRC\$2,729,016,008 | MXN\$10,776,108 | MXN\$10,604,016 | US\$4,227,848 | US\$4,342,521 |
| Average monthly base salary | CRC\$1,051,468 | CRC\$1,001,841 | MXN\$29,934 | MXN\$29,456 | US\$1,161 | US\$1,129 |
| Annual integrated salary | N/A | N/A | MXN\$12,275,479 | MXN\$12,079,892 | N/A | N/A |
| Average monthly integrated salary | N/A | N/A | MXN\$34,099 | MXN\$33,555 | N/A | N/A |
| Financial assumptions: | | | | | | |
| Discount rate | 8,31% | 8,19% | 7,50% | 6,70% | 2,90% | 2,70% |
| Salary increase rate | 4,00% | 4,85% | 4,00% | 4,50% | 3,50% | 3,50% |
| Minimum wage increase rate | N/A | N/A | 4,00% | 4,00% | N/A | N/A |
| Long-term inflation rate | 3,00% | 3,80% | 3,50% | 3,50% | 3,50% | 3,50% |
| Demographic assumptions: | | | | | | |
| Mortality | UP 84 H | UP 84 H | EMSSAH 09 | EMSSAH 09 | UP 84 H | UP 84 H |
| Disability | GBB | GBB | EISS-97 | EISS-97 | GBB | GBB |
| Turnover | Booke 87-89 4 A.S. al 130% | Booke 87-89 4 A.S. al 130% | Booke 87-89 4 A.S. al 200% | Booke 87-89 4 A.S. al 200% | Booke 87-89 4 A.S. al 150% | Booke 87-89 4 A.S. al 150% |
| Withdrawal rate | N/A | N/A | 40% | 40% | N/A | N/A |
| Anticipated retirement | N/A | N/A | 60 years | 60 years | 60 years | 60 years |
| Normal retirement | 65 years | 65 years | 65 years | 65 years | 65 years | 65 years |

Additionally, during 2016 and 2015, actuarial studies were performed in reference to termination benefits for some projects financed by external funds. The result of these studies according to USGAAP is summarized below:

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Changes in benefit obligation: | | |
| Benefit obligation at beginning of year (on real basis) | US\$1,803,609 | US\$2,066,877 |
| Current service cost | 255,116 | 308,989 |
| Interest cost | 101,870 | 125,134 |
| Actuarial loss (gain) | 512,478 | 254,013 |
| Benefit payments | <u>(375,466)</u> | <u>(605,636)</u> |
| Benefit obligation at end of year | <u>US\$2,297,607</u> | <u>US\$2,149,377</u> |

(Continues)

| | 2016 | 2015 |
|---|----------------------|-----------------------|
| Amount recognized in the statement of financial position: | | |
| Accrued (prepaid) liability (non-current liabilities) | <u>US\$ (74,995)</u> | <u>US\$ (125,485)</u> |
| Amount recognized in accumulated other comprehensive income (AOCI): | | |
| Transition obligation | US\$ 674,512 | US\$ 851,318 |
| Net loss (gain) | <u>1,698,091</u> | <u>1,423,545</u> |
| Amount recognized in AOCI | <u>US\$2,372,603</u> | <u>US\$2,274,863</u> |
| Information for plan with an accumulated benefit obligation in excess of plan assets: | | |
| Projected benefit obligation | US\$2,297,607 | US\$2,149,377 |
| Accumulated benefit obligation | <u>1,170,825</u> | <u>1,058,560</u> |
| Accumulated benefit obligation in excess of plan assets | <u>US\$1,170,825</u> | <u>US\$1,058,560</u> |
| Net periodic benefit cost / (income): | | |
| Current service cost | US\$ 255,116 | US\$ 308,989 |
| Interest cost | 101,870 | 125,134 |
| Amortization of transition obligation | 39,855 | 47,496 |
| Amortization of net loss (gain) | <u>8,928</u> | <u>11,653</u> |
| Net periodic benefit cost / (income) final | <u>US\$ 405,769</u> | <u>US\$ 493,272</u> |
| Items not yet recognized as a component of net periodic benefit cost: | | |
| Transition obligation | US\$ 674,512 | US\$ 851,318 |
| Net loss (gain) | <u>1,698,091</u> | <u>1,423,545</u> |
| | <u>US\$2,372,603</u> | <u>US\$2,274,863</u> |
| Reconciliation on net balance: | | |
| Amount recognized in accumulated other comprehensive income | US\$2,372,602 | US\$2,274,863 |
| Accrued (prepaid) liability | <u>(74,995)</u> | <u>(125,485)</u> |
| Benefit obligation at the end of the year | <u>US\$2,297,607</u> | <u>US\$2,149,378</u> |
| Reconciliation of accrued (prepaid) benefit cost: | | |
| Accrued (prepaid) benefit cost (beginning of the year) | US\$ (105,298) | US\$ (13,121) |
| Net periodic benefit cost | 405,769 | 493,272 |
| Benefits payment | <u>(375,466)</u> | <u>(605,636)</u> |
| Accrued (prepaid) benefit cost (end of the year) | <u>US\$ (74,995)</u> | <u>US\$ (125,485)</u> |

Census information and actuarial assumptions used to determine obligations for termination benefits at date of the statement of financial position and the net cost for the year were as follows:

| | 2016 | 2015 |
|----------------------|---------------|----------------|
| Census information: | | |
| Number of employees | 2,695 | 1,575 |
| Average age | 33.32 a 40.03 | 31.98 to 39.31 |
| Average past service | 0.8 a 11.01 | 1.4 to 11.06 |

(Continues)

| | 2016 | 2015 |
|--|--------------------------------------|--------------------------------------|
| Total annual payroll | MXN\$505,816,020 | MXN\$235,422,876 |
| Average monthly salary | MXN\$16,494 | MXN\$15,257 |
| Average remaining service period | 19.36 a 25.25 | 19.36 to 25.25 |
| Financial assumptions: | | |
| Discount rate | 7.76% | 6.81% |
| Salary increase | 5.14% | 5.14% |
| Minimum wage rate | 4.00% | 4.00% |
| Expected rate of return | N/A | N/A |
| Inflation (long term) | 4.00% | 4.00% |
| Demographic assumptions: | | |
| Mortality | Mexican Experience CNSF-2000-I | Mexican Experience CNSF-2000-I |
| Disability | American Experience | American Experience |
| Turnover (representative turnover rates between 20 to 60 years) | 12.24% to 0% | 12.24% to 0% |
| Normal retirement | 65 years | 65 years |

13. CONTINGENCIES

General - As of December 31, 2016, IICA is a party in various lawsuits filed through its Delegations. These lawsuits deal basically with labor and/or commercial complaints related primarily to projects and are in different procedural stages. The amounts claimed by the plaintiffs are approximately US\$286,279.

The financial statements of IICA for the year ended December 31, 2016, include a provision of US\$201,960 to cover potential losses from these lawsuits. According to the legal advisors of IICA considered sufficient these legal obligations.

AIS Program in Colombia - Throughout 2015, IICA closely monitored developments in connection with the suspension ordered in 2010 by the Colombian Government of all disbursements, projects and new contracts associated with an agricultural subsidy program known as Agro Ingreso Seguro (AIS) managed by IICA on behalf of the Ministry of Agriculture and Rural Development (MADR). The Institute believes that this situation was influenced by factors outside the control of IICA, arising out of political clashes during the pre-electoral campaign of 2009-2010, exacerbated by relentless media coverage.

The suspension was followed by the anticipatory termination of agreements with AIS project beneficiaries and IICA sub-contractors. All this has given rise to actual lawsuits and concerns about the possibility of others, as further discussed below.

By Resolution No.191 of June 2010, the MADR declared IICA in default of its obligations under one of the AIS agreements, in the amount of approximately US\$5 million. The Ministry has sued the Colombian insurance company which guaranteed those obligations by way of a performance bond. The Government brought the suit, notwithstanding the fact that it has since recovered almost the entire amount from beneficiaries who it claims were mistakenly awarded that same amount in AIS subsidies.

So far, the insurer has not made any payments in relation to the lawsuit brought against it by the MADR and has vigorously opposed the suit arguing, inter alia, violations of due process, unjust enrichment, and that the Ministry itself was responsible for the defaults alleged. But if the insurer would have to pay, it may seek recovery from IICA under a subrogation clause in the bond. IICA's defenses against a potential claim from the insurer are based on the provision for dispute resolution contained in the legal agreement, which provides that arbitration is discretionary rather than mandatory, and on the Institute's immunities.

In February 2015, IICA received a formal notification informing it that it was being sued by the MADR for the sum of around US\$1.6 million, for possible breach of contract related to the AIS Program. The court green-lighted the lawsuit and the process is at the notification stage.

The Office of the Comptroller General of the Republic (CGR) and Departments informed IICA of its decision to include the Institute in a review of alleged responsibility in detriment of the financial resources of the Government of Colombia, in the amount of approximately US\$7 million, for activities aimed at publicizing the AIS Program.

In June 2014, the CGR issued a decision that was unfavorable to IICA, and it is possible that the departmental entities will issue a decision unfavorable to IICA. The Institute could not afford to pay the large sum being sought, but it will not have to do so in any case, thanks to the immunities that it enjoys. Therefore, the most serious consequence for the Institute is its inclusion on the list of financially liable entities kept by the Comptroller's Office. This means that no state entity may sign contracts or agreements with IICA that involve resources belonging to the Colombian State.

The Institute is still hopeful that there will be a potential solution to its differences with the Government regarding AIS, and in particular, Resolution No.191. In the event those differences remain in the judicial arena, there are a number of arguments in the Institute's favor. They include: the co-responsibility of the MADR, the beneficiaries and the consultants: force majeure of the Government: the lack of due process; and the actions of oversight bodies which made it impossible to complete the Program as scheduled and with the resources allocated. Moreover, IICA enjoys immunity from legal process under its Basic Agreement with the Government of Colombia and its agreements with other Member States where its principal assets are held.

Under these circumstances, it is not possible at this time to make a reliable estimate of the likely damages arising out of AIS. As an international organization, and considering that the administration is mindful of the interest of the governments in IICA's mission, the Institute continues to work with the Government of Colombia to bring the AIS program to a successful and amicable conclusion.

14. SUBSEQUENT EVENTS

IICA has evaluated the events taking place after December 31, 2016, in order to determine if there exists the need to recognize or disclose additional information in the accompanying financial statements. The events were evaluated as of May 12, 2017, date in which the financial statements were available to be issued. Based on this evaluation, we determined that no subsequent events took place that would require to be recognized or disclosed in the financial statements.

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**INTER-AMERICAN INSTITUTE FOR COOPERATION
ON AGRICULTURE (IICA)**

SUPPLEMENTARY FINANCIAL INFORMATION

YEAR ENDED DECEMBER 31, 2016

INDEX

EXHIBIT

1. Statement of Movements of Member States Quotas Receivable
2. Program Budget and Expenses by Chapter
3. Execution of External Resources by Financing Source

**INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)
REGULAR FUND**

**STATEMENT OF MOVEMENTS OF MEMBER STATES QUOTAS RECEIVABLE
YEAR ENDED DECEMBER 31, 2016**

(Stated in United States Dollars)

| Country | Uncollected Quotas at Beginning of Year | Quotas for the Year | Quotas Collected During the Year | | | Uncollected Quotas at Year-End | | |
|--------------------------------|---|------------------------------|----------------------------------|------------------------------|------------------------------|--------------------------------|-----------------------------|------------------------------|
| | | | Prior Years | Current Year | Total | Prior Years | Current Year | Total |
| Antigua & Barbuda | US\$ 12,200 | US\$ 7,600 | | | | US\$ 12,200 | US\$ 7,600 | US\$ 19,800 |
| Argentina | 883,300 | 950,600 | US\$ 883,300 | US\$ 100,000 | US\$ 983,300 | | 850,600 | 850,600 |
| Bahamas | | 21,400 | | 21,400 | 21,400 | | | |
| Barbados | | 15,500 | | 15,500 | 15,500 | | | |
| Belize | | 7,600 | | 7,600 | 7,600 | | | |
| Bolivia | 13,500 | 17,000 | 13,500 | | 13,500 | | 17,000 | 17,000 |
| Brazil | 2,734,600 | 3,643,200 | 1,342,871 | | 1,342,871 | 1,391,729 | 3,643,200 | 5,034,929 |
| Canada | | 3,102,600 | | 3,102,600 | 3,102,600 | | | |
| Colombia | 288,600 | 384,400 | | | | 288,600 | 384,400 | 673,000 |
| Costa Rica | 21,998 | 69,900 | 21,998 | 29,365 | 51,363 | | 40,535 | 40,535 |
| Chile | | 409,500 | | 409,500 | 409,500 | | | |
| Dominica | | 7,600 | | 7,600 | 7,600 | | | |
| Dominican Republic | 141,400 | 96,400 | 141,400 | 61,272 | 202,672 | | 35,128 | 35,128 |
| Ecuador | 71,000 | 97,900 | | | | 71,000 | 97,900 | 168,900 |
| El Salvador | 68,800 | 37,700 | 68,800 | | 68,800 | | 37,700 | 37,700 |
| Grenada | 6,100 | 7,600 | | | | 6,100 | 7,600 | 13,700 |
| Guatemala | | 56,300 | | 56,300 | 56,300 | | | |
| Guyana | | 8,200 | | 8,200 | 8,200 | | | |
| Haiti | | 11,800 | | 11,800 | 11,800 | | | |
| Honduras | 50 | 15,500 | 50 | 13,250 | 13,300 | | 2,250 | 2,250 |
| Jamaica | 18,032 | 25,600 | 18,032 | 18,000 | 36,032 | | 7,600 | 7,600 |
| Mexico | | 2,477,300 | | | | | 2,477,300 | 2,477,300 |
| Nicaragua | 9,400 | 10,400 | | | | 9,400 | 10,400 | 19,800 |
| Panama | | 57,600 | | 57,600 | 57,600 | | | |
| Paraguay | 3,783 | 30,800 | | | | 3,783 | 30,800 | 34,583 |
| Peru | | 261,500 | | 261,500 | 261,500 | | | |
| Saint Kitts and Neves | | 7,600 | | 7,600 | 7,600 | | | |
| Saint Lucia | | 7,600 | | 6,040 | 6,040 | | 1,560 | 1,560 |
| Saint Vincent & the Grenadines | 6,100 | 7,600 | | | | 6,100 | 7,600 | 13,700 |
| Suriname | 18,800 | 11,800 | | | | 18,800 | 11,800 | 30,600 |
| Trinidad & Tobago | | 54,600 | | 54,600 | 54,600 | | | |
| United States of America | | 17,435,300 | | 17,435,300 | 17,435,300 | | | |
| Uruguay | | 80,300 | | | | | 80,300 | 80,300 |
| Venezuela | <u>2,971,879</u> | <u>628,600</u> | | | | <u>2,971,879</u> | <u>628,600</u> | <u>3,600,479</u> |
| Total | <u>US\$7,269,542</u> | <u>US\$30,064,900</u> | <u>US\$2,489,951</u> | <u>US\$21,685,027</u> | <u>US\$24,174,978</u> | <u>US\$4,779,591</u> | <u>US\$8,379,873</u> | <u>US\$13,159,464</u> |

**INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE (IICA)
REGULAR FUND**

**PROGRAM BUDGET AND EXPENSES BY CHAPTER
YEAR ENDED DECEMBER 31, 2016**

(Stated in United States Dollars)

| | Budget | Expenses | (Over) Under Execution | |
|--|-----------------------|-----------------------|-------------------------------|-------------------|
| | | | Absolute | Percentage |
| CHAPTER 1: Direct technical cooperation services | US\$30,784,554 | US\$28,912,817 | US\$1,871,737 | 93.92% |
| CHAPTER 2: Management costs | 1,727,733 | 1,794,058 | (66,325) | 103.84% |
| CHAPTER 3: General costs and provisions | 1,290,000 | 1,386,207 | (96,207) | 107.46% |
| CHAPTER 4: Renewal of infrastructure and equipment | <u>562,613</u> | <u>899,940</u> | <u>(337,327)</u> | <u>159.96%</u> |
| Total | <u>US\$34,364,900</u> | <u>US\$32,993,022</u> | <u>US\$1,371,878</u> | <u>96.01%</u> |

**INTER-AMERICAN INSTITUTE FOR COOPERATION
ON AGRICULTURE (IICA)**

**EXECUTION OF EXTERNAL RESOURCES BY FINANCING SOURCE
FOR THE YEAR ENDED DECEMBER 31, 2016**

(Stated in United States Dollars)

| Source | Amount |
|---|-------------------|
| a. Member States | |
| Argentina | US\$ 4,308,606 |
| Barbados | 214,603 |
| Belize | 16,675 |
| Bolivia | 53,752 |
| Brazil | 11,053,395 |
| Canada | 704 |
| Chile | 75,354 |
| Costa Rica | 1,443,604 |
| Dominican Republic | 249,636 |
| Ecuador | 611,873 |
| El Salvador | 65,181 |
| Guatemala | 1,434,999 |
| Honduras | 1,060,850 |
| Jamaica | 18,951 |
| Mexico | 69,501,089 |
| Nicaragua | 29,394 |
| Panama | 75,606 |
| Paraguay | 8,758 |
| Suriname | 63,712 |
| United States of America | 2,076,164 |
| Uruguay | 867,272 |
| Venezuela | <u>4,414</u> |
| Subtotal - Member States | <u>93,234,592</u> |
| b. Other Institutions and Governments | |
| Agresearch Limited | 64,951 |
| Andean Development Corporation | 28,799 |
| Association of Avicultores of El Salvador | 12,210 |
| Caritas Diocesana de Bilbao | 114,371 |
| Centrais Eletricas Brasileiras, S.A. | 386,173 |
| Crisfe Foundation | 105,293 |
| Croplife Internacional A.I.S.B.L. | 11,499 |
| Deutsche Gesellschaft Fur Internationale Zusammenarbeit | 733,185 |
| Development International Desjardins Inc. | 680,206 |
| Electric Power Company Galápagos, S.A. | 71,802 |
| Eli Lilly and Company | 12,701 |
| European Commission | 9,849,089 |
| Financial Fund for the Development of the Plata Account | 53,790 |
| Food and Agriculture Organization of the United Nations | 407,713 |
| Guatemalan Association of Exporters | 54,394 |
| Institut de Recherche pour le Developpement | 10,898 |

(Continues)

**INTER-AMERICAN INSTITUTE FOR COOPERATION
ON AGRICULTURE (IICA)**

**EXECUTION OF EXTERNAL RESOURCES BY FINANCING SOURCE
FOR THE YEAR ENDED DECEMBER 31, 2016**

(Stated in United States Dollars)

| Source | Amount |
|--|------------------------|
| Inter-American Commission on Organic Agriculture | US\$ 23,348 |
| Inter-American Development Bank | 367,617 |
| International Fund for Agricultural Development | 920,714 |
| Itaipu Binacional | 259,485 |
| Latin American Federation of Supply Markets | 12,474 |
| Market Information Organization of the Americas | 234,266 |
| Ministry of Foreign Affairs of Finland | 1,124,672 |
| New Zealand Ministry of Foreign Affairs and Trade | 63,278 |
| Regional Fund for Agricultural Technology | 51,919 |
| Spanish Agency for International Development Cooperation | 85,794 |
| Technical and Vocational Education and Training | 16,522 |
| Technical Center for Agricultural and Rural Cooperation | 61,991 |
| Technology Laboratory of Uruguay | 133,346 |
| The Caribsave Partnership | 13,960 |
| The Conference Board of Canada | 11,624 |
| The Texas A&M University System | 12,640 |
| World Food Program | 98,012 |
| World Trade Organization | 623,022 |
| Others | <u>51,163</u> |
| Subtotal - Other Institutions and Governments | <u>16,762,921</u> |
| Grand total | <u>US\$109,997,513</u> |

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