



AUDITORS' REPORT AND FINANCIAL STATEMENTS

Regional Fund for Agricultural Technology
December 31, 2012



KPMG LLP
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REPORT OF INDEPENDENT AUDITORS

Inter-American Development Bank,
Administrator of the Regional Fund for Agricultural Technology

Report on the Financial Statements

We have audited the accompanying financial statements of the Regional Fund for Agricultural Technology (Fund), administered by the Inter-American Development Bank (Bank), which comprise the balance sheet as of December 31, 2012, including the statement of member commitments and contributions, and the related statements of changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Fund'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 Fund'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 the Regional Fund for Agricultural Technology as of December 31, 2012, and the changes in its fund balance and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

The financial statements of the Fund as of December 31, 2011 and for the year then ended were audited by other auditors whose report thereon dated April 24, 2012, expressed an unmodified opinion on those financial statements.

KPMG LLP

May 21, 2013

REGIONAL FUND FOR AGRICULTURAL TECHNOLOGY
(Administered by the Inter-American Development Bank)

BALANCE SHEET

(Expressed in United States dollars)

	<u>December 31, 2012</u>
ASSETS	
Cash	\$ 399,439
Short-term investments	3,082,273
Accrued interest	434,014
Long-term investments	<u>101,455,362</u>
Total assets	<u>\$ 105,371,088</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Due to Administrator	\$ 56,391
Undisbursed grants	<u>1,858,432</u>
Total liabilities	<u>1,914,823</u>
 Fund Balance	
Unrestricted	934,348
Permanently restricted	<u>102,521,917</u>
Total fund balance	<u>103,456,265</u>
Total liabilities and fund balance	<u>\$ 105,371,088</u>

The accompanying notes and appendix are an integral part of these financial statements.

REGIONAL FUND FOR AGRICULTURAL TECHNOLOGY
 (Administered by the Inter-American Development Bank)

STATEMENT OF CHANGES IN FUND BALANCE
(Expressed in United States dollars)

	For the year ended December 31, 2012
Unrestricted funds	
Income on cash and investments	\$ 2,610,380
Allocations to permanently restricted funds	(2,031,682)
Net appreciation in fair value of short-term investments	31,209
Secretariat and audit expenses	(509,914)
Approved grants	<u>(100,000)</u>
Change in unrestricted funds	<u>(7)</u>
Permanently restricted funds	
Contributions from members	1,099,255
Net appreciation in fair value of long-term investments	2,518,581
Allocations from unrestricted funds	<u>2,031,682</u>
Change in permanently restricted funds	<u>5,649,518</u>
Change in fund balance	5,649,511
Fund balance, beginning of year	<u>97,806,754</u>
Fund balance, end of year	<u><u>\$ 103,456,265</u></u>

The accompanying notes and appendix are an integral part of these financial statements.

REGIONAL FUND FOR AGRICULTURAL TECHNOLOGY

(Administered by the Inter-American Development Bank)

STATEMENT OF CASH FLOWS

(Expressed in United States dollars)

	For the year ended December 31,
Cash flows from operating activities	
Change in Fund balance	\$ 5,649,511
Adjustments to reconcile Change in Fund balance to Net cash used in operating activities:	
Amortization of premium on investments	445,704
Decrease in Accrued interest	493,975
Increase in Due to Administrator	7,983
Decrease in Due to Donor	(482,245)
Decrease in Undisbursed grants	(616,335)
Contributions restricted for long-term investments	(1,099,255)
Inflation adjustments on investments allocated to permanently restricted funds	(2,031,682)
Net investment gains	(2,563,941)
Net cash used in operating activities	<u>(196,285)</u>
Cash flows from investing activities	
Gross purchases of long-term investments	(40,367,855)
Gross proceeds from maturity of long-term investments	38,229,563
Gross proceeds from sale of short-term investments	300,000
Net cash used in investing activities	<u>(1,838,292)</u>
Cash flows from financing activities	
Proceeds from contributions restricted for long-term investments	1,099,255
Collection of inflation adjustments	1,282,025
Net cash provided by financing activities	<u>2,381,280</u>
Net increase in Cash	346,703
Cash, beginning of year	<u>52,736</u>
Cash, end of year	<u>\$ 399,439</u>

The accompanying notes and appendix are an integral part of these financial statements.

REGIONAL FUND FOR AGRICULTURAL TECHNOLOGY
(Administered by the Inter-American Development Bank)

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE A – NATURE OF THE FUND AND RELATED PARTY TRANSACTIONS

On March 15, 1998, the Inter-American Development Bank (Bank) signed the Administration Agreement of the Cooperative Program for the Regional Fund for Agricultural Technology (Fund), an endowment fund also known by its Spanish acronym FONTAGRO (Fondo Regional de Tecnología Agropecuaria).

The Agreement Establishing the Cooperative Program for the Regional Fund for Agricultural Technology (Agreement), also signed on March 15, 1998, establishes the Fund as a consortium that fosters strategic agricultural research with a regional focus and direct participation by the Latin American and Caribbean (LAC) countries in identifying priorities and financing research projects. The mission of the Fund is to increase the competitiveness of the agricultural sector through research, thus ensuring sustainable management of natural resources and reduction of poverty in the region.

On December 19, 2012, the Bank extended for the sixth time the Administration Agreement of the Cooperative Program for the Fund through June 30, 2013. This extension was approved by the Board of Directors (BOD) of the Fund during its 2012 Annual Meeting.

The objectives of the Fund are to create a sustainable financing facility and a forum in which LAC countries can discuss priority topics related to technological innovation, thereby strengthening the role these countries play in defining the regional research agenda.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund are expressed in United States dollars and prepared in conformity with U.S. generally accepted accounting principles (GAAP). The preparation of such financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions to and deductions from the fund balance during the reporting period. Actual results could differ from these estimates.

New accounting pronouncements

In 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04 which, among other changes, expanded existing disclosure requirements for fair value measurements to achieve common disclosure requirements with international standards, and clarified the FASB's intent about the application of existing fair value measurement requirements. This update was effective in 2012 and the required applicable disclosures/amendments did not have an impact on the Fund balance or Changes in fund balance.

Investments

Investments are carried and reported at fair value. Realized gains and losses are included in Income on cash and investments while unrealized gains and losses are included in Net appreciation in fair value of investments in the Statement of Changes in Fund Balance.

Contributions

Contributions are recorded as additions to the Fund balance when received, in accordance with the authorized commitment for each Donor member.

Grants

Grants are recorded as deductions from the Fund balance when approved. Cancellations of the undisbursed portion of grants approved are recorded as an offset to Approved grants, net, in the period in which they occur.

Related party transactions

As part of the administration of the Fund's resources, the Bank pays administrative expenses and may disburse grants on behalf of the Fund. The amount payable related to these activities is reported as Due to Administrator in the Balance Sheet.

Fair values of financial instruments

The following methods and assumptions were used by the Fund in measuring the fair value for its financial instruments:

Cash: The carrying amount reported in the Balance Sheet for cash approximates fair value.

Investments: Fair values for the majority of investments are based on quoted prices. The fair value of the remaining investments is based on external pricing services, or discounted cash flows.

NOTE C – ORGANIZATION OF THE FUND

The Fund's governing body is the BOD, which is headed by a Chairman elected from among the LAC member countries. Its executive body is the Technical-Administrative Secretariat (TAS), headed by an Executive Secretary. The BOD consists of representatives designated by each of the Fund's members. Only countries and national, regional and international organizations that have signed and ratified the Agreement will be members. Each member has one proportional vote for every \$100,000, or its equivalent, contributed to the Fund. In addition, LAC member countries have basic votes. The total number of basic votes equals 25% of the total number of proportional votes and is distributed equally among LAC member countries.

NOTE D – MEMBERSHIP AND CONTRIBUTIONS

Membership to the Fund is open to all Bank members and other countries, or legal entities that would like to contribute additional resources to the Fund and sign the Agreement. Contributions from Bank member countries and organizations are made on a voluntary basis.

As of December 31, 2012, total contributions received from members are as follows:

<u>Year</u>	<u>Restricted</u>
Prior to 2012	\$ 81,769,901
2012	<u>1,099,255</u>
Total	<u>\$ 82,869,156</u>

See Appendix I for the Statement of Member Commitments and Contributions, which lists current members and their respective commitments and contributions as of December 31, 2012.

Once the entire amount of a member's commitment to the Fund has been satisfied, the member may withdraw from the Fund upon written notification, to take effect at a minimum of six months thereafter. Per Article VII of the Agreement, members that withdraw from the Fund will not have the right to withdraw their contributions until the termination and liquidation of the Fund.

NOTE E – RESOURCES OF THE FUND

The resources of the Fund are comprised of permanently restricted, temporarily restricted, and unrestricted funds. Permanently restricted funds include contributions from member countries and organizations, unrealized gains or losses on long-term investments, and additional amounts contributed and approved by the BOD to increase the permanently restricted resources of the Fund. In order to maintain the value of the resources contributed to the Fund, as provided by the Agreement, the BOD sets aside permanently an annual amount necessary to adjust the dollar value of the original contributions by the change in the Consumer Price Index in the United States. For the year ended December 31, 2012, allocations amounting to \$2,031,682 were made to permanently restricted funds, in order to maintain the value of the endowment resources contributed. Permanently restricted funds cannot be used to finance the operations or expenses of the Fund.

Temporarily restricted funds are defined as contributions and other inflows whose use by the Fund is restricted by the donors to finance special purposes.

Unrestricted funds include all income generated from all resources, net of unrealized gains or losses on long-term investments, less expenses and amounts allocated by the BOD to maintain the value of the resources contributed and income from temporarily restricted funds. The operations of the Fund are generally financed by the unrestricted funds and are comprised of competitive, non-reimbursable financing of priority projects identified in the Regional Fund's Medium Term Plan (the Plan). The Plan describes the strategic vision for allocating the Fund's resources and identifies priority investment opportunities at the regional level. For the year ended December 31, 2012, the BOD approved one grant for a total of \$100,000 from unrestricted funds.

NOTE F – INVESTMENTS

As authorized by the BOD, the Bank invests the Fund's permanently restricted resources in long-term United States Treasury Inflation-Indexed Bonds (TIPs). The remaining resources are invested through an investment pool managed by the Bank and are classified as short-term investments. Substantially all investments in this pool have a credit quality equivalent to ratings from AAA to A (short-term securities carry the highest short-term credit rating).

The Bank limits the Fund's activities of investing to a list of authorized dealers and counterparties. Credit limits have been established for each counterparty and the Bank, as Administrator of the Fund, does not anticipate non-performance by any of the counterparties.

The average return on investments, including realized and unrealized gains and losses, during 2012 was 5.01%.

Net unrealized gains on investments held at December 31, 2012, in the amount of \$2,450,502, were included in Net appreciation in fair value of investments in the Statement of Changes in Fund Balance.

Investments, as of December 31, 2012, consist of the following:

<u>Investments</u>	<u>Cost</u>	<u>Fair Value</u>
Long-term – United States treasury inflation-indexed bonds.	\$96,523,749	\$ 101,455,362
Short-term – Investment Pool.	<u>2,897,232</u>	<u>3,082,273</u>
	<u>\$99,420,981</u>	<u>\$ 104,537,635</u>

NOTE G – FAIR VALUE MEASUREMENTS

The framework for measuring fair value establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or pricing models for which all significant inputs are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The Fund's investment instruments valued based on quoted prices in active markets, a valuation technique consistent with the market approach, include Obligations of the United States Government for an amount of \$101,648,828 as of December 31, 2012. Such instruments are classified within Level 1 of the fair value hierarchy.

All of remaining securities are measured at fair value based on quoted prices in markets that are not active, external pricing services, where available, and prices derived from alternative pricing models, utilizing available observable market inputs and discounted cash flows. These methodologies represent valuation techniques consistent with the market and income approaches. These investments are classified within Level 2 of the fair value hierarchy and amount to \$2,888,807 as of December 31, 2012.

The main methodology of external pricing service providers involves a "market approach" that requires a predetermined activity volume of market prices to develop a composite price. The market prices utilized are provided by orderly transactions being executed in the relevant market; transactions

that are not orderly and outlying market prices are filtered out in the determination of the composite price. Other external price providers utilize evaluated pricing models that vary by asset class and incorporate available market information through benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing to prepare valuations.

The following table sets forth the Fund's investments, as of December 31, 2012:

Investment pool ⁽¹⁾ :	
Obligations of the United States Government.	\$ 193,466
U.S. government-sponsored enterprises.	111,218
Obligations of non-U.S. governments and agencies.	1,476,647
Bank obligations.	953,964
Mortgage-backed securities:	
U.S. residential.	54,432
Non-U.S. residential.	76,782
Asset-backed securities.	215,764
	<u>3,082,273</u>
Direct investments:	
Obligations of the United States Government.	<u>101,455,362</u>
Total Investments	<u>\$ 104,537,635</u>

NOTE H - UNDISBURSED GRANTS

The following is a summary of changes in Undisbursed grants for the year ended December 31, 2012:

Undisbursed grants as of January 1,	\$ 2,474,767
Approved grants.	100,000
Disbursements.	<u>(716,335)</u>
Undisbursed grants as of December 31,	<u>\$ 1,858,432</u>

NOTE I – CONCENTRATION OF CREDIT RISK

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties fail completely to perform as contracted. As of December 31, 2012, the Fund had cash deposits in the amount of \$399,439 in one United States financial institution. The Bank, as the Administrator of the Fund, does not anticipate nonperformance by any of the counterparties. The amount of credit risk shown, therefore, does not represent expected losses.

NOTE J – ADMINISTRATION OF THE FUND

Pursuant to the Agreement, from inception to June 30, 2013 (initial period), the TAS is designated as the executive body that provides technical and operational support to the Fund, and is therefore responsible for the Fund's program and operations among other activities. The Agreement also provides that the Bank will administer the Fund during the initial period. As Administrator of the Fund, the Bank is the Fund's legal representative, provides support to the Fund and invests the Fund's resources in accordance with the Bank's policies and procedures and the investment policy adopted by the Fund's BOD. Pursuant to the Administration Agreement signed between the Bank and the Fund, the Bank will not be reimbursed for either direct or indirect costs of administration during the initial period.

Effective March 22, 2013, the Fund's BOD approved a number of amendments to the Agreement as well as the Administration Agreement. The amendments included, amongst others, the revision of the use of the Fund's resources, the Fund's BOD functions, the services provided by the Bank, and the Bank's liability in the administration of the Fund. One of the effects of the implementation of said amendments

will be the discontinuation of the current requirement to set aside an annual amount to maintain the value of the resources contributed to the Fund. Also, on April 10, 2013, the Chairman of the BOD of the Fund proposed to the Bank an extension of the initial period of administration. The Bank's approval of these proposed amendments to the Administration Agreement and the processing of the request for a further extension of the initial period until June 30, 2016, is expected by June 2013.

NOTE K – SUBSEQUENT EVENTS

The Fund's Administrator evaluated subsequent events through May 21, 2013, the date the financial statements were available to be issued. As a result of this evaluation, except as discussed in Note J, there are no subsequent events that require recognition or disclosure in the Fund's financial statements as of and for the year ended December 31, 2012.

REGIONAL FUND FOR AGRICULTURAL TECHNOLOGY

(Administered by the Inter-American Development Bank)

STATEMENT OF MEMBER COMMITMENTS AND CONTRIBUTIONS*(Expressed in United States dollars)*

Members	Commitments	Contributions Received
		As of December 31, 2012
Argentina	\$20,000,000	\$ 19,999,980
Bolivia	2,500,000	2,500,000
Chile	2,500,000	2,500,000
Colombia	10,000,000	10,000,000
Costa Rica	500,000	499,712
Dominican Republic	2,500,000	2,500,000
Ecuador	2,500,000	2,500,000
Honduras	2,500,000	2,499,778
Nicaragua	2,500,000	1,000,000
Panama	5,000,000	4,999,975
Paraguay	2,500,000	2,000,000
Peru	2,500,000	2,500,000
Spain	14,723,000	14,723,000
Uruguay	5,000,000	2,500,000
Venezuela	12,000,000	12,000,000
IDRC (International Development Research Center - Canada)	100,000	146,711
	<u>\$87,323,000</u>	<u>\$ 82,869,156</u>

