

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

Regional Fund for Agricultural Technology
December 31, 2016 and 2015



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Report of Independent Auditors

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

We have audited the accompanying financial statements of the Regional Fund for Agricultural Technology (Fund), administered by the Inter-American Development Bank, which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of changes in fund balance and cash flows for each of the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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, 2016 and 2015, and the changes in its fund balance and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule included in Appendix I is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Restriction in Use

Our report is intended solely for the information and use of the Board of Directors, the Technical-Administrative Secretariat of the Regional Fund for Agricultural Technology and the Inter-American Development Bank as its Administrator, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 19, 2017

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

BALANCE SHEETS

(Expressed in thousands of United States dollars)

	December 31,	
	2016	2015
ASSETS		
Cash	\$ 315	\$ 107
Investments	99,958	98,583
Accrued interest	277	269
Total assets	<u>\$ 100,550</u>	<u>\$ 98,959</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Due to Administrator	\$ 211	\$ 62
Undisbursed grants	3,449	4,202
Other liabilities	23	14
Total liabilities	3,683	4,278
Fund Balance	96,867	94,681
Total liabilities and fund balance	<u>\$ 100,550</u>	<u>\$ 98,959</u>

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

REGIONAL FUND FOR AGRICULTURAL TECHNOLOGY

(Administered by the Inter-American Development Bank)

STATEMENTS OF CHANGES IN FUND BALANCE

(Expressed in thousands of United States dollars)

	For the years ended December 31,	
	2016	2015
ADDITIONS		
Income on cash and investments, net	\$ 3,145	\$ 337
Contributions received	136	-
Total additions	3,281	337
DEDUCTIONS		
Approved grants, net	646	1,870
Secretariat expenses and audit fees	449	490
Total deductions	1,095	2,360
Change in Fund balance	2,186	(2,023)
Fund balance, beginning of year	94,681	96,704
Fund balance, end of year	\$ 96,867	\$ 94,681

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

REGIONAL FUND FOR AGRICULTURAL TECHNOLOGY

(Administered by the Inter-American Development Bank)

STATEMENTS OF CASH FLOWS

(Expressed in thousands of United States dollars)

	<u>For the years ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in Fund balance	\$ 2,186	\$ (2,023)
Adjustments to reconcile Change in Fund balance to Net cash used in operating activities:		
Amortization of premium on investments	132	129
(Increase) decrease in Accrued interest	(8)	35
Increase in Due to Administrator	149	22
(Decrease) increase in Undisbursed grants	(753)	1,148
Increase (Decrease) in Other liabilities	9	(7)
Inflation adjustments on investments (TIPS)	(815)	(44)
Net unrealized investment (gains) losses	(1,574)	433
Net cash used in operating activities	<u>(674)</u>	<u>(307)</u>
Cash flows from investing activities		
Purchases of investments	(3,494)	(16,785)
Proceeds from sale or maturity of investments	<u>4,376</u>	<u>15,118</u>
Net cash provided (used in) by investing activities	<u>882</u>	<u>(1,667)</u>
Cash flows from financing activities		
Collection of inflation adjustments	<u>-</u>	<u>1,752</u>
Net cash provided by financing activities	<u>-</u>	<u>1,752</u>
Net increase (decrease) in Cash	208	(222)
Cash, beginning of year	<u>107</u>	<u>329</u>
Cash, end of year	<u>\$ 315</u>	<u>\$ 107</u>

The accompanying notes 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, 2016 and 2015

(Currency amounts expressed in thousands)

NOTE A – NATURE OF THE FUND

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), also known by its Spanish acronym FONTAGRO. The objectives of the Fund are to create a sustainable financing facility and a forum in which Latin American and Caribbean (LAC) countries can discuss priority topics related to technological innovation, thereby strengthening the role these countries play in defining the regional research agenda.

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 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.

Effective March 22, 2013, the Fund's Board of Directors (BOD) approved a number of amendments to the Agreement as well as to 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 these amendments was the discontinuation of the previous requirement to set aside an annual amount to maintain the value of the resources contributed to the Fund. As a result, and due to the absence of donor-imposed permanent and/or temporarily restricted use of resources, the Fund no longer qualified as an endowment fund. On June 19, 2013, the Bank's Board of Executive Directors approved the proposed amendments to the Administration Agreement as well as the further extension of the initial period of administration of the Fund until June 30, 2016.

On January 28, 2016, the President of the Fund's BOD requested the Bank to extend the Administration Agreement for another three-year period until June 30, 2019. The extension request was approved by the Bank's Board of Executive Directors on June 2, 2016 (GN-1965-13).

On September 29, 2016, the Bank signed a Contribution Agreement with the Government of Costa Rica with the purpose of increasing their contribution to the Fund by CRC 100,000. During 2016, the Fund received a contribution amounting to \$136. This contribution received is included in the Statements of Changes in Fund Balance.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund are expressed in United States dollars, which is also the functional and reporting currency of the Fund, and prepared in conformity with U.S. generally accepted accounting principles (GAAP). The preparation of such financial statements requires the Bank, as Administrator, to make estimates and assumptions that affect the reported amounts. Actual results could differ from these estimates.

Investments

Investments securities are recorded using the trade-date method of accounting. The Fund holds direct investments in certain securities and also holds interests (referred to as shares) in a mutual fund type structure internally maintained and managed by the Bank exclusively for the portfolio of funds administered by the Bank and comprise what is referred to as the investment pool. Direct investments include Treasury Inflation Protected Securities (TIPS). The principal amount of a TIPS is adjusted up or down for changes in inflation. The Fund's investments, including the TIPS, are reported at fair value. Realized and unrealized gains and losses are included in Income on cash and investments, net in the Statements of Changes in Fund Balance. The Fund holds shares in the internal investment pool and a daily net asset value (NAV) is calculated by the Bank. Note F discloses the nature of the investment securities held by the investment pool and the Fund's pro rata interest in the fair value of each investment security class based on the ratio of the shares held by the Fund as compared to the total shares issued by the investment pool. Shares in the investment pool are also held by other funds administered by the Bank.

Contributions

Contributions are recorded as additions to the Fund balance when the authorized commitment from the Donor has been received and the cash payment has been collected.

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 Sheets.

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 of the Fund. Each member has one proportional vote for every \$100, 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, 2016, total contributions received from members amounted to \$83,005 (2015 - \$82,869). See Appendix I for the Statement of Member Commitments and Contributions Received, which lists current members and their respective commitments and contributions as of December 31, 2016 and 2015.

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

Pursuant to the amended Agreement (See Note A), the resources of the Fund comprise the following and are utilized for administrative and operational purposes according to the order set forth below:

- (i) Income generated from all resources, including income from those resources described in (ii) and (iii) below;
- (ii) Additional contributions, bequests, and donations whose use by the Fund is to finance special purpose projects, depending on agreements between donors and the BOD;
- (iii) As a last instance, and subject to the approval of the BOD, the Intangible capital, defined in the Agreement Establishing the Fund as contributions from member countries and organizations and additional amounts contributed.

The operations of the Fund comprise competitive, non-reimbursable financing of priority projects identified in the Regional Fund's Medium Term Plan (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, 2016, the BOD approved eight grants for a total of \$872 (2015 – eleven grants for \$1,871).

NOTE F – INVESTMENTS

The Bank invests the Fund's resources according to the investment policy approved by the BOD and in accordance to the Bank's policies and procedures. As of December 31, 2016, the majority of the resources are invested in United States inflation-indexed bonds. The remaining resources are invested in high quality securities through the mutual fund type structure - TBF Mutual Fund. Substantially all the Fund's securities have a credit quality equivalent to a rating of AA+.

The Bank limits the Fund's activities of investing to a list of authorized dealers and counterparties. Further, exposure and term limits have been established for these counterparties based on their size and creditworthiness.

The Fund can contribute or withdraw funds from the investment pool by purchasing or redeeming shares. The number of shares purchased or redeemed each time a trust fund undergoes a transaction is the result of the dollar amount of the contribution or withdrawal and the NAV as calculated on a daily basis. At December 31, 2016, the Fund held 5,954,456 shares or 0.49% of the TBF Mutual Fund. At December 31, 2015, the Fund held 9,828,727 shares or 0.78 % of the TBF Mutual Fund.

The table below shows the assets held by the investment pool through the mutual fund type structure. The amounts represent the Fund's proportionate ownership share in the securities based on **the aforementioned ownership share**.

As of December 31, 2016, Investments comprise the following:

	<u>2016</u>	<u>2015</u>
Investment pool ⁽¹⁾ :		
Obligations of the United States Government	\$ 5,710	\$ 9,403
Bank obligations ⁽²⁾	<u>301</u>	<u>473</u>
	6,011	9,876
Direct investments:		
Obligations of the United States Government ⁽³⁾	<u>94,224</u>	<u>88,976</u>
Total Investments	<u>\$ 100,235</u>	<u>\$ 98,852</u>

⁽¹⁾ Detail of investments by class represents the Fund's proportionate share of the investment pool's assets.

⁽²⁾ May include bank notes and bonds, certificates of deposit, commercial paper, and money market deposits.

⁽³⁾ Represents the fair value of the referred assets, including their accrued interest presented on the Balance Sheets under Accrued interest of \$277 at December 31, 2016 (2015 - \$269)

Changes in fair value of investments held at December 31, 2016, in the amount of \$1,588 (2015 - \$(433)), were included in Net appreciation (depreciation) in fair value of investments in the Statements of Changes in Fund Balance.

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.

Obligations of the United States Government amounting to \$99,934 as of December 31, 2016 (2015 – \$98,379) are valued based on quoted market prices in active markets, a valuation technique consistent with the market approach, and are classified within Level 1 of the fair value hierarchy.

The remaining securities are comprised of bank obligations, that is, money market deposits, which face value approximates their fair value. These securities amount to \$301 as of December 31, 2016 (2015 - \$473), and are classified within Level 2 of the fair value hierarchy.

The Fund’s policy for transfers between levels is to reflect these transfers effective as of the beginning of the reporting period. There were no transfers between levels during 2016 and 2015.

NOTE H - UNDISBURSED GRANTS

The following is a summary of changes in Undisbursed grants for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Undisbursed grants as of January 1,	\$ 4,202	\$ 3,054
Approved grants	872	1,871
Cancellations	<u>(226)</u>	<u>(1)</u>
Approved grants, net	646	1,870
Disbursements	<u>(1,399)</u>	<u>(722)</u>
Undisbursed grants as of December 31,	<u>\$ 3,449</u>	<u>\$ 4,202</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. For concentration of credit risk related to Investments, refer to Note F. In addition, as of December 31, 2016, the Fund had deposits in three financial institutions in the United States in the amount of \$315 (2015 - \$107). 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 – FUND BALANCE

Fund Balance as of December 31, 2016 and 2015 comprise:

	<u>2016</u>	<u>2015</u>
Contributions (See Appendix I)	\$ 83,005	\$ 82,869
Maintenance of value adjustments ⁽¹⁾	14,294	14,294
	<u>97,299</u>	<u>97,163</u>
Change in Fund balance, excluding contributions	<u>(432)</u>	<u>(2,482)</u>
	<u>\$ 96,867</u>	<u>\$ 94,681</u>

⁽¹⁾ Until March 2013 the Fund was required to set aside an annual amount to maintain the value of the resources contributed to it.

NOTE K – ADMINISTRATION OF THE FUND

Pursuant to the Agreement, from inception to June 30, 2016 (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.

NOTE L – SUBSEQUENT EVENTS

The Bank, as Administrator, evaluated subsequent events through May 5, 2017, the date the financial statements were available to be issued. As a result of this evaluation, 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, 2016.

REGIONAL FUND FOR AGRICULTURAL TECHNOLOGY

(Administered by the Inter-American Development Bank)

SUPPLEMENTAL SCHEDULE OF MEMBER COMMITMENTS AND CONTRIBUTIONS RECEIVED AS OF DECEMBER 31, 2016 and 2015*(Expressed in thousands United States dollars)*

Members	2016		2015	
	Commitments	Contributions Received	Commitments	Contributions Received
Argentina	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Bolivia	2,500	2,500	2,500	2,500
Chile	2,500	2,500	2,500	2,500
Colombia	10,000	10,000	10,000	10,000
Costa Rica	681	636	500	500
Dominican Republic	2,500	2,500	2,500	2,500
Ecuador	2,500	2,500	2,500	2,500
Honduras	2,500	2,500	2,500	2,500
Nicaragua	2,500	1,000	2,500	1,000
Panama	5,000	5,000	5,000	5,000
Paraguay	2,500	2,000	2,500	2,000
Peru	2,500	2,500	2,500	2,500
Spain	14,723	14,723	14,723	14,723
Uruguay	5,000	2,500	5,000	2,500
Venezuela	12,000	12,000	12,000	12,000
IDRC (International Development Research Center - Canada)	100	146	100	146
	<u>\$ 87,504</u>	<u>\$ 83,005</u>	<u>\$ 87,323</u>	<u>\$ 82,869</u>