

ADBISF-1

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

STATEMENT OF FINANCIAL POSITION

31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

	<u>1999</u>	<u>1998</u>
ASSETS		
DUE FROM BANKS (Note B)	\$ 595	\$ 714
INVESTMENTS (Notes B, C, and D)		
Time deposits and government securities	10,665	12,233
PROPERTY, FURNITURE, AND EQUIPMENT (Note B)	\$5,291	\$4,722
Less—allowance for depreciation	<u>2,194</u> 3,097	<u>1,146</u> 3,576
OTHER ASSETS	2,074	1,946
TOTAL	\$16,431	\$18,469
LIABILITIES AND UNCOMMITTED BALANCES		
ACCOUNTS PAYABLE TO ORDINARY CAPITAL RESOURCES	\$ 252	\$ 78
ACCOUNTS PAYABLE AND OTHER LIABILITIES	1,064	393
UNCOMMITTED BALANCES (ADBISF-2)	15,115	17,998
TOTAL	\$16,431	\$18,469

See notes to financial statements (ADBISF-4).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended 31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

	<u>1999</u>	<u>1998</u>
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (Note B)	\$ 6,654	\$16,254
REVENUE		
Income from investments (Notes B and C)	13	57
Income from other sources—net	<u>4</u>	<u>—</u>
Total	<u>6,671</u>	<u>16,311</u>
EXPENSES		
Administrative expenses	9,718	7,476
Program expenses	<u>2,059</u>	<u>1,269</u>
Total	<u>11,777</u>	<u>8,745</u>
CONTRIBUTIONS AND REVENUE (LESS THAN) IN EXCESS OF EXPENSES	(5,106)	7,566
EXCHANGE GAINS (LOSSES)—NET	73	(37)
TRANSLATION ADJUSTMENTS (Note B)	<u>2,150</u>	<u>1,579</u>
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS AFTER TRANSLATION ADJUSTMENTS	(2,883)	9,108
NET ASSETS AT BEGINNING OF YEAR	17,998	8,890
NET ASSETS AT END OF YEAR	\$15,115	\$17,998

See notes to financial statements (ADBISF-4).

ADBISF-3

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

STATEMENT OF CASH FLOWS

For the Years Ended 31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ 6,654	\$ 16,254
Interest on investments received	9	52
Expenses paid	<u>(9,981)</u>	<u>(8,241)</u>
Net Cash (Used in) Provided by Operating Activities	<u>(3,318)</u>	<u>8,065</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash withdrawn from (invested in) time deposits	2,815	(6,115)
Sales of investment securities	49,741	28,753
Purchases of investment securities	(49,012)	(29,821)
Furniture and equipment acquired	<u>—</u>	<u>(47)</u>
Net Cash Provided by (Used in) Investing Activities	<u>3,544</u>	<u>(7,230)</u>
Effect of Exchange Rate Changes on Cash	<u>(345)</u>	<u>(397)</u>
Net (Decrease) Increase in Due From Banks	(119)	438
Due from Banks at Beginning of Year	<u>714</u>	<u>276</u>
Due from Banks at End of Year	<u>\$ 595</u>	<u>\$ 714</u>
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
(Decrease) Increase in net assets (ADBISF-2)	\$ (2,883)	\$ 9,108
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Translation adjustments	(2,150)	(1,579)
Amortization of discounts/premiums	(3)	(4)
Depreciation	813	719
Others—net	<u>905</u>	<u>(179)</u>
Net Cash (Used in) Provided by Operating Activities	<u>\$ (3,318)</u>	<u>\$ 8,065</u>

See notes to financial statements (ADBISF-4).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 1999 and 1998

NOTE A—NATURE OF OPERATIONS

In 1996, the Asian Development Bank (ADB) approved the establishment of the Asian Development Bank Institute (the Institute) in Tokyo, Japan as a subsidiary body of ADB. The Institute's operations commenced upon the receipt of the first funds from Japan on 24 March 1997, and it was inaugurated on 10 December 1997. The Institute's funds may consist of voluntary contributions, donations, and grants from ADB member countries, nongovernment organizations, and foundations. The objectives of the Institute, as defined under its Statute, are the identification of effective development strategies and capacity improvement for sound development management in developing member countries.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the Institute are presented on the basis of those for not-for-profit organizations.

The Institute reports donor's contributions of cash and other assets as unrestricted support as these are made available to the Institute without conditions other than for the purposes of pursuing the objectives of the Institute.

Investments

All investment securities held by the Institute are reported at estimated fair value, with realized and unrealized gains and losses included in revenue. Estimated fair value generally represents market value. Cost or amortized cost is used to approximate fair value for certain short-term investments not traded in the market (time deposits, etc.).

Property, Furniture, and Equipment

Property, furniture, and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method.

Contributions

Contributions from donors are included in the financial statements from the date committed.

Functional Currency and Reporting Currency

The currencies of contributing members are functional currencies. The reporting currency is the United States dollar and the financial statements are expressed in thousands of current United States dollars.

Translation of Currencies

Assets, liabilities, and uncommitted balances are translated from the functional currency to the reporting currency at the applicable rates of exchange at the end of a reporting period. Contributions included in the financial statements during the period are translated at the applicable exchange rates as of the respective dates of commitment. Revenue and expense amounts in currency other than the United States dollar are translated for each semimonthly period at the applicable rates of exchange at the beginning of each period; such practice approximates the application of average rates in effect during the period.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the end of the year and the reported amounts of income and expenses during the year. The actual results could differ from those estimates.

Statement of Cash Flows

For the purposes of the statement of cash flows, the Institute considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

ADBISF-4

CONTINUED

NOTE C—INVESTMENTS

The investment portfolio was composed wholly of investments denominated in Japanese yen. As of 31 December 1999 and 1998, the estimated fair value of the investments approximates the amortized cost. All such investments are due within one year.

The annualized rate of return on the average investments held during the year, based on the portfolio held at the beginning and end of each month was 0.10% (0.48% – annualized rate of return for the period ended 31 December 1998).

Investments are governed by the Investment Authority approved by the Board of Directors. The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments.

In 1999, the Board of Directors approved a new Investment Authority. The new Investment Authority allows investment in higher-yielding investment instruments, such as high-quality corporate bonds, mortgage-backed securities, and asset-backed securities.

NOTE D—FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair value of financial instruments that are short-term approximates their carrying amounts.

The Institute's statement of financial position carrying amounts are considered to approximate fair values for all significant financial instruments.

**NOTE E—STAFF RETIREMENT PLAN AND
POSTRETIREMENT MEDICAL BENEFITS***Staff Retirement Plan*

The Institute participates in the contributory defined benefit Staff Retirement Plan (the Plan) of ADB. Every member of the professional staff, as defined under the Plan, shall, as a condition of service, become a participant from the first day of service, provided that at such a date, the staff has not reached the normal retirement age of 60. Retirement benefits are based on length of service and highest average remuneration during two years of eligible service. The Plan assets are segregated and are not included in the statement of financial position. The costs of administering the Plan are absorbed by ADB, except for fees paid to the investment managers and related charges, including custodian fees, which are borne by the Plan.

Participants are required to contribute 9 1/3% of their salary to the Plan and may also make voluntary contributions. The Institute's contribution is determined at a rate sufficient to cover that part of the costs of the Plan not covered by the participants' contributions.

Postretirement Medical Benefits Plan

The Institute participates in the cost-sharing plan of ADB for retirees medical insurance premiums of ADB. Under the plan, the Institute is obligated to pay 80% of the Group Medical Insurance Plan premiums for retirees and their eligible dependents who elect to participate. The cost-sharing plan is currently unfunded.

Generally accepted accounting principles require an actuarially determined assessment of the periodic cost of postretirement medical benefits.

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 1999 and 1998

The following table sets forth the pension and postretirement benefits at 31 December 1999 and 1998:

	Pension Benefits		Postretirement Medical Benefits	
	1999	1998	1999	1998
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 264,000	\$ –	\$ 110,000	\$ –
Service cost	298,000	193,000	117,000	103,000
Interest cost	42,000	17,000	15,000	7,000
Plan participants' contributions	59,000	54,000	–	–
Actuarial gain	(103,000)	–	(63,000)	–
Benefit obligation at end of year	<u>\$ 560,000</u>	<u>\$ 264,000</u>	<u>\$ 179,000</u>	<u>\$ 110,000</u>
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 140,000	\$ –	\$ –	\$ –
Actual return on plan assets	37,000	–	–	–
Employer contribution	94,000	86,000	–	–
Plan participants' contributions	59,000	54,000	–	–
Fair value of plan assets at end of year	<u>\$ 330,000</u>	<u>\$ 140,000</u>	<u>\$ –</u>	<u>\$ –</u>
Funded status	<u>\$(230,000)</u>	<u>\$(124,000)</u>	<u>\$(179,000)</u>	<u>\$(110,000)</u>
Unrecognized actuarial loss	(119,000)	–	(63,000)	–
Net amount recognized	<u>\$(349,000)</u>	<u>\$(124,000)</u>	<u>\$(242,000)</u>	<u>\$(110,000)</u>
Amounts recognized in the statement of financial position consist of:				
Accrued benefit liability	<u>\$(349,000)</u>	<u>\$(124,000)</u>	<u>\$(242,000)</u>	<u>\$(110,000)</u>
Net amount recognized	<u>\$(349,000)</u>	<u>\$(124,000)</u>	<u>\$(242,000)</u>	<u>\$(110,000)</u>
Weighted-average assumptions as of 31 December				
Discount rate	7.75%	6.50%	7.75%	6.50%
Expected return on plan assets	8.00%	8.00%	n/a	n/a
Rate of compensation increase varies with age and averages	6.75%	5.50%	6.75%	5.50%

ADBISF-4

For measurement purposes, a 10.75% annual rate of increase in the per capita cost of covered health care benefits was assumed for the valuation as at 31 December 1999. The rate was assumed to decrease gradually to 4.75% for 2009 and remain at that level thereafter.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were \$264,000, \$220,000, and \$140,000, respectively, as of 31 December 1998, and \$560,000, \$430,000, and \$330,000, respectively, as of 31 December 1999.

	Pension Benefits		Postretirement Medical Benefits	
	1999	1998	1999	1998
Components of net periodic benefit cost:				
Service cost year	\$298,000	\$193,000	\$117,000	\$103,000
Interest cost	42,000	17,000	15,000	7,000
Expected return on plan assets	(21,000)	—	—	—
Net periodic benefit cost	<u>\$319,000</u>	<u>\$210,000</u>	<u>\$132,000</u>	<u>\$110,000</u>

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total service and interest cost components	\$25,000	\$(22,000)
Effect on postretirement benefit obligation	34,000	(28,000)