

Financial Statements and Report of Independent
Certified Public Accountants

International Research & Exchanges Board, Inc.

June 30, 2011 and 2010

International Research & Exchanges Board, Inc.

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Report of Independent Certified Public Accountants

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International Research & Exchanges Board, Inc.

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We have audited the accompanying statements of financial position of International Research & Exchanges Board, Inc. (“IREX”) as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of IREX’s management. 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 as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IREX’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IREX as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2011 on our consideration of IREX's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of IREX's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



McLean, Virginia
November 14, 2011

International Research & Exchanges Board, Inc.

Statements of Financial Position

<i>June 30,</i>	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ —	\$ 390,929
Short-term investments	7,253,387	8,822,507
Grants receivable, net of reserve for potential disallowed costs of approximately \$153,657 and \$182,489 for 2011 and 2010, respectively	3,341,928	5,100,540
Prepaid expenses and other assets	1,578,600	1,705,850
Program advances	1,343,592	1,929,269
Total current assets	13,517,507	17,949,095
Property and equipment, net	536,834	320,844
Long-term investments	5,747,332	5,773,841
Total Assets	\$ 19,801,673	\$ 24,043,780
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 4,275,189	\$ 5,193,785
Deferred rent	172,375	236,837
Refundable advances	—	60,595
Deferred revenue	7,611,611	10,874,571
Total Current Liabilities	12,059,175	16,365,788
Commitments and Contingencies		
Net Assets		
Unrestricted assets	5,839,954	4,503,589
Temporarily restricted	518,544	254,403
Permanently restricted	1,384,000	2,920,000
Total net assets	7,742,498	7,677,992
Total Liabilities and Net Assets	\$ 19,801,673	\$ 24,043,780

The accompanying notes are an integral part of these statements.

International Research & Exchanges Board, Inc.

Statements of Activities and Changes in Net Assets

Year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Federal grants and contracts	\$ 56,761,128	\$ —	\$ —	\$ 56,761,128
Private grants, contributions, and contracts	11,091,550	—	—	11,091,550
Other revenue	12,320	—	—	12,320
Net assets released from restrictions	1,541,831	(5,831)	(1,536,000)	—
	69,406,829	(5,831)	(1,536,000)	67,864,998
In-kind support	6,622,107	—	—	6,622,107
Total Revenue and Other Support	76,028,936	(5,831)	(1,536,000)	74,487,105
Expenses				
Program activities	63,477,916	—	—	63,477,916
In-kind expenses	6,622,107	—	—	6,622,107
Total Program Expenses	70,100,023	—	—	70,100,023
Other Expenses				
General administration	5,150,988	—	—	5,150,988
Total Expenses	75,251,011	—	—	75,251,011
Change in Net Assets Before Investment Return	777,925	(5,831)	(1,536,000)	(763,906)
Investment Return, net	558,440	269,972	—	828,412
Change in Net Assets	1,336,365	264,141	(1,536,000)	64,506
Net Assets, beginning of year	4,503,589	254,403	2,920,000	7,677,992
Net Assets, end of year	\$ 5,839,954	\$ 518,544	\$ 1,384,000	\$ 7,742,498

The accompanying notes are an integral part of these statements.

International Research & Exchanges Board, Inc.

Statements of Activities and Changes in Net Assets

Year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Federal grants and contracts	\$ 50,148,069	\$ —	\$ —	\$ 50,148,069
Private grants, contributions, and contracts	7,949,945	—	—	7,949,945
Other revenue	34,264	—	—	34,264
Net assets released from restrictions	107,411	(107,411)	—	—
	58,239,689	(107,411)	—	58,132,278
In-kind support	6,504,071	—	—	6,504,071
Total Revenue and Other Support	64,743,760	(107,411)	—	64,636,349
Expenses				
Program activities	53,905,594	—	—	53,905,594
In-kind expenses	6,504,071	—	—	6,504,071
Total Program Expenses	60,409,665	—	—	60,409,665
Other Expenses				
General administration	4,473,529	—	—	4,473,529
Total Expenses	64,883,194	—	—	64,883,194
Change in Net Assets Before Investment Return	(139,434)	(107,411)	—	(246,845)
Investment Return, net	369,679	154,286	—	523,965
Change in Net Assets	230,245	46,875	—	277,120
Net Assets, beginning of year	4,273,344	207,528	2,920,000	7,400,872
Net Assets, end of year	\$ 4,503,589	\$ 254,403	\$ 2,920,000	\$ 7,677,992

The accompanying notes are an integral part of these statements.

International Research & Exchanges Board, Inc.

Statements of Cash Flows

<i>Year ended June 30,</i>	2011	2010
Cash Flows from Operating Activities		
Change in net assets	\$ 64,506	\$ 277,120
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	181,281	157,558
Net realized and unrealized gain on investments	(716,632)	(411,980)
Changes in assets and liabilities:		
Grants receivable, net	1,758,612	2,270,145
Prepaid expenses and other assets	127,250	(809,601)
Program advances	585,677	(1,123,522)
Accounts payable and accrued expenses	(918,596)	867,484
Refundable advances	(60,595)	(85,786)
Deferred rent	(64,462)	(46,115)
Deferred revenue	(3,262,960)	(101,104)
Net Cash (Used in) Provided by Operating Activities	(2,305,919)	994,199
Cash Flows from Investing Activities		
Purchase of investments	(6,980,185)	(643,727)
Proceeds from sale of investments	9,292,446	301,047
Purchase of property and equipment	(397,271)	(264,529)
Net Cash Provided by (Used in) Investing Activities	1,914,990	(607,209)
Change in Cash and Cash Equivalents	(390,929)	386,990
Cash and Cash Equivalents, beginning of year	390,929	3,939
Cash and Cash Equivalents, end of year	\$ —	\$ 390,929

The accompanying notes are an integral part of these statements

International Research & Exchanges Board, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The International Research & Exchanges Board, Inc. (IREX), is an international nonprofit organization dedicated to the advancement of knowledge. Central to its mission is the empowering of individuals and institutions to participate meaningfully in civil society. IREX contributes to the development of students, scholars, policymakers, business leaders, journalists, and other professionals; strengthens independent media, academic, public, and nongovernmental institutions; and makes the knowledge and skills developed through its programs available to universities, foundations, policymakers, and the corporate sector. IREX administers programs between the United States and the countries of Eastern Europe, the New Independent States (NIS), Asia, the Near East and Africa. A significant portion of IREX's operations is carried out in foreign countries.

IREX receives funds from the Department of State (DOS), Agency for International Development (AID), other federal agencies, and private-sector sources. Approximately 76 percent and 77 percent of the funds received in 2011 and 2010, respectively, were through awards from the United States (U.S.) government.

Basis of Presentation

IREX prepares its financial statements on the accrual basis of accounting.

To comply with the legal requirements of certain host countries, IREX has registered these field offices as representational offices of IREX. All activities of these entities are reflected in the accompanying financial statements.

Revenue Recognition

Grants, cooperative agreements, and contracts are awarded to the organization from U.S. government agencies and private organizations for the purpose of implementing mission-related projects. Grants, cooperative agreements, and contracts received from U.S. government agencies are accounted for as exchange transactions, and accordingly, revenue is recognized when the qualifying expenditures are made. Revenue is recognized based on actual indirect rates incurred, billings are rendered using approved provisional rates. Any necessary adjustments will be recorded when final rates are approved by the U.S. government. Final negotiated rates have been approved through 2010.

Grants or contracts from private organizations may be accounted for as either exchange transactions or contributions, depending on the nature of the award. In an exchange transaction, revenue is recognized when the qualifying expenditures are made. Funds received related to these transactions not expended at year-end are recorded as refundable advances. In a contribution transaction, revenue is recognized when the commitment is made by the donor. Funds received as donor-restricted contributions, but not expended at year-end are recorded as temporarily restricted net assets. The assets are released from restriction as revenue when the satisfaction of the restriction has been met.

Unconditional promises to give are recognized as revenue in the period received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2011 and 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Classification of Net Assets

The net assets, revenue, expenses, gains and losses of IREX are classified based on the existence, or absence, of donor-imposed restrictions. Accordingly, the net assets of IREX and the changes therein, are classified and reported as such:

Unrestricted—Unrestricted revenues and operating expenses of IREX. Current investment earnings are available to support current operations.

Temporarily Restricted—Contributions restricted, as to time or purpose, by the donor. When the purpose or time period restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Permanently Restricted—Funds that are restricted by donors requiring that the principal be invested in perpetuity. The earnings on these funds are unrestricted and are used for operations in accordance with a spending policy approved by the Board of Directors.

Expenses

Costs that can be identified specifically with a particular cost objective or project are charged directly to the applicable grant, cooperative agreement, or contract. Indirect costs are allocated to all applicable awards and functions based on actual costs incurred.

Cash and Cash Equivalents

For financial statement purposes, IREX considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents except for those held in brokerage accounts or held for other than operating purposes which are classified as investments.

As of June 30, 2011 and 2010, IREX held cash in foreign accounts designated for program purposes totaling \$1,343,592 and \$1,929,269, respectively. These amounts are classified as program advances on the statement of financial position.

In-Kind Support

IREX receives in-kind contributions of tuition, materials, supplies, facilities, and other services from a number of contributors. These amounts are reflected as revenues and expenses at the estimated fair value when received in the accompanying statement of activities.

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2011 and 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Fixed Assets

Fixed assets are carried at cost. Depreciation of fixed assets is provided on the straight-line method over estimated useful lives of three to five years. Maintenance, repairs, and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains or losses on dispositions of fixed assets, if any, are included in income.

IREX occasionally purchases and expenses equipment for overseas projects with funds received from the U.S. government and private grantors. As provided by the terms of the awards, title to the assets remains with the recipient, IREX, but the grantor generally retains control of the disposition of the equipment at the conclusion of the project. In most cases, at the conclusion of the project, the equipment is donated to local organizations. Proceeds, if any, from the sale of equipment are returned to the respective grantor.

IREX capitalizes certain costs associated with computer software developed or obtained for internal use and website development. IREX's policy provides for the capitalization of external direct costs of materials and services. Costs associated with preliminary project stage activities, and post implementation stage activities, such as training and maintenances, are expensed as incurred. Costs capitalized are amortized over the useful life of the software or website on a straight-line basis which has been estimated at three years.

Income Tax

IREX is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as an organization that is not a private foundation.

Under provisions of the Internal Revenue Code Section 501(c) 3, and applicable state regulations, IREX is exempt from taxes except for unrelated business income. For financial statement purposes IREX is required to record a liability for any material tax position taken which does not meet the minimum thresholds of "more likely than not" to be successful under regulatory challenge. No provision for income taxes has been recorded in 2011 or 2010 since management believes there is no material unrelated business income or material uncertain tax positions requiring the recognition of a liability.

Fair Value of Financial Instruments

The framework for measuring fair value provides 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that IREX has the ability to access.

June 30, 2011 and 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Fair Value of Financial Instruments—Continued

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the assets or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Reclassifications

Certain 2010 amounts have been reclassified to conform to the current year presentation.

Using Estimates in Preparing Financial Statements

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Impact of Recent Accounting Standards/Pronouncements

In January 2010, the FASB issued guidance that clarifies existing disclosures and requires new disclosures about fair value measurements. The clarifications and the requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2 and significant transfers into and out of Level 3 of the fair value hierarchy are effective for periods beginning after December 15, 2009. The new requirement that purchases, sales, issuances, and settlements be presented gross in the Level 3 reconciliation is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years, with early adoption permitted. Since this new guidance only amends the disclosure requirements, it did not have any impact on IREX's financial statements.

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2011 and 2010

NOTE B—INVESTMENTS

Investments comprised of the following as of June 30:

	2011	2010
Short-term investments:		
Money market reserves and certificates of deposit	\$ 7,253,387	\$ 8,633,958
Mutual funds - cash reserves	—	188,549
	<hr/> 7,253,387	<hr/> 8,822,507
Long-term investments:		
U.S. equity securities	\$ 4,095,032	\$ 3,695,734
Fixed income securities	1,652,300	2,078,107
	<hr/> \$ 5,747,332	<hr/> \$ 5,773,841

Reflected in short term investments is \$6,461,251 and \$8,503,564 in money market funds restricted by a funder as of June 30, 2011 and 2010, respectively.

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2011 and 2010

NOTE B—INVESTMENTS—Continued

Investment return consists of the following for the years ended June 30:

	2011	2010
Unrealized gains	\$ 625,706	\$ 305,503
Realized gains	90,926	106,677
Investment interest and dividends	171,358	193,451
Investment management fees	(51,891)	(51,057)
	836,099	554,634
Less: Interest on restricted investments classified as other income	(7,687)	(30,669)
Investment return, net	\$ 828,412	\$ 523,965

NOTE C—FAIR VALUE

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy.

Mutual Funds

Investments in mutual funds are valued at the closing price reported on the active market on which the individual securities are traded.

Equity Securities

Investments in equity securities valued at the quoted prices in an active market are classified within Level 1 of the fair value hierarchy.

Fixed Income Securities

When quoted prices are available in an active market, fixed income securities are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. If quoted market prices are not available or accessible, then fair values are estimated using discounted cash flow models.

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2011 and 2010

NOTE C—FAIR VALUE—Continued

The following table sets forth IREX's short and long term investments measured at fair value within the fair value hierarchy as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
U.S. equity securities	\$ 4,095,032	\$ —	\$ —	\$ 4,095,032
Fixed income securities	1,652,300	—	—	1,652,300
	<u>\$ 5,747,332</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,747,332</u>

The following table sets forth IREX's short and long term investments measured at fair value within the fair value hierarchy as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
Mutual funds - cash reserves	\$ 188,549	\$ —	\$ —	\$ 188,549
U.S. equity securities	3,695,734	—	—	3,695,734
Fixed income securities	1,071,318	1,006,789	—	2,078,107
	<u>\$ 4,955,601</u>	<u>\$ 1,006,789</u>	<u>\$ —</u>	<u>\$ 5,962,390</u>

Investments in certificates of deposit and money market accounts are carried at amortized cost. These investments do not qualify as securities and therefore the fair value disclosures are not provided. Investments qualifying as securities are stated at fair value.

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2011 and 2010

NOTE D—PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2011	2010
Equipment and computer software	\$ 1,156,903	\$ 852,748
Leasehold improvements	92,880	—
	1,249,783	852,748
Accumulated depreciation	(712,949)	(531,904)
	\$ 536,834	\$ 320,844

NOTE E—TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were released from restrictions by incurring expenses satisfying the program restriction. Temporarily restricted net assets at June 30, 2011 are as follows:

	Balance June 30, 2010	Investment Gains	Net Assets Released from Restriction	Balance June 30, 2011
NEH endowment-supported programs	\$ 254,403	\$ 269,972	\$ (5,831)	\$ 518,544

Temporarily restricted net assets were released from restrictions by incurring expenses satisfying the program restriction. Temporarily restricted net assets at June 30, 2010 are as follows:

	Balance June 30, 2009	Investment Gains	Net Assets Released from Restriction	Balance June 30, 2010
NEH endowment-supported programs	\$ 207,528	\$ 154,286	\$ (107,411)	\$ 254,403

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2011 and 2010

NOTE F—PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2011 and 2010 consist of the following endowment funds:

	2011	2010
National Endowment for Humanities (NEH)	\$ 384,000	\$ 1,920,000
Andrew W. Mellon Foundation (Mellon)	1,000,000	1,000,000
	<u>\$ 1,384,000</u>	<u>\$ 2,920,000</u>

Investment income earned on the Mellon endowment funds is available for general unrestricted purposes.

Investment income earned on the NEH endowment funds is to be used for support of humanities activities in education, public programming, scholarly research, and preservation and is temporarily restricted until used for that purpose. During the year ended June 30, 2011, \$1,536,000 was released from restriction for the National Endowment for Humanities (NEH), at the direction of NEH.

Interpretation of Relevant Law

The Management of IREX has interpreted the District of Columbia “Uniform Prudent Management of Institutional Funds Act of 2007” (the Act), absent explicit donor stipulations to the contrary, to require IREX to act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in making determinations to appropriate or accumulated endowment funds, taking into account both its obligation to preserve the value of the endowment and its obligation to use the endowment to achieve the purposes for which it was donated. IREX classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment required by the applicable donor gift instrument, if applicable.

Endowment Spending Policy

On an annual basis, and subject to actual investment performance, the President of IREX is authorized to allocate, assign and earmark an amount equal to 5% of IREX’s endowment to be used to pay operating expenses. Should the total return from the endowment funds be less than 5%, 80% of the amount earned will be made available for use as operating expenses, and the remaining earnings must be reinvested.

Endowment Investment Policies

IREX’s investments are managed in accordance with the Board adopted Investment Policy Statement. IREX’s investment policy is to achieve a long term competitive rate of return on investments, net of expense, that is equal to or exceeds the appropriate benchmark returns over a three-year rolling period without additional risk as measured by the variability of returns. The investments are expected to produce a total return exceeding the median of a universe of managers with similar styles.

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2011 and 2010

NOTE F—PERMANENTLY RESTRICTED NET ASSETS—Continued

Funds with Deficiencies

From time to time, the fair value of assets associated with the individual donor restricted endowment funds may fall below the level that the donor requires IREX to retain as a fund of perpetual duration. Deficiencies of this nature for the NEH Endowment are reported in unrestricted net assets if the NEH Temporary Restricted Funds prior years' accumulated investment income is not sufficient to cover the deficit. Any deficiencies for the Mellon Endowment are covered by unrestricted net assets.

	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 518,544	\$ 1,384,000	\$ 1,902,544

Changes in permanently restricted net assets for the year ended June 30, 2011 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 254,403	\$ 2,920,000	\$ 3,174,403
Investment return			
Investment income	53,339	—	53,339
Net appreciation (realized and unrealized)	216,633	—	216,633
Total investment return	269,972	—	269,972
Release of endowment restriction per donor request	—	(1,536,000)	(1,536,000)
Appropriation of endowment assets for expenditure	(5,831)	—	(5,831)
Endowment net assets, end of year	\$ 518,544	\$ 1,384,000	\$ 1,902,544

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2011 and 2010

NOTE F—PERMANENTLY RESTRICTED NET ASSETS—Continued

	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 254,403	\$ 2,920,000	\$ 3,174,403

Changes in permanently restricted net assets for the year ended June 30, 2010 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 207,528	\$ 2,920,000	\$ 3,127,528
Investment return			
Investment income	122,279	—	122,279
Net appreciation (realized and unrealized)	32,007	—	32,007
Total investment return	154,286	—	154,286
Appropriation of endowment assets for expenditure	(107,411)	—	(107,411)
Endowment net assets, end of year	\$ 254,403	\$ 2,920,000	\$ 3,174,403

NOTE G—RETIREMENT PLAN

IREX has a defined contribution retirement plan, which covers eligible employees after two years of service. When employees contribute a minimum of 5 percent of their annual compensation in this plan, IREX will match up to a maximum of 10 percent of the annual compensation. IREX's matching contribution increases to 15 percent for employees after 10 years of service. During 2011 and 2010, IREX contributed \$530,913 and \$484,859, respectively, to the plan.

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2011 and 2010

NOTE H—COMMITMENTS AND CONTINGENCIES

Leases

IREX leases certain facilities and equipment under non-cancelable operating lease agreements. Approximate future minimum lease payments are as follows:

Years ending June 30,

2011	\$	1,884,016
2013		1,349,703
2014		260,775
	\$	<u>3,494,494</u>

Rent expense for the years ended June 30, 2011 and 2010 (including field offices) was \$2,401,585 and \$2,220,727, respectively.

The office lease provided for rent abatements, tenant improvement allowances, and escalation clauses, the value of which is amortized over the life of the lease. Deferred rent represents the difference between the minimum rental payments in accordance with the lease, and straight-line amortization of lease incentives.

Other

IREX is aware of a claim and potential lawsuit alleging breach of contract and negligence causes of action relating to an employment contract. As of the date of the financial statements this claim is in settlement discussions with the parties involved. In the opinion of management and legal counsel, IREX has determined it has adequate insurance coverage to cover any settlement costs. The accompanying financial statements do not include any adjustment for this matter as it is not possible to estimate the amount or range of any potential loss.

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2011 and 2010

NOTE I—COSTS SUBJECT TO AUDIT

Costs incurred by IREX are subject to the regulations of granting agencies and may be disallowed after review and audit. Final negotiated rates have been approved through 2010. Management has established a reserve of approximately \$154,000 and \$183,000 for potential disallowed costs as of June 30, 2011 and 2010, respectively. Management believes adjustments, if any, in excess of this reserve would not be material to the financial statements or major programs.

NOTE J—SUBSEQUENT EVENTS

IREX evaluated its June 30, 2011 financial statements for subsequent events through November 14, 2011, the date the financial statements were available to be issued. IREX is not aware of any subsequent events which would require recognition or disclosure in the financial statements.