



Financial Statements and Report of Independent  
Certified Public Accountants

**International Research & Exchanges Board, Inc.**

June 30, 2015 and 2014

# International Research & Exchanges Board, Inc.

## Contents

---

<b>Report of Independent Certified Public Accountants</b>	3–4
---	-----

### **Financial Statements**

Statements of Financial Position	5
Statements of Activities and Changes in Net Assets	6
Statements of Cash Flows	7–8
Notes to Financial Statements	9–20

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors  
International Research & Exchanges Board, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of International Research & Exchange Board, Inc., a nonprofit organization, (the “Entity”), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets and cash flows for 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 accounting principles generally accepted in the United States of America; 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.

**Auditor’s 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 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 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 auditor’s 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 Entity’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 Entity’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 International Research & Exchange Board, Inc. as of June 30, 2015 and 2014, and its statements of activities and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 11, 2015, on our consideration of the Entity'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control over financial reporting and compliance.



Baltimore, Maryland  
November 11, 2015

# International Research & Exchanges Board, Inc.

## Statements of Financial Position

<i>June 30,</i>	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,730,866	\$ 2,275,580
Restricted cash	—	169,703
Short-term investments	3,643,041	2,165,036
Grants receivable, net of reserve for potential disallowed costs of approximately \$112,400 and \$78,700 for 2015 and 2014, respectively	1,697,308	6,112,838
Prepaid expenses and other assets	621,070	826,196
<b>Total Current Assets</b>	<b>9,692,285</b>	<b>11,549,353</b>
Property and equipment, net	2,773,269	2,889,642
Long-term investments	10,113,395	8,896,792
<b>Total Assets</b>	<b>\$ 22,578,948</b>	<b>\$ 23,335,787</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 4,824,204	\$ 4,240,696
Deferred revenue	4,576,281	5,715,954
<b>Total Current Liabilities</b>	<b>9,400,486</b>	<b>9,956,650</b>
Deferred rent - non current	2,706,921	2,753,102
Other non-current liabilities	—	169,703
<b>Total Liabilities</b>	<b>12,107,407</b>	<b>12,879,455</b>
<b>Net Assets</b>		
Unrestricted assets	8,298,461	8,292,111
Temporarily restricted	789,080	780,221
Permanently restricted	1,384,000	1,384,000
<b>Total Net Assets</b>	<b>10,471,541</b>	<b>10,456,332</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 22,578,948</b>	<b>\$ 23,335,787</b>

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

**International Research & Exchanges Board, Inc.**

Statements of Activities and Change in Net Assets

*Year ended June 30, 2015*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>				
Federal grants and contracts	\$ 62,751,771	\$ —	\$ —	\$ 62,751,771
Private grants and contracts	7,281,815	—	—	7,281,815
Contributions	295,960	—	—	295,960
Other revenue	34,353	—	—	34,353
	70,363,899	—	—	70,363,899
In-kind support	8,610,066	—	—	8,610,066
<b>Total Revenue and Other Support</b>	<b>78,973,965</b>	<b>—</b>	<b>—</b>	<b>78,973,965</b>
<b>Expenses</b>				
Program activities	63,420,498	—	—	63,420,498
In-kind expenses	8,610,066	—	—	8,610,066
<b>Total Program Expenses</b>	<b>72,030,564</b>	<b>—</b>	<b>—</b>	<b>72,030,564</b>
<b>Other Expenses</b>				
General administration	7,133,703	—	—	7,133,703
<b>Total Expenses</b>	<b>79,164,267</b>	<b>—</b>	<b>—</b>	<b>79,164,267</b>
<b>Change in Net Assets Before Investment Return</b>	<b>(190,302)</b>	<b>—</b>	<b>—</b>	<b>(190,302)</b>
<b>Investment Return, net</b>	<b>196,652</b>	<b>8,859</b>	<b>—</b>	<b>205,511</b>
<b>Change in Net Assets</b>	<b>6,350</b>	<b>8,859</b>	<b>—</b>	<b>15,209</b>
<b>Net Assets, beginning of year</b>	<b>8,292,111</b>	<b>780,221</b>	<b>1,384,000</b>	<b>10,456,332</b>
<b>Net Assets, end of year</b>	<b>\$ 8,298,461</b>	<b>\$ 789,080</b>	<b>\$ 1,384,000</b>	<b>\$ 10,471,541</b>

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

**International Research & Exchanges Board, Inc.**

Statements of Activities and Change in Net Assets

*Year ended June 30, 2014*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>				
Federal grants and contracts	\$ 58,551,134	\$ —	\$ —	\$ 58,551,134
Private grants and contracts	11,359,622	—	—	11,359,622
Contributions	35,859	—	—	35,859
Other revenue	112,810	—	—	112,810
	70,059,425	—	—	70,059,425
In-kind support	5,851,753	—	—	5,851,753
<b>Total Revenue and Other Support</b>	<b>75,911,178</b>	<b>—</b>	<b>—</b>	<b>75,911,178</b>
<b>Expenses</b>				
Program activities	63,628,089	—	—	63,628,089
In-kind expenses	5,851,753	—	—	5,851,753
<b>Total Program Expenses</b>	<b>69,479,842</b>	<b>—</b>	<b>—</b>	<b>69,479,842</b>
<b>Other Expenses</b>				
General administration	6,550,928	—	—	6,550,928
<b>Total Expenses</b>	<b>76,030,770</b>	<b>—</b>	<b>—</b>	<b>76,030,770</b>
<b>Change in Net Assets Before Investment Return</b>	<b>(119,592)</b>	<b>—</b>	<b>—</b>	<b>(119,592)</b>
<b>Investment Return, net</b>	<b>1,128,052</b>	<b>59,232</b>	<b>—</b>	<b>1,187,284</b>
<b>Change in Net Assets</b>	<b>1,008,460</b>	<b>59,232</b>	<b>—</b>	<b>1,067,692</b>
<b>Net Assets, beginning of year</b>	<b>7,283,651</b>	<b>720,989</b>	<b>1,384,000</b>	<b>9,388,640</b>
<b>Net Assets, end of year</b>	<b>\$ 8,292,111</b>	<b>\$ 780,221</b>	<b>\$ 1,384,000</b>	<b>\$ 10,456,332</b>

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

# International Research & Exchanges Board, Inc.

## Statements of Cash Flows

<i>Year ended June 30,</i>	<b>2015</b>	<b>2014</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 15,209	\$ 1,067,692
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	438,811	416,645
Allowance for doubtful account	112,400	78,700
Net realized and unrealized gain on investments	(228,366)	(1,071,012)
Changes in assets and liabilities		
Grants receivable	4,303,130	(3,678,921)
Prepaid expenses and other assets	205,126	498,892
Accounts payable and accrued expenses	583,508	713,701
Deferred rent	(46,181)	(7,076)
Deferred revenue	(1,139,673)	(3,777,295)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>4,243,964</b>	<b>(5,758,674)</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(2,466,840)	(4,617,488)
Proceeds from sale of investments	601	9,667,757
Purchase of property and equipment	(322,439)	(263,456)
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>(2,788,678)</b>	<b>4,786,813</b>
<b>Change in Cash and Cash Equivalents</b>	<b>1,455,286</b>	<b>(971,861)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>2,275,580</b>	<b>3,247,441</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 3,730,866</b>	<b>\$ 2,275,580</b>

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



*June 30, 2015 and 2014*

---

### **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, Latin America and Africa. A significant portion of IREX's operations is carried out in foreign countries.

IREX receives funds from the Department of State (DOS), United States (U.S.) Agency for International Development (USAID), other federal agencies, and private-sector sources. Approximately 79 percent and 77 percent of the funds received in 2015 and 2014, respectively, were through awards from the U.S. government.

#### ***Basis of Presentation***

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

In order to carry forward its mission IREX has a number of field offices in foreign countries. 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 2014, negotiated indirect rate agreement (NICRA) was signed by the cognizant agency on July 20, 2015.

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.

---

*June 30, 2015 and 2014*

---

**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 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, 2015 and 2014, IREX held cash in foreign accounts designated for program purposes totaling \$543,291 and \$576,653, respectively.

***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.

---

*June 30, 2015 and 2014*

---

**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 the accompanying statements of activities and changes in net assets.

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 with a fair market value exceeding \$5,000 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 2015 and 2014 since management believes there is no material unrelated business income or material uncertain tax positions requiring the recognition of a liability. IREX believes it is no longer subject to income tax examinations prior to 2012.

***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, 2015 and 2014*

---

**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.

***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.

***Concentration of Credit Risk***

Financial instruments which potentially subject IREX (“the Company”) to concentrations of credit risk consist primarily of cash and cash equivalents. At times, the Company maintains cash balances in financial institutions which may exceed federally insured limits. The uninsured amount for all cash accounts at June 30, 2015 amounted to \$3,767,337. The Company has not experienced any losses in its accounts and believes it is not exposed to significant credit risk on its cash and cash equivalents.

# International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

*June 30, 2015 and 2014*

## NOTE B—INVESTMENTS

Investments comprised of the following as of June 30:

	2015	2014
Short-term investments:		
Money market reserves and certificates of deposit	\$ 3,643,041	\$ 2,165,036
Total Short-term investments	3,643,041	2,165,036
Long-term investments:		
Mutual funds	10,113,395	8,896,792
Total Long-term investments	\$ 10,113,395	\$ 8,896,792
Total Investments	\$ 13,756,436	\$ 11,061,828

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

	2015	2014
Unrealized gains	\$ 227,765	\$ 264,597
Realized gains	601	806,415
Investment interest and dividends	(101,264)	170,280
Investment management fees	(22,854)	(45,451)
	104,247	1,195,841
Interest on restricted investments classified as other expense	101,263	(8,558)
Investment return less interest expense	\$ 205,511	\$ 1,187,284

# International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2015 and 2014

## 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.

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, 2015:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 3,643,041	\$ —	\$ —	\$ 3,643,041
Mutual funds	10,113,395	—	—	10,113,395
<b>Total</b>	<b>\$ 13,756,436</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 13,756,436</b>

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, 2014:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,165,036	\$ —	\$ —	\$ 2,165,036
Mutual funds	8,896,792	—	—	8,896,792
	<b>\$ 11,061,828</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 11,061,828</b>

# International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

*June 30, 2015 and 2014*

## NOTE D—PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2015	2014
Furniture, equipment and computer software	\$ 1,928,006	\$ 1,605,567
Leasehold improvements	2,948,870	2,948,870
	4,876,876	4,554,438
Accumulated depreciation	(2,103,607)	(1,664,796)
	\$ 2,773,269	\$ 2,889,642

The Company recorded depreciation expense of \$438,811 and \$416,645 for the year ended June 30, 2015 and 2014, respectively.

## 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, 2015 are as follows:

	Balance June 30, 2014	Investment Gains	Net Assets Released from Restriction	Balance June 30, 2015
NEH endowment-supported Programs	\$ 780,221	\$ 8,859	\$ —	\$ 789,080

Temporarily restricted net assets were released from restrictions by incurring expenses satisfying the program restriction. Temporarily restricted net assets at June 30, 2014 are as follows:

	Balance June 30, 2013	Investment Gains	Net Assets Released from Restriction	Balance June 30, 2014
NEH endowment-supported Programs	\$ 720,989	\$ 59,232	\$ —	\$ 780,221

# International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

*June 30, 2015 and 2014*

## NOTE F—PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2015 and 2014 consist of the following endowment funds:

	2015	2014
National Endowment for Humanities (NEH)	\$ 384,000	\$ 384,000
Andrew W. Mellon Foundation (Mellon)	1,000,000	1,000,000
	<u>\$ 1,384,000</u>	<u>\$ 1,384,000</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.

### *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 Fund to be used to pay operating expenses. Should the total return from the endowment funds be less than 5% (over the trailing 36 months), 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 preserve the long-term real purchasing power of assets, while providing 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.



# International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

*June 30, 2015 and 2014*

## 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	\$ 789,080	\$ 1,384,000	\$ 2,173,080

Changes in permanently restricted net assets for the year ended June 30, 2015 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 780,221	\$ 1,384,000	\$ 2,164,221
Investment return			
Investment income	8,859	—	8,859
Net appreciation (realized and unrealized)	—	—	—
Total investment return	8,859	—	8,859
Appropriation of endowment assets per donor request	—	—	—
Endowment net assets, end of year	\$ 789,080	\$ 1,384,000	\$ 2,173,080

**International Research & Exchanges Board, Inc.**

Notes to Financial Statements—Continued

*June 30, 2015 and 2014*

**NOTE F—PERMANENTLY RESTRICTED NET ASSETS—Continued**

*Funds with Deficiencies—Continued*

	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 780,221	\$ 1,384,000	\$ 2,164,221

Changes in permanently restricted net assets for the year ended June 30, 2014 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 720,989	\$ 1,384,000	\$ 2,104,989
Investment return			
Investment income	8,068	—	8,068
Net appreciation (realized and unrealized)	51,164	—	51,164
Total investment return	59,232	—	59,232
Appropriation of endowment assets per donor request	—	—	—
Endowment net assets, end of year	\$ 780,221	\$ 1,384,000	\$ 2,164,221

# International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

---

*June 30, 2015 and 2014*

---

## NOTE G—RETIREMENT PLAN

IREX has a defined contribution retirement plan, which covers eligible employees starting on their first day of service. Employees who enroll will receive 1:1 match on their salary deferrals up to 5% of their gross salary for the first two years of employment. These funds will become vested with the employee after two years of service. If an employee voluntarily leaves IREX before vesting, they will forfeit the IREX matching funds accrued during that period. After two years of cumulative eligible service, but less than ten years of cumulative eligible service, enrolled employees will receive a 2:1 match on their salary deferrals up to 5% of their gross salary. Enrolled employees with more than ten years of cumulative eligible service will receive a 3:1 match on their salary deferrals up to 5% of their gross salary.

During 2015 and 2014, IREX contributed \$831,354 and \$689,470, respectively, to the plan.

---

## 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,*

---

2016	\$ 2,224,455
2017	1,876,540
2018	1,824,842
2019	1,849,974
2020	1,830,069
Thereafter	9,250,796
	<hr/>
	\$ 18,856,676

Rent expense for the years ended June 30, 2015 and 2014 (including field offices) was \$1,572,732 and \$1,572,589, respectively.

The Washington D.C. office lease provides 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.

# International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

---

*June 30, 2015 and 2014*

---

## NOTE H—COMMITMENTS AND CONTINGENCIES—Continued

On October 1, 2013, IREX entered into a two year (with a third year option) sub-lease agreement with Resonate. Under this agreement, IREX sublet 3,520 square feet of unused office space to Resonate at a rate of \$144,320 for the base year, future rent receipts are as follows:

*Years ending June 30,*

---

2016	\$	154,596
2017		39,024
	\$	<u>193,620</u>

---

## 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 2014. Management has established a reserve of approximately \$112,400 and \$78,700 for potential disallowed costs for as of June 30, 2015 and 2014, 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, 2015 financial statements for subsequent events through November 11, 2015, 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.