

# International Research & Exchanges Board, Inc.

## Audited Consolidated Financial Statements

*Years ended June 30, 2020 and 2019  
with Report of Independent Auditors*

International Research & Exchanges Board, Inc.

Audited Consolidated Financial Statements

Years ended June 30, 2020 and 2019

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## Report of Independent Auditors

Board of Directors  
International Research & Exchanges Board, Inc.

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of International Research & Exchanges Board, Inc. (collectively, the Organization), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019 and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 over financial reporting. 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of International Research & Exchanges Board, Inc. as of June 30, 2020 and 2019 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Vienna, Virginia  
January 5, 2021

International Research & Exchanges Board, Inc.

Consolidated Statements of Financial Position

	June 30,	
	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 2,409,089	\$ 2,818,483
Short-term investments	340,611	462,836
Grants receivable, net of reserve for potential disallowed costs of approximately \$236,200 and \$284,100 for 2020 and 2019, respectively	6,866,904	6,082,246
Prepaid expenses and other assets	882,636	1,192,164
Property and equipment, net	1,462,807	1,598,656
Long-term investments	11,063,579	11,108,960
Total assets	<u>\$ 23,025,626</u>	<u>\$ 23,263,345</u>
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,395,582	\$ 4,932,664
Refundable advances	4,424,516	4,947,248
Deferred revenue	72,400	36,559
Deferred rent	1,854,347	2,111,218
Deferred compensation liability	295,220	233,401
Total liabilities	12,042,065	12,261,090
Net assets:		
Without donor restrictions	8,698,380	8,731,851
With donor restrictions	2,285,181	2,270,404
Total net assets	<u>10,983,561</u>	<u>11,002,255</u>
Total liabilities and net assets	<u>\$ 23,025,626</u>	<u>\$ 23,263,345</u>

See accompanying notes to the consolidated financial statements.

International Research & Exchanges Board, Inc.

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2020

	Without donor restrictions	With donor restrictions	Total
<b>Revenue and support</b>			
Federal grants and contracts	\$ 74,455,405	\$ -	\$ 74,455,405
Private grants and contracts	3,824,879	-	3,824,879
Contributions	162,034	-	162,034
Other revenue	85,730	-	85,730
In-kind support	8,480,946	-	8,480,946
	<hr/>	<hr/>	<hr/>
Total revenue and other support	87,008,994	-	87,008,994
<b>Expenses</b>			
Program services:			
Information and Media	20,960,418	-	20,960,418
Education	11,817,133	-	11,817,133
Communities and Governance	7,016,569	-	7,016,569
Leadership	31,199,258	-	31,199,258
Youth	1,904,141	-	1,904,141
Other program services	308,718	-	308,718
Total program services	<hr/>	<hr/>	<hr/>
	73,206,237	-	73,206,237
Supporting services:			
Fundraising	26,830	-	26,830
Management and General - indirect	14,229,596	-	14,229,596
Total supporting services	<hr/>	<hr/>	<hr/>
	14,256,426	-	14,256,426
	<hr/>	<hr/>	<hr/>
Total expenses	87,462,663	-	87,462,663
Change in net assets before investment return, net	(453,669)	-	(453,669)
Investment return, net	<hr/>	<hr/>	<hr/>
	420,198	14,777	434,975
Change in net assets	(33,471)	14,777	(18,694)
Net assets, beginning of year	<hr/>	<hr/>	<hr/>
	8,731,851	2,270,404	11,002,255
Net assets, end of year	<hr/>	<hr/>	<hr/>
	\$ 8,698,380	\$ 2,285,181	\$ 10,983,561

See accompanying notes to the consolidated financial statements.

International Research & Exchanges Board, Inc.

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
<b>Revenue and support</b>			
Federal grants and contracts	\$ 79,694,801	\$ -	\$ 79,694,801
Private grants and contracts	5,282,085	-	5,282,085
Contributions	117,835	-	117,835
Other revenue	103,602	-	103,602
In-kind support	3,400,338	-	3,400,338
	<hr/>	<hr/>	<hr/>
Total revenue and other support	88,598,661	-	88,598,661
<b>Expenses</b>			
Program services:			
Information and Media	23,418,987	-	23,418,987
Education	11,601,411	-	11,601,411
Communities and Governance	9,184,744	-	9,184,744
Leadership	26,901,763	-	26,901,763
Youth	3,326,831	-	3,326,831
Other program services	815,432	-	815,432
Total program services	<hr/>	<hr/>	<hr/>
	75,249,168	-	75,249,168
Supporting services:			
Fundraising	46,470	-	46,470
Management and General – direct	169,375	-	169,375
Management and General – indirect	13,745,864	-	13,745,864
Total supporting services	<hr/>	<hr/>	<hr/>
	13,961,709	-	13,961,709
	<hr/>	<hr/>	<hr/>
Total expenses	89,210,877	-	89,210,877
Change in net assets before investment return, net	(612,216)	-	(612,216)
Investment return, net	<hr/>	<hr/>	<hr/>
	619,180	22,981	642,161
Change in net assets	6,964	22,981	29,945
Net assets, beginning of year	<hr/>	<hr/>	<hr/>
	8,724,887	2,247,423	10,972,310
Net assets, end of year	<hr/>	<hr/>	<hr/>
	\$ 8,731,851	\$ 2,270,404	\$ 11,002,255

See accompanying notes to the consolidated financial statements.

# International Research & Exchanges Board, Inc.

## Consolidated Statements of Functional Expenses

Years ended June 30, 2020 and 2019

	Program services						Supporting services				2020 Total Expenses
	Information & Media	Education	Communities & Governance	Leadership	Youth	Other	Programs Total	Fundraising	Management & General - indirect	Supporting Subtotal	
Salaries & benefits	\$ 6,553,593	\$ 2,637,478	\$ 3,095,908	\$ 4,223,630	\$ 1,122,831	\$ 87,924	\$ 17,721,364	\$ 11,335	\$ 9,313,213	\$ 9,324,548	\$ 27,045,912
Grants & contributions	7,464,859	3,299,359	2,428,597	4,769,843	242,071	130,319	18,335,048	-	-	-	18,335,048
Assistance to individuals	558,200	3,352,713	137,952	9,806,938	65,613	3,841	13,925,257	-	-	-	13,925,257
Professional services	4,097,260	675,627	359,417	1,018,965	86,881	48,850	6,287,000	12,201	2,402,058	2,415,259	8,702,259
Conferences	478,929	469,950	80,726	2,233,288	33,388	9,907	3,206,188	1,817	172,188	174,005	3,480,193
Travel	716,752	444,152	222,339	670,011	60,470	12,377	2,126,101	159	392,221	392,380	2,518,481
Occupancy	567,673	288,986	267,272	598,943	108,766	11,877	1,843,517	1,027	1,045,146	1,046,173	2,889,690
Equipment, supplies, & office operations	280,172	182,777	190,198	219,445	38,143	23,085	933,820	145	539,627	539,772	1,473,592
Depreciation	33,107	27,759	13,644	50,152	4,986	1,025	130,673	144	234,868	235,012	365,685
Other	17,231	3,059	81,718	26,075	8,727	(20,487)	116,323	2	129,275	129,277	245,600
In-kind contributions	192,642	435,273	138,798	7,581,968	132,265	-	8,480,946	-	-	-	8,480,946
<b>Total expenses</b>	<b>\$ 20,960,418</b>	<b>\$ 11,817,133</b>	<b>\$ 7,016,569</b>	<b>\$ 31,199,258</b>	<b>\$ 1,904,141</b>	<b>\$ 308,718</b>	<b>\$ 73,206,237</b>	<b>\$ 26,830</b>	<b>\$ 14,229,596</b>	<b>\$ 14,256,426</b>	<b>\$ 87,462,663</b>

	Program services						Supporting services				2019 Total Expenses	
	Information & Media	Education	Communities & Governance	Leadership	Youth	Other	Programs Total	Fundraising	Management & General - direct	Management & General - indirect		Supporting Subtotal
Salaries & benefits	\$ 6,205,731	\$ 3,122,674	\$ 3,188,152	\$ 4,140,266	\$ 1,699,462	\$ 176,089	\$ 18,532,374	\$ 27,322	\$ 150,950	\$ 8,618,572	\$ 8,796,844	\$ 27,329,218
Grants & contributions	8,493,073	2,723,630	3,805,986	4,584,518	698,054	256,458	20,561,719	-	-	-	-	20,561,719
Assistance to individuals	775,305	2,302,057	226,960	12,140,680	266,465	17,968	15,729,435	-	-	-	-	15,729,435
Professional services	4,180,285	849,980	653,074	979,816	183,944	29,862	6,876,961	12,135	826	2,322,038	2,334,999	9,211,960
Conferences	321,880	1,020,318	335,443	1,887,136	98,562	37,681	3,701,020	-	-	219,251	219,251	3,920,271
Travel	1,147,558	575,433	384,968	613,735	201,807	39,360	2,962,861	3,213	-	704,864	708,077	3,670,938
Occupancy	556,171	329,707	277,354	471,704	136,010	23,242	1,794,188	2,742	13,824	988,835	1,005,401	2,799,589
Equipment, supplies, & office operations	584,310	213,323	197,490	176,029	106,218	23,502	1,300,872	692	1,752	530,560	533,044	1,833,876
Depreciation	32,818	28,952	14,028	47,226	5,123	2,348	130,495	366	2,023	250,540	252,929	383,424
Other	23,020	5,946	5,829	8,159	7,029	208,922	258,905	-	-	111,204	111,204	370,109
In-kind contributions	1,098,836	429,391	95,460	1,852,494	(75,843)	-	3,400,338	-	-	-	-	3,400,338
<b>Total expenses</b>	<b>\$ 23,418,987</b>	<b>\$ 11,601,411</b>	<b>\$ 9,184,744</b>	<b>\$ 26,901,763</b>	<b>\$ 3,326,831</b>	<b>\$ 815,432</b>	<b>\$ 75,249,168</b>	<b>\$ 46,470</b>	<b>\$ 169,375</b>	<b>\$ 13,745,864</b>	<b>\$ 13,961,709</b>	<b>\$ 89,210,877</b>

See accompanying notes to the consolidated financial statements.



International Research & Exchanges Board, Inc.

Consolidated Statements of Cash Flows

	Years ended June 30,	
	2020	2019
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (18,694)	\$ 29,945
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	365,685	383,424
Reserve for potential disallowed costs	(47,900)	191,900
Net realized and unrealized gain on long-term investments	(434,975)	(642,161)
Net unrealized gain on 457b commitment	16,471	-
Changes in assets and liabilities:		
Grants receivable	(736,758)	(1,133,266)
Prepaid expenses and other assets	309,528	894,515
Accounts payable and accrued expenses	462,918	51,763
Deferred rent	(256,871)	(212,628)
Refundable advances	(522,732)	(768,842)
Deferred revenue	35,841	(16,163)
Net cash used in operating activities	<u>(827,487)</u>	<u>(1,221,513)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	647,929	869,280
Purchase of property and equipment	(229,836)	(232,501)
Net cash provided by investing activities	<u>418,093</u>	<u>636,779</u>
Net change in cash and cash equivalents	(409,394)	(584,734)
Cash and cash equivalents, beginning of year	<u>2,818,483</u>	<u>3,403,217</u>
Cash and cash equivalents, end of year	<u>\$ 2,409,089</u>	<u>\$ 2,818,483</u>

See accompanying notes to the consolidated financial statements.

# International Research & Exchanges Board, Inc.

## Notes to Consolidated Financial Statements

Years ended June 30, 2020 and 2019

### **Note A - Summary of Significant Accounting Policies and General Information**

#### *Nature of Operations*

The International Research & Exchanges Board, Inc. (IREX or the Organization), 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, 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 U.S. Department of State (DOS), the U.S. Agency for International Development (USAID), other Federal agencies, and private-sector sources. Approximately 86 percent and 90 percent of the funds received in 2020 and 2019 including cost share, respectively, were through awards from the U.S. government.

The Academy for International Development Education and Research, Limited Liability Company (LLC) (AIDER) was registered as a limited liability company under the laws of the Commonwealth of Virginia effective March 1, 2017. The purpose of AIDER is to support the mission of IREX and the advancement of standards in global education, information and media and to support the empowerment of youth in leading and developing their own communities. AIDER has a subsidiary incorporated in the Republic of Turkey, Consultancy Solutions, Joint Stock Company (JSC), which is included in AIDER's financial results. Consultancy Solutions' legal entity structure was converted from a LLC to a JSC effective December 26, 2019. The change in legal entity structure did not result in any significant difference for financial reporting purposes.

Together We Thrive, LLC (TWT) is a limited liability company whose mission is to build more just, prosperous and inclusive societies around the world by empowering youth, cultivating leaders, strengthening institutions and extending access to quality education and information.

#### *Basis of Presentation*

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

#### *Principles of Consolidation*

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 separate field offices in such countries. All activities of the field offices noted above, AIDER and TWT are reflected in the accompanying consolidated financial statements. All significant inter-entity transactions and balances have been eliminated in consolidation.

## International Research & Exchanges Board, Inc.

### Notes to Consolidated Financial Statements (Continued)

#### **Note A - Summary of Significant Accounting Policies and General Information (Continued)**

##### *Risks and Uncertainties*

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Organization is unable to determine if it will have a material impact to its operations.

##### *Recently Adopted Accounting Pronouncements*

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958). The core principal of ASU 2018-08 is to clarify when the transfer of an asset or the extinguishment of a liability (the transaction) meets the definition of an exchange transaction or a contribution. When the transaction is an exchange transaction, an entity must apply Topic 606, Revenue from Contracts and Customers or other applicable Topics. When the transaction is a contribution, the ASU clarifies when the contribution is conditional and when revenue should be recognized. IREX implemented ASU 2018-08 prospectively to the year ending June 30, 2020, with no impact on ending net assets. As a result of this adoption, Federal and private grants and contracts, which were previously treated as exchange transactions prior to the adoption of ASU 2018-08, were treated as contributions for the year ended June 30, 2020.

FASB Accounting Standards Codification Topic 606, Revenue from Contracts with Customers, as amended, supersedes or replaces nearly all accounting principles generally accepted in the United States of America (GAAP) revenue recognition guidance. This standard establishes a new contract and control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, and expands disclosures about revenue. IREX has implemented ASU 2014-09 and its related amendments and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied using a modified retrospective basis to all periods presented, with no effect on net assets.

##### *Revenue Recognition for Grants and Contracts*

Federal and private grants and contracts are recognized when an unconditional promise to give is received. Conditional promises to give, with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Contributions received prior to meeting the conditions are reported as refundable advances in the consolidated statements of financial position. Contributions are recorded as with donor restrictions or without donor restrictions, depending on the existence or nature of any donor-imposed restrictions. Restricted support that expires in the same period is classified as net assets without donor restrictions. As of June 30, 2020, conditional contributions of \$4,424,516 have not been recognized in the accompanying consolidated statements of activities, and are classified as refundable advances because the conditions for recognition have not been met.

## International Research & Exchanges Board, Inc.

### Notes to Consolidated Financial Statements (Continued)

#### **Note A - Summary of Significant Accounting Policies and General Information (Continued)**

##### *Revenue Recognition for Grants and Contracts (continued)*

The majority of the Organization's revenue is derived from cost-reimbursable grants from the Federal government or other sources. Amounts received are recognized as revenue when expenses have been incurred in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenses are reported as refundable advances in the consolidated statements of financial position. As of June 30, 2020, \$1,524,401 of conditional contributions from the Federal awards have not been recognized as revenue because qualifying expenditures have not yet been incurred. In addition, \$2,900,115 of conditional contributions from private grants as of June 30, 2020 have not been recognized as revenue because qualifying expenditures have not yet been incurred. The total of conditional contributions for which qualifying expenditures have not yet been incurred from both Federal and Private sources of \$4,424,516 has been reported as refundable advances in the consolidated statements of financial position as of June 30, 2020.

##### *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:

Net assets without donor restrictions—Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization.

Net assets with donor restrictions—Net assets that are subject to stipulations imposed by donors. This includes 1) funds that are restricted by donors requiring that the principal be invested in perpetuity. The earnings on these funds are used for operations in accordance with a spending policy approved by the Board of Directors or based on the restriction associated with the funds. 2) Investment returns on certain funds that are restricted by donors. When the purpose or time period restriction is met, these assets may be reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

##### *Cash and Cash Equivalents*

For consolidated financial statement purposes, the Organization 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.

##### *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 consolidated statements of activities and changes in net assets.

## International Research & Exchanges Board, Inc.

### Notes to Consolidated Financial Statements (Continued)

#### **Note A - Summary of Significant Accounting Policies and General Information (Continued)**

##### *Functional expenses*

The cost of program and supporting activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Costs that can be identified specifically with a particular cost objective or project are charged directly to the applicable grant, cooperative agreement, or contract within a program. Certain categories of expenses are attributed to more than one program or supporting function, and therefore, require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, fringe and facilities costs. Fringe and facilities are embedded in salaries and benefits, professional services, occupancy, equipment, supplies and office, and depreciation in the consolidated statements of functional expenses. Salaries and benefits are allocated based on actual time and effort. Fringe costs are allocated based on US hired staff salaries and wages. Facilities costs are allocated based on headquarter-based staff salaries and benefits and the cost of temporary agency employees.

##### *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 consolidated statements of activities and changes in net assets.

The Organization occasionally purchases and expenses equipment for overseas projects with funds received from the USG and private grantors. Title is determined by the terms of the awards. Usually 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 under USG awards with a fair market value exceeding \$5,000 are returned to the respective grantor.

The Organization capitalizes certain costs associated with computer software developed or obtained for internal use and website development. The Organization'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 maintenance, 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*

The Organization follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the consolidated financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

IREX is exempt from U.S. Federal income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. AIDER and TWT are disregarded entities for U.S. Federal income tax purposes.

## International Research & Exchanges Board, Inc.

### Notes to Consolidated Financial Statements (Continued)

#### **Note A - Summary of Significant Accounting Policies and General Information (Continued)**

##### *Income Tax (continued)*

Additionally, in certain circumstances, IREX is required to withhold Federal income tax for payments of taxable scholarships, fellowships and grants to nonresident aliens. Federal income taxes were withheld relating to this of approximately \$1,200,000 and \$400,000 for the years ended June 30, 2020 and 2019, respectively.

No provision for income taxes has been recorded in 2020 and 2019 because management believes there is no material unrelated business income tax. IREX has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. IREX has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

##### *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.

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.

Investment return, net consists of interest and dividends earned from cash, cash equivalents and investments, net of related investment management expenses, along with the change in fair value of investments including gains and losses realized upon sales and unrealized resulting from fluctuations in market values of investments.

##### *Using Estimates in Preparing Financial Statements*

In preparing consolidated financial statements in conformity with GAAP, 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 consolidated financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates.

International Research & Exchanges Board, Inc.

Notes to Consolidated Financial Statements (Continued)

**Note A - Summary of Significant Accounting Policies and General Information (Continued)**

*Concentration of Credit Risk*

Financial instruments which potentially subject IREX to concentrations of credit risk consist primarily of cash and cash equivalents. At times, the Organization maintains cash balances in financial institutions which may exceed Federally insured limits. IREX also holds cash in foreign accounts that do not have Federal insurance protection similar to that of cash accounts held in the United States. Available protections vary by countries. The Organization has not experienced any losses in its accounts and believes it is not exposed to significant credit risk on its cash and cash equivalents.

*Subsequent Events*

IREX has evaluated its consolidated financial statements for subsequent events through January 5, 2021, the date the consolidated financial statements were available to be issued. See Note I for further information regarding subsequent events.

*Reclassifications*

Certain 2019 balances have been reclassified to conform to the 2020 presentation.

**Note B - Liquidity and Availability of Resources**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the consolidated statements of financial position, comprise the following:

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	\$ 2,409,089	\$ 2,818,483
Grants receivable, net	6,866,904	6,082,246
Short-term investments	340,611	462,836
Long-term investments	11,063,579	11,108,960
Total financial assets	20,680,183	20,472,525
Less amounts not available to be used within one year:		
Deferred compensation liability	295,220	233,401
Refundable advances	4,424,516	4,947,248
Net assets with donor restrictions	2,285,181	2,270,404
	7,004,917	7,451,053
Financial assets available to meet general expenditures over the next twelve months	\$ 13,675,266	\$ 13,021,472

International Research & Exchanges Board, Inc.

Notes to Consolidated Financial Statements (Continued)

**Note B - Liquidity and Availability of Resources (Continued)**

IREX management structures its financial assets to be available to pay for general expenditures, liabilities, and other obligations as they come due. IREX maintains financial assets to meet 90 days of operating expenses as a goal. Cash and cash equivalents are immediately available for liquidity purposes. IREX believes that all amounts included in grants receivable, net will be collected within a year. Since there are no restrictions upon the amounts included in grants receivable, these will be available to be used for general expenditures when collected. At the same time, IREX invests in short- and long-term investment mutual funds to generate interest and returns on the principal to increase its liquidity capacities. IREX invests net assets without donor restrictions in its long-term investments, such as mutual funds.

The funds IREX invests in its 457b retirement plan are not available to pay for general expenditures, liabilities, and other obligations due to the nature of the 457b plan. Refundable advances contain a right of return to third-party grantors and measurable performance barriers that have not been met as of year-end. Accordingly, management considers these unavailable for general expenditures. Net assets with donor restrictions are invested in the IREX long-term investment account, including net assets that are restricted by specific purposes by the donors and that are not available for general expenditures.

**Note C - Investments and Fair Value Measurements**

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:

	<u>2020</u>	<u>2019</u>	<u>Level</u>
Short-term investments:			
Money market reserves and certificates of deposit	\$ 340,611	\$ 462,836	N/A
Total short-term investments	340,611	462,836	
Long-term investments:			
Mutual funds	11,063,579	11,108,960	1
Total long-term investments	11,063,579	11,108,960	
Total investments	<u>\$ 11,404,190</u>	<u>\$ 11,571,796</u>	

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

	<u>2020</u>	<u>2019</u>
Unrealized gains, net	\$ 368,996	\$ 594,481
Realized gains, net	86,054	67,428
Investment management fees	(20,075)	(19,748)
Investment return, net	<u>\$ 434,975</u>	<u>\$ 642,161</u>

*Mutual Funds*

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



International Research & Exchanges Board, Inc.

Notes to Consolidated Financial Statements (Continued)

**Note D - Property and Equipment**

Property and equipment consist of the following at June 30:

	2020	2019
Furniture, equipment and computer software	\$ 2,743,292	\$ 2,513,456
Leasehold improvements	2,948,870	2,948,870
	5,692,162	5,462,326
Accumulated depreciation	(4,229,355)	(3,863,670)
	<u>\$ 1,462,807</u>	<u>\$ 1,598,656</u>

The Organization recorded depreciation expense of \$365,685 and \$383,424 for the years ended June 30, 2020 and 2019, respectively.

**Note E - Net Assets with Donor Restrictions and Endowments**

As of June 30, 2020, and 2019, net assets with donor restrictions consist of 1) investment income restricted for the purpose of conducting National Endowment for the Humanities (NEH) endowment-supported programs; 2) investment principal restricted for the purpose of conducting NEH endowment-supported programs and Mellon-endowment supported programs. No material NEH endowment-supported programs and Mellon-endowment supported programs were conducted during the years ended June 30, 2020 and 2019, and accordingly, no net assets relating to this purpose were released from restriction.

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	Balance June 30, 2019	Investment Gains	Net Assets Released from Restriction	Balance June 30, 2020
Specific purpose:				
Humanities activities	\$ 886,404	\$ 14,777	\$ -	\$ 901,181
Perpetual in nature:				
Humanities activities	384,000	-	-	384,000
Mellon-endorsed activities	1,000,000	-	-	1,000,000
Total	<u>\$ 2,270,404</u>	<u>\$ 14,777</u>	<u>\$ -</u>	<u>\$ 2,285,181</u>

International Research & Exchanges Board, Inc.

Notes to Consolidated Financial Statements (Continued)

**Note E – Net Assets with Donor Restrictions and Endowments (Continued)**

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	Balance June 30, 2018	Investment Gains	Net Assets Released from Restriction	Balance June 30, 2019
Specific purpose:				
Humanities activities	\$ 863,423	\$ 22,981	\$ -	\$ 886,404
Perpetual in nature:				
Humanities activities	384,000	-	-	384,000
Mellon-endorsed activities	1,000,000	-	-	1,000,000
Total	<u>\$ 2,247,423</u>	<u>\$ 22,981</u>	<u>\$ -</u>	<u>\$ 2,270,404</u>

Investment income earned on the Mellon endowment funds is available for general purposes without restriction. 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 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 net assets with donor restriction (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 the endowment balance 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 Consolidated Financial Statements (Continued)

**Note E - Net Assets with Donor Restrictions and Endowments (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 net assets without donor restrictions if the NEH restricted funds prior years' accumulated investment income is not sufficient to cover the deficit. Any deficiencies for the Mellon Endowment are covered by net assets without donor restrictions.

The Organization has interpreted applicable state trust law to allow for spending from underwater endowments in a prudent manner. There were no underwater endowment funds as of June 30, 2020 or 2019.

**Note F - Retirement Plan**

IREX has a defined contribution retirement plan, which covers eligible employees starting on their first day of service and funds are 100% vested immediately. All eligible employees receive a 2% discretionary contribution on their eligible compensation. Employees who enroll will receive 1:1 match on their deferrals up to 5% of their eligible compensation. During 2020 and 2019, IREX contributed \$995,621 and \$915,708, respectively, to the plan.

*Deferred Compensation Plan*

During calendar year 2015, IREX established a non-qualified deferred compensation plan under IRC Section 457(b) covering certain management employees. IREX may make non-elective contributions to the 457 (b) plan. The contributions made to the Plan, plus accrued earnings, and the related benefit obligations are held as assets and liabilities, respectively, in the consolidated statements of financial position. Amounts related to the Plan at June 30, 2020 and 2019 of \$295,220, and \$233,401, respectively were reported in the long-term investments and deferred compensation liability on the consolidated statements of financial position.

**Note G - Commitments and Contingencies**

*Leases*

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

<u>Year Ending June 30.</u>		
2021	\$	2,228,435
2022		1,987,271
2023		1,958,574
2024		2,002,337
2025		1,529,736
	\$	<u>9,706,353</u>

Rent expense for the years ended June 30, 2020 and 2019 (including field offices) was \$1,854,410 and \$1,922,747, respectively.

International Research & Exchanges Board, Inc.

Notes to Consolidated Financial Statements (Continued)

**Note G - Commitments and Contingencies (Continued)**

*Leases (continued)*

The organization's Washington, D.C. headquarters 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.

**Note H - 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 2019. Management has established a reserve of approximately \$236,200 and \$284,100 for potential disallowed costs as of June 30, 2020 and 2019, respectively. Management believes adjustments, if any, in excess of this reserve would not be material to the consolidated financial statements or major programs.

**Note I - Subsequent Events**

During July 2020, AIDER was dissolved and Consultancy Solutions, JSC was acquired by Academy for International Education and Research (AIER) on September 1, 2020. AIER is a nonprofit organization incorporated in the Commonwealth of Virginia and was founded to support the advancement of standards on global education, information and media and support the empowerment of youth in leading and developing their own communities. Effective for the year ending June 30, 2021, AIER's financial results will be included in the consolidated financial statements of IREX.