



Financial Statements and Report of Independent
Certified Public Accountants

International Research & Exchanges Board, Inc.

June 30, 2014 and 2013

International Research & Exchanges Board, Inc.

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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, 2014 and 2013, 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, 2014 and 2013, 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 October 29, 2014, 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.



McLean, Virginia
October 29, 2014

International Research & Exchanges Board, Inc.

Statements of Financial Position

<i>June 30,</i>	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,275,580	\$ 3,247,441
Restricted cash	169,703	269,703
Short-term investments	2,165,036	7,618,360
Grants receivable, net of reserve for potential disallowed costs of approximately \$78,700 and \$123,200 for 2014 and 2013, respectively	6,112,838	2,512,617
Prepaid expenses and other assets	826,196	1,325,088
Total current assets	11,549,353	14,973,209
Property and equipment, net	2,889,642	3,042,831
Long-term investments	8,896,792	7,422,725
Total Assets	\$ 23,335,787	\$ 25,438,765
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 4,240,696	\$ 3,526,995
Deferred revenue	5,715,954	9,493,249
Total Current Liabilities	9,956,650	13,020,244
Deferred rent - non current	2,753,102	2,760,178
Other non-current liabilities	169,703	269,703
Total Liabilities	12,879,455	16,050,125
Net Assets		
Unrestricted assets	8,292,111	7,283,651
Temporarily restricted	780,221	720,989
Permanently restricted	1,384,000	1,384,000
Total net assets	10,456,332	9,388,640
Total Liabilities and Net Assets	\$ 23,335,787	\$ 25,438,765

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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
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
Total Revenue and Other Support	75,911,178	—	—	75,911,178
Expenses				
Program activities	63,628,089	—	—	63,628,089
In-kind expenses	5,851,753	—	—	5,851,753
Total Program Expenses	69,479,842	—	—	69,479,842
Other Expenses				
General administration	6,550,928	—	—	6,550,928
Total Expenses	76,030,770	—	—	76,030,770
Change in Net Assets Before Investment Return	(119,592)	—	—	(119,592)
Investment Return, net	1,128,052	59,232	—	1,187,284
Change in Net Assets	1,008,460	59,232	—	1,067,692
Net Assets, beginning of year	7,283,651	720,989	1,384,000	9,388,640
Net Assets, end of year	\$ 8,292,111	\$ 780,221	\$ 1,384,000	\$ 10,456,332

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, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Federal grants and contracts	\$ 54,049,766	\$ —	\$ —	\$ 54,049,766
Private grants and contracts	12,467,578	—	—	12,467,578
Contributions	28,605	—	—	28,605
Other revenue	2,479	—	—	2,479
	66,548,428	—	—	66,548,428
In-kind support	4,559,175	—	—	4,559,175
Total Revenue and Other Support	71,107,603	—	—	71,107,603
Expenses				
Program activities	60,268,231	—	—	60,268,231
In-kind expenses	4,563,775	—	—	4,563,775
Total Program Expenses	64,832,006	—	—	64,832,006
Other Expenses				
General administration	5,663,156	—	—	5,663,156
Total Expenses	70,495,162	—	—	70,495,162
Change in Net Assets Before Investment Return	612,441	—	—	612,441
Investment Return, net	917,692	55,623	—	973,315
Change in Net Assets	1,530,133	55,623	—	1,585,756
Net Assets, beginning of year	5,753,518	665,366	1,384,000	7,802,884
Net Assets, end of year	\$ 7,283,651	\$ 720,989	\$ 1,384,000	\$ 9,388,640

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>	2014	2013
Cash Flows (Used in) Provided by Operating Activities		
Change in net assets	\$ 1,067,692	\$ 1,585,756
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	416,645	297,346
Net realized and unrealized gain on investments	(1,071,012)	(839,058)
Changes in assets and liabilities		
Grants receivable, net	(3,600,221)	714,162
Prepaid expenses and other assets	498,892	854,066
Accounts payable and accrued expenses	713,701	(912,141)
Deferred rent	(7,076)	2,676,519
Deferred revenue	(3,777,295)	350,857
Net Cash (Used in) Provided by Operating Activities	(5,758,674)	4,727,507
Cash Flows from Provided by (Used in) Investing Activities		
Purchase of investments	(4,617,488)	(1,919,883)
Proceeds from sale of investments	9,667,757	1,711,511
Purchase of property and equipment	(263,456)	(2,964,409)
Net Cash Provided by (Used in) Investing Activities	4,786,813	(3,172,781)
Change in Cash and Cash Equivalents	(971,861)	1,554,726
Cash and Cash Equivalents, beginning of year	3,247,441	1,692,715
Cash and Cash Equivalents, end of year	\$ 2,275,580	\$ 3,247,441

The accompanying notes are an integral part of these statements

June 30, 2014 and 2013

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 77 percent and 78 percent of the funds received in 2014 and 2013, 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 2013.

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, 2014 and 2013

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, 2014 and 2013, IREX held cash in foreign accounts designated for program purposes totaling \$576,653 and \$1,583,227, 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, 2014 and 2013

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 2014 and 2013 since management believes there is no material unrelated business income or material uncertain tax positions requiring the recognition of a liability. The tax years 2011, 2012, and 2013 remain subject to examination by taxing authorities.

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, 2014 and 2013

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 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 in FY14 amounted to \$2,587,965. 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, 2014 and 2013

NOTE B—INVESTMENTS

Investments comprised of the following as of June 30:

	2014	2013
Short-term investments:		
Money market reserves and certificates of deposit	\$ 2,165,036	\$ 7,618,360
Total Short-term investments	2,165,036	7,618,360
Long-term investments:		
U.S. equity securities	8,896,792	5,000,675
Fixed income securities	—	2,422,050
Total Long-term investments	\$ 8,896,792	\$ 7,422,725
Total Investments	\$ 11,061,828	\$ 15,041,085

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

	2014	2013
Unrealized gains	\$ 264,597	\$ 716,292
Realized gains	806,415	122,766
Investment interest and dividends	170,280	193,816
Investment management fees	(45,451)	(54,561)
	1,195,841	978,313
Interest on restricted investments classified as other expense	(8,558)	(4,998)
Investment return, net	\$ 1,187,284	\$ 973,315

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2014 and 2013

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, 2014:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,165,036	\$ —	\$ —	\$ 2,165,036
U.S. equity securities	8,896,792	—	—	8,896,792
	<u>\$ 11,061,828</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11,061,828</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, 2013:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 7,618,360	\$ 100,457	\$ —	\$ 7,718,817
U.S. equity securities	5,000,675	—	—	5,000,675
Fixed income securities	470,208	1,851,385	—	2,321,593
	<u>\$ 13,089,243</u>	<u>\$ 1,951,842</u>	<u>\$ —</u>	<u>\$ 15,041,085</u>

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2014 and 2013

NOTE D—PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2014	2013
Furniture, equipment and computer software	\$ 1,605,567	\$ 1,342,112
Leasehold improvements	2,948,870	2,948,870
Accumulated depreciation	4,554,437 (1,664,796)	4,290,982 (1,248,151)
	<u>\$ 2,889,641</u>	<u>\$ 3,042,831</u>

The Organization recorded depreciation expense of \$416,645 and \$297,344 for the year ended June 30, 2014 and 2013, 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, 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

Temporarily restricted net assets were released from restrictions by incurring expenses satisfying the program restriction. Temporarily restricted net assets at June 30, 2013 are as follows:

	Balance June 30, 2012	Investment Gains	Net Assets Released from Restriction	Balance June 30, 2013
NEH endowment-supported programs	\$ 665,366	\$ 55,623	\$ —	\$ 720,989

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2014 and 2013

NOTE F—PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2014 and 2013 consist of the following endowment funds:

	2014	2013
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, 2014 and 2013

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	\$ 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, 2014 and 2013

NOTE F—PERMANENTLY RESTRICTED NET ASSETS—Continued

Funds with Deficiencies—Continued

	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 720,989	\$ 1,384,000	\$ 2,104,989

Changes in permanently restricted net assets for the year ended June 30, 2013 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 665,366	\$ 1,384,000	\$ 2,049,366
Investment return			
Investment income	10,791	—	10,791
Net appreciation (realized and unrealized)	44,832	—	44,832
Total investment return	55,623	—	55,623
Endowment net assets, end of year	\$ 720,989	\$ 1,384,000	\$ 2,104,989

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2014 and 2013

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 2014 and 2013, IREX contributed \$689,470 and \$558,027, 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,

2015	\$ 2,272,667
2016	1,765,286
2017	1,770,084
2018	1,733,507
2019	1,769,774
Thereafter	11,064,814
	<hr/>
	\$ 20,376,132

Rent expense for the years ended June 30, 2014 and 2013 (including field offices) was \$2,825,476 and \$2,640,976, 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, 2014 and 2013

NOTE H—COMMITMENTS AND CONTINGENCIES—Continued

On October 1, 2013, IREX entered into a two year 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,

2015	\$	148,650
2016		37,523
	\$	<u>186,173</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 2013. Management has established a reserve of approximately \$78,700 and \$123,000 for potential disallowed costs for as of June 30, 2014 and 2013, 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, 2014 financial statements for subsequent events through October 29, 2014, 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.