

# International Research & Exchanges Board, Inc.

## Audited Consolidated Financial Statements, Other Financial Information and Uniform Guidance Supplemental Reports

*Years ended June 30, 2021 and 2020  
with Report of Independent Auditors*

International Research & Exchanges Board, Inc.

Audited Consolidated Financial Statements,  
Other Financial Information and  
Uniform Guidance Supplemental Reports

Years ended June 30, 2021 and 2020

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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, 2021 and 2020 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of 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, 2021 and 2020 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.

**Other Matter - Other Financial Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of Federal awards on pages 19 - 22 is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2022, on our consideration of the Organization'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 solely 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 Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

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

Vienna, Virginia  
January 27, 2022

International Research & Exchanges Board, Inc.

Consolidated Statements of Financial Position

	June 30,	
	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 4,594,097	\$ 2,409,089
Short-term investments	280,690	340,611
Grants receivable, net of reserve for potential disallowed costs of approximately \$156,600 and \$236,200 for 2021 and 2020, respectively	8,594,598	6,866,904
Prepaid expenses and other assets	1,107,011	882,636
Property and equipment, net	1,239,265	1,462,807
Long-term investments	12,846,608	11,063,579
Total assets	<u>\$ 28,662,269</u>	<u>\$ 23,025,626</u>
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 7,149,307	\$ 5,395,582
Refundable advances	5,639,550	4,424,516
Deferred revenue	26,550	72,400
Deferred rent	1,552,125	1,854,347
Deferred compensation liability	414,799	295,220
Total liabilities	14,782,331	12,042,065
Net assets:		
Without donor restrictions	11,500,782	8,698,380
With donor restrictions	2,379,156	2,285,181
Total net assets	<u>13,879,938</u>	<u>10,983,561</u>
Total liabilities and net assets	<u>\$ 28,662,269</u>	<u>\$ 23,025,626</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, 2021

	Without donor restrictions	With donor restrictions	Total
<b>Revenue and support</b>			
Federal grants and contracts	\$ 64,284,947	\$ -	\$ 64,284,947
Private grants and contracts	5,763,835	-	5,763,835
Contributions	109,298	-	109,298
Other revenue	16,925	-	16,925
In-kind support	1,313,023	-	1,313,023
	<hr/>	<hr/>	<hr/>
Total revenue and other support	71,488,028	-	71,488,028
<b>Expenses</b>			
Program services:			
Information and Media	20,095,285	-	20,095,285
Education	8,467,227	-	8,467,227
Communities and Governance	14,582,437	-	14,582,437
Leadership	10,687,315	-	10,687,315
Youth	1,434,129	-	1,434,129
Other program services	1,795,420	-	1,795,420
Total program services	<hr/>	<hr/>	<hr/>
	57,061,813	-	57,061,813
Supporting services:			
Fundraising	6,806	-	6,806
Management and General - indirect	14,244,505	-	14,244,505
Total supporting services	<hr/>	<hr/>	<hr/>
	14,251,311	-	14,251,311
	<hr/>	<hr/>	<hr/>
Total expenses	71,313,124	-	71,313,124
Change in net assets before investment return, net	174,904	-	174,904
Investment return, net	<hr/>	<hr/>	<hr/>
	2,627,498	93,975	2,721,473
Change in net assets	2,802,402	93,975	2,896,377
Net assets, beginning of year	<hr/>	<hr/>	<hr/>
	8,698,380	2,285,181	10,983,561
Net assets, end of year	<hr/>	<hr/>	<hr/>
	\$ 11,500,782	\$ 2,379,156	\$ 13,879,938

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/> 73,206,237	<hr/> -	<hr/> 73,206,237
Supporting services:			
Fundraising	26,830	-	26,830
Management and General - indirect	14,229,596	-	14,229,596
Total supporting services	<hr/> 14,256,426	<hr/> -	<hr/> 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/> 420,198	<hr/> 14,777	<hr/> 434,975
Change in net assets	(33,471)	14,777	(18,694)
Net assets, beginning of year	<hr/> 8,731,851	<hr/> 2,270,404	<hr/> 11,002,255
Net assets, end of year	<hr/> <hr/> \$ 8,698,380	<hr/> <hr/> \$ 2,285,181	<hr/> <hr/> \$ 10,983,561

See accompanying notes to the consolidated financial statements.

# International Research & Exchanges Board, Inc.

## Consolidated Statements of Functional Expenses

Years ended June 30, 2021 and 2020

	Program services						Supporting services			2021 Total Expenses	
	Information & Media	Education	Communities & Governance	Leadership	Youth	Other	Programs Subtotal	Fundraising	Management & General - indirect		Supporting Subtotal
Salaries & benefits	\$ 7,071,756	\$ 3,914,493	\$ 4,981,453	\$ 4,910,745	\$ 970,784	\$ 777,251	\$ 22,626,482	\$ 454	\$ 9,780,402	\$ 9,780,856	\$ 32,407,338
Grants & contributions	7,274,908	2,401,323	6,697,495	1,462,411	123,167	890,189	18,849,493	-	-	-	18,849,493
Assistance to individuals	74,723	528,520	149,641	1,764,227	16,596	-	2,533,707	-	-	-	2,533,707
Professional services	3,949,429	707,683	1,308,356	871,494	102,313	79,238	7,018,513	6,122	2,604,290	2,610,412	9,628,925
Conferences	118,051	153,515	119,464	328,866	34,893	18,784	773,573	-	44,726	44,726	818,299
Travel	60,942	57,356	84,145	74,172	11,363	2,779	290,757	-	20,410	20,410	311,167
Occupancy	525,523	351,432	396,476	460,880	116,622	60,081	1,911,014	36	915,918	915,954	2,826,968
Equipment, supplies, & office operations	610,349	320,972	334,508	329,190	53,092	40,744	1,688,855	189	408,732	408,921	2,097,776
Depreciation	28,493	29,131	16,312	53,109	5,297	5,626	137,968	5	296,457	296,462	434,430
Other	51,022	2,496	(65,051)	9,231	2	(79,272)	(81,572)	-	173,570	173,570	91,998
In-kind contributions	330,089	306	559,638	422,990	-	-	1,313,023	-	-	-	1,313,023
<b>Total expenses</b>	<b>\$ 20,095,285</b>	<b>\$ 8,467,227</b>	<b>\$ 14,582,437</b>	<b>\$ 10,687,315</b>	<b>\$ 1,434,129</b>	<b>\$ 1,795,420</b>	<b>\$ 57,061,813</b>	<b>\$ 6,806</b>	<b>\$ 14,244,505</b>	<b>\$ 14,251,311</b>	<b>\$ 71,313,124</b>

  

	Program services						Supporting services			2020 Total Expenses	
	Information & Media	Education	Communities & Governance	Leadership	Youth	Other	Programs Subtotal	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	2,403,058	2,415,259	8,702,259
Conferences	478,929	469,950	80,726	2,233,288	33,388	9,907	3,306,188	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>

See accompanying notes to the consolidated financial statements.



International Research & Exchanges Board, Inc.

Consolidated Statements of Cash Flows

	Years ended June 30,	
	2021	2020
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 2,896,377	\$ (18,694)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	434,430	365,685
Reserve for potential disallowed costs	(79,600)	(47,900)
Net realized and unrealized gain on long-term investments	(2,721,473)	(434,975)
Net unrealized gain on 457b commitment	83,863	16,471
Changes in assets and liabilities:		
Grants receivable	(1,648,094)	(736,758)
Prepaid expenses and other assets	(224,375)	309,528
Accounts payable and accrued expenses	1,753,725	462,918
Deferred rent	(302,222)	(256,871)
Refundable advances	1,215,034	(522,732)
Deferred revenue	(45,850)	35,841
Net cash provided by (used in) operating activities	<u>1,361,815</u>	<u>(827,487)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	1,034,122	647,929
Purchase of property and equipment	(210,929)	(229,836)
Net cash provided by investing activities	<u>823,193</u>	<u>418,093</u>
Net change in cash and cash equivalents	2,185,008	(409,394)
Cash and cash equivalents, beginning of year	<u>2,409,089</u>	<u>2,818,483</u>
Cash and cash equivalents, end of year	<u>\$ 4,594,097</u>	<u>\$ 2,409,089</u>

See accompanying notes to the consolidated financial statements.

# International Research & Exchanges Board, Inc.

## Notes to Consolidated Financial Statements

Years ended June 30, 2021 and 2020

### **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 90 percent and 86 percent of the funds received in 2021 and 2020 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. AIDER was dissolved effective July 29, 2020.

The Academy for International Education & Research, Inc. (AIER) was registered in August 2003 under the laws of the Commonwealth of Virginia and was granted by IRS the tax-exempt status in 2005. The purpose of AIER 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. In September 2020, AIER purchased all shares of Consultancy Solutions, JSC and brought all Consultancy Solutions operations under AIER. IREX is the sole owner of AIER.

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.

## International Research & Exchanges Board, Inc.

### Notes to Consolidated Financial Statements (Continued)

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

##### *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, TWT and The International Research and Exchanges Board (Guaranteed) Limited are reflected in the accompanying consolidated financial statements. All significant inter-entity transactions and balances have been eliminated in consolidation.

##### *Risks and Uncertainties*

The Organization invests in various securities. These securities are exposed to a variety of risks, such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

In March 2020, the World Health Organization declared a pandemic related to the rapidly spreading coronavirus (COVID-19) outbreak, which has led to a global health emergency. The Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on the Organization, grantors, employees, and vendors. As such, COVID-19 could have a material adverse effect on the Organization's financial position in the future including impact on future grant revenues and/or fair value of the Organization's investments. The ultimate duration and impact of the COVID-19 outbreak on the Organization's financial position cannot be reasonably estimated at this time.

##### *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, 2021 and 2020, conditional contributions received in advance of \$5,639,550 and \$4,424,516, respectively have not been recognized in the accompanying consolidated statements of activities and changes in net assets, and are classified as refundable advances because the conditions for recognition have not been met.

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, 2021 and 2020, \$2,002,961 and \$1,524,401, respectively of conditional contributions from the Federal awards have not been recognized as revenue because qualifying expenditures have not yet been incurred. In addition, \$3,636,589 and \$2,900,115 of conditional contributions from private grants as of June 30, 2021 and 2020, respectively 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 \$5,639,550 and \$4,424,516, respectively have been reported as refundable advances in the consolidated statements of financial position as of June 30, 2021 and 2020.

## International Research & Exchanges Board, Inc.

### Notes to Consolidated Financial Statements (Continued)

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

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.

##### *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.

## International Research & Exchanges Board, Inc.

### Notes to Consolidated Financial Statements (Continued)

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

##### *Fixed Assets (continued)*

The Organization occasionally purchases and expenses equipment for overseas projects with funds received from the United States Government (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, TWT, AIER, and The International Research and Exchanges Board (Guaranteed) Limited are disregarded entities for U.S. Federal income tax purposes.

Additionally, in certain circumstances, IREX is required to withhold Federal income tax for payments of taxable scholarships, fellowships and grants to nonresident aliens. An federal income tax refund was received relating to this of approximately \$(117,000) for the years ended June 30, 2021. An federal income taxes were withheld relating to this of approximately \$1,200,000 for the year ended June 30, 2020.

No provision for income taxes has been recorded in 2021 and 2020 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 business 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:

## International Research & Exchanges Board, Inc.

### Notes to Consolidated Financial Statements (Continued)

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

##### *Fair Value of Financial Instruments (continued)*

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.

##### *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 27, 2022, the date the consolidated financial statements were available to be issued. See Note I for further information regarding subsequent events.

##### *Reclassifications*

Certain 2020 balances have been reclassified to conform to the 2021 presentation.

International Research & Exchanges Board, Inc.

Notes to Consolidated Financial Statements (Continued)

**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:

	<u>2021</u>	<u>2020</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 4,594,097	\$ 2,409,089
Grants receivable, net	8,594,598	6,866,904
Short-term investments	280,690	340,611
Long-term investments	<u>12,846,608</u>	<u>11,063,579</u>
Total financial assets	<u>26,315,993</u>	<u>20,680,183</u>
Less amounts not available to be used within one year:		
Deferred compensation liability	414,799	295,220
Refundable advances	5,639,550	4,424,516
Net assets with donor restrictions	<u>2,379,156</u>	<u>2,285,181</u>
	<u>8,433,505</u>	<u>7,004,917</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 17,882,488</u>	<u>\$ 13,675,266</u>

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 for specific purposes by the donors and that are not available for general expenditures.

International Research & Exchanges Board, Inc.

Notes to Consolidated Financial Statements (Continued)

**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:

	2021	2020	Level
Short-term investments:			
Money market reserves and certificates of deposit	\$ 280,690	\$ 340,611	N/A
Total short-term investments	280,690	340,611	
Long-term investments:			
Mutual funds	12,829,137	11,063,579	1
Common stock	17,471	-	1
Total long-term investments	12,846,608	11,063,579	
Total investments	\$ 13,127,299	\$ 11,404,190	

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

	2021	2020
Unrealized gains, net	\$ 2,360,549	\$ 368,996
Realized gains, net	381,796	86,054
Investment management fees	(20,872)	(20,075)
Investment return, net	\$ 2,721,473	\$ 434,975

*Mutual Funds and Common Stock*

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

**Note D - Property and Equipment**

Property and equipment consist of the following at June 30:

	2021	2020
Furniture, equipment and computer software	\$ 2,954,179	\$ 2,743,292
Leasehold improvements	2,948,870	2,948,870
	5,903,049	5,692,162
Accumulated depreciation	(4,663,784)	(4,229,355)
	\$ 1,239,265	\$ 1,462,807

The Organization recorded depreciation expense of \$434,430 and \$365,685 for the years ended June 30, 2021 and 2020, respectively.



International Research & Exchanges Board, Inc.

Notes to Consolidated Financial Statements (Continued)

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

As of June 30, 2021 and 2020, 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, 2021 and 2020, and accordingly, no net assets relating to this purpose were released from restriction.

Changes in endowment net assets for the year ended June 30, 2021 are as follows:

	Balance June 30, 2020	Investment Gains	Net Assets Released from Restriction	Balance June 30, 2021
Specific purpose:				
Humanities activities	\$ 901,181	\$ 93,975	\$ -	\$ 995,156
Perpetual in nature:				
Humanities activities	384,000	-	-	384,000
Mellon-endorsed activities	1,000,000	-	-	1,000,000
Total	<u>\$ 2,285,181</u>	<u>\$ 93,975</u>	<u>\$ -</u>	<u>\$ 2,379,156</u>

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>

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.

## International Research & Exchanges Board, Inc.

### Notes to Consolidated Financial Statements (Continued)

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

##### *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.

##### *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, 2021 or 2020.

#### **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 2021 and 2020, IREX contributed \$1,165,278 and \$995,621, respectively, to the plan.

International Research & Exchanges Board, Inc.

Notes to Consolidated Financial Statements (Continued)

**Note F - Retirement Plan (Continued)**

*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, 2021 and 2020 of \$414,799, and \$295,220, 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>	
2022	\$ 2,463,718
2023	2,307,387
2024	2,166,711
2025	1,621,575
2026	79,269
	<u>\$ 8,638,660</u>

Rent expense for the years ended June 30, 2021 and 2020 (including field offices) was \$2,213,436 and \$1,854,410, respectively.

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 2020. Management has established a reserve of approximately \$156,600 and \$236,200 for potential disallowed costs as of June 30, 2021 and 2020, 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**

Effective November 16, 2021, Development Gateway (DG) announced the appointment of six new board members by IREX. Accordingly, IREX gained control of the DG Board as of that date.