

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

International Research & Exchanges Board, Inc.

June 30, 2017 and 2016

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 consolidated financial statements of International Research & Exchanges Board, Inc., a nonprofit organization, (the “Entity”), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and changes in net assets 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. Those standards require that we plan and perform the audit 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. 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 financial position of International Research & Exchanges Board, Inc. as of June 30, 2017 and 2016, 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.



Baltimore, Maryland
May 8, 2018

International Research & Exchanges Board, Inc.

Consolidated Statements of Financial Position

<i>June 30,</i>	2017	2016
<i>Assets</i>		
Current Assets		
Cash and cash equivalents	\$ 3,825,834	\$ 1,901,310
Short-term investments	915,053	2,449,383
Grants receivable, net of reserve for potential disallowed costs of approximately \$181,318 and \$67,261 for 2017 and 2016, respectively	3,142,346	857,627
Prepaid expenses and other assets	895,799	1,772,018
Total Current Assets	8,779,032	6,980,338
Property and equipment, net	2,093,557	2,469,397
Long-term investments	11,058,506	10,122,833
Total Assets	\$ 21,931,095	\$ 19,572,568
<i>Liabilities and Net Assets</i>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 4,881,099	\$ 2,872,702
Deferred revenue	3,842,982	3,768,633
Total Current Liabilities	8,724,081	6,641,335
Deferred rent - non current	2,493,308	2,620,657
Total Liabilities	11,217,389	9,261,992
Net Assets		
Unrestricted	8,493,895	8,137,138
Temporarily restricted	835,811	789,438
Permanently restricted	1,384,000	1,384,000
Total Net Assets	10,713,706	10,310,576
Total Liabilities and Net Assets	\$ 21,931,095	\$ 19,572,568

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

International Research & Exchanges Board, Inc.

Consolidated Statements of Activities and Change in Net Assets

Year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Federal grants and contracts	\$ 74,109,617	\$ —	\$ —	\$ 74,109,617
Private grants and contracts	4,664,720	—	—	4,664,720
Contributions	131,793	—	—	131,793
Other revenue	51,014	—	—	51,014
Total Revenue	78,957,144	—	—	78,957,144
In-kind support	7,524,929	—	—	7,524,929
Total Revenue and Other Support	86,482,073	—	—	86,482,073
Expenses				
Program activities	69,725,396	—	—	69,725,396
In-kind expenses	7,524,929	—	—	7,524,929
Total Program Expenses	77,250,325	—	—	77,250,325
Other Expenses				
General administration	10,051,083	—	—	10,051,083
Total Expenses	87,301,408	—	—	87,301,408
Change in Net Assets Before Investment Return	(819,335)	—	—	(819,335)
Investment Return, net	1,176,092	46,373	—	1,222,465
Change in Net Assets	356,757	46,373	—	403,130
Net Assets, beginning of year	8,137,138	789,438	1,384,000	10,310,576
Net Assets, end of year	\$ 8,493,895	\$ 835,811	\$ 1,384,000	\$ 10,713,706

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

International Research & Exchanges Board, Inc.

Consolidated Statements of Activities and Change in Net Assets

Year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Federal grants and contracts	\$ 67,491,429	\$ —	\$ —	\$ 67,491,429
Private grants and contracts	4,739,478	—	—	4,739,478
Contributions	98,004	—	—	98,004
Other revenue	167,079	—	—	167,079
Total Revenue	72,495,990	—	—	72,495,990
In-kind support	5,811,178	—	—	5,811,178
Total Revenue and Other Support	78,307,168	—	—	78,307,168
Expenses				
Program activities	64,306,131	—	—	64,306,131
In-kind expenses	5,811,178	—	—	5,811,178
Total Program Expenses	70,117,309	—	—	70,117,309
Other Expenses				
General administration	8,403,762	—	—	8,403,762
Total Expenses	78,521,071	—	—	78,521,071
Change in Net Assets Before Investment Return	(213,903)	—	—	(213,903)
Investment Return, net	9,080	358	—	9,438
Change in Net Assets	(204,823)	358	—	(204,465)
Net Assets, beginning of year	8,341,961	789,080	1,384,000	10,515,041
Net Assets, end of year	\$ 8,137,138	\$ 789,438	\$ 1,384,000	\$ 10,310,576

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

International Research & Exchanges Board, Inc.

Consolidated Statements of Cash Flows

<i>Year ended June 30,</i>	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 403,130	\$ (204,465)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	491,073	460,708
Allowance for doubtful account	181,318	67,261
Net realized and unrealized gain on long-term investments	(1,243,165)	(29,136)
Changes in assets and liabilities		
Grants receivable	(2,466,037)	839,681
Prepaid expenses and other assets	876,219	(1,150,948)
Accounts payable and accrued expenses	2,008,397	(1,864,503)
Deferred rent	(127,349)	(86,264)
Deferred revenue	74,349	(807,648)
Net Cash Provided by (Used In) Operating Activities	197,935	(2,775,314)
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,841,823	1,270,659
Purchase of property and equipment	(115,234)	(281,402)
Net Cash Provided by Investing Activities	1,726,589	989,257
Change in Cash and Cash Equivalents	1,924,524	(1,786,057)
Cash and Cash Equivalents, beginning of year	1,901,310	3,730,866
Cash and Cash Equivalents, end of year	\$ 3,825,834	\$ 1,901,310

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

International Research & Exchanges Board, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

IREX receives funds from the Department of State (DOS), United States (U.S.) Agency for International Development (USAID), other federal agencies, and private-sector sources. Approximately 86 percent and 75 percent of the funds received in 2017 and 2016, respectively, were through awards from the U.S. government.

Basis of Presentation

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

In order to carry forward its mission IREX has a number of field offices in foreign countries. To comply with the legal requirements of certain host countries, IREX has registered separate field offices in such countries. All activities of these entities are reflected in the accompanying consolidated 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 2015, negotiated indirect rate agreement (NICRA) was signed by the cognizant agency on September 12, 2016.

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2017 and 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenue Recognition—Continued

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.

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—Investment returns on certain permanently restricted net assets. In addition, 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 used for operations in accordance with a spending policy approved by the Board of Directors or based on the restricted associated with the funds.

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.

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2017 and 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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, 2017 and 2016, IREX held cash in foreign accounts designated for program purposes totaling \$1,587,390 and \$1,462,119, 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.

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 (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.

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.

June 30, 2017 and 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Income Tax

IREX 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 US 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. No provision for income taxes has been recorded in 2017 and 2016 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. The tax years ending June 30, 2017, 2016, 2015 and 2014 are still open to audit for both federal and state purposes. 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.

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2017 and 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Fair Value of Financial Instruments—Continued

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 consolidated 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 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 (“the Company”) to concentrations of credit risk consist primarily of cash and cash equivalents. At times, the Company maintains cash balances in financial institutions which may exceed federally insured limits. The uninsured amount for all cash accounts at June 30, 2017 amounted to \$3,575,834. 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.

NOTE B—INVESTMENTS

Investments comprised of the following as of June 30:

	2017	2016
Short-term investments:		
Money market reserves and certificates of deposit	\$ 915,053	\$ 2,449,383
Total Short-term investments	<u>915,053</u>	<u>2,449,383</u>
Long-term investments:		
Mutual funds	<u>11,058,506</u>	<u>10,122,833</u>
Total Long-term investments	\$ 11,058,506	\$ 10,122,833
Total Investments	<u>\$ 11,973,559</u>	<u>\$ 12,572,216</u>

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2017 and 2016

NOTE B—INVESTMENTS—Continued

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

	2017	2016
Unrealized gains	\$ 1,191,737	\$ 29,136
Realized gain (loss)	51,428	(20)
Investment management fees	(20,700)	(19,678)
Investment return, net	\$ 1,222,465	\$ 9,438

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.

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, 2017:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 915,053	\$ —	\$ —	\$ 915,053
Mutual funds	11,058,506	—	—	11,058,506
Total	\$ 11,973,559	\$ —	\$ —	\$ 11,973,559

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2017 and 2016

NOTE C—FAIR VALUE—Continued

The following table sets forth IREX's short and long term investments measured at fair value within the fair value hierarchy as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,449,383	\$ —	\$ —	\$ 2,449,383
Mutual funds	10,122,833	—	—	10,122,833
Total	\$ 12,572,216	\$ —	\$ —	\$ 12,572,216

NOTE D—PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2017	2016
Furniture, equipment and computer software	\$ 2,216,546	\$ 2,101,312
Leasehold improvements	2,948,890	2,948,870
	5,165,416	5,050,182
Accumulated depreciation	(3,071,859)	(2,580,785)
	\$ 2,093,557	\$ 2,469,397

The Company recorded depreciation expense of \$491,073 and \$460,708 for the year ended June 30, 2017 and 2016, respectively.

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2017 and 2016

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, 2017 are as follows:

	Balance June 30, 2016	Investment Gains	Net Assets Released from Restriction	Balance June 30, 2017
NEH endowment-supported Programs	\$ 789,438	\$ 46,373	\$ —	\$ 835,811

Temporarily restricted net assets were released from restrictions by incurring expenses satisfying the program restriction. Temporarily restricted net assets at June 30, 2016 are as follows:

	Balance June 30, 2015	Investment Gains	Net Assets Released from Restriction	Balance June 30, 2016
NEH endowment-supported Programs	\$ 789,080	\$ 358	\$ —	\$ 789,438

NOTE F—PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2017 and 2016 consist of the following endowment funds:

	2017	2016
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.

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2017 and 2016

NOTE F—PERMANENTLY RESTRICTED NET ASSETS—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 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.

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.

	June 30, 2017		
	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 835,811	\$ 1,384,000	\$ 2,219,811

International Research & Exchanges Board, Inc.

Notes to Financial Statements—Continued

June 30, 2017 and 2016

NOTE G—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. From July 1, 2016 to December 31, 2016, employees who enrolled received 1:1 match on their salary deferrals up to 5% of their eligible compensation for the first two years of employment. After two years of cumulative eligible service, but less than ten years of cumulative eligible service, enrolled employees received a 2:1 match on their eligible compensation deferrals up to 5% of their gross salary. Enrolled employees with more than ten years of cumulative eligible service received a 3:1 match on their salary deferrals up to 5% of their eligible compensation.

Starting January 1, 2017, all eligible employees will receive 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 2017 and 2016, IREX contributed \$791,009 and \$1,086,098, 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:

<i>Years ending June 30,</i>	
2018	\$ 2,215,096
2019	1,945,933
2020	1,904,601
2021	1,925,610
2022	1,972,095
Thereafter	<u>5,684,297</u>
	<u>\$ 15,647,632</u>

Rent expense for the years ended June 30, 2017 and 2016 (including field offices) was \$1,553,670 and \$1,555,012, 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, 2017 and 2016

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 2015. Management has established a reserve of approximately \$181,318 and \$67,261 for potential disallowed costs as of June 30, 2017 and 2016, respectively. Management believes adjustments, if any, in excess of this reserve would not be material to the consolidated financial statements or major programs.

NOTE J—SUBSEQUENT EVENTS

IREX evaluated its June 30, 2017 consolidated financial statements for subsequent events through May 8, 2018, the date the consolidated financial statements were available to be issued. IREX is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

NOTE K—RELATED PARTY TRANSACTIONS

During Fiscal Year 2017, IREX executed transactions with the following related parties:

The Academy for International Development Education and Research, LLC (AIDER) was registered as a limited liability company under the laws of the Commonwealth of Virginia. The date of its organization was March 1, 2017 and has a Turkish subsidiary, Consultancy Solutions, LLC. AIDER was treated as an unconsolidated subsidiary of IREX. In Fiscal Year 2017, IREX transferred a total of \$50,620 to AIDER and the amount was reflected as contractual services expenses under project 2060-SIM Syria.

Together We Thrive, LLC (TWT) was registered as a limited liability company under the laws of the District of Columbia. The date of its organization was December 29, 2016. TWT was treated as a representative subsidiary company of IREX. In Fiscal Year 2017, IREX transferred a total of \$286,868 to TWT and the amount was reflected on the IREX consolidated financial statements.

There were no transactions between IREX and two other related parties in Fiscal Year 2017: the Academy for International Education and Research, Inc. (AIER) and the International Communications for Development, Inc. (ICD).