

FINANCIAL STATEMENTS

**INTERNATIONAL INITIATIVE FOR
IMPACT EVALUATION, INC.**

FOR THE YEAR ENDED DECEMBER 31, 2009

INTERNATIONAL INITIATIVE FOR IMPACT EVALUATION, INC.

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
International Initiative for Impact Evaluation, Inc.
Washington, D.C.

We have audited the accompanying statement of financial position of the International Initiative for Impact Evaluation, Inc. (3ie) as of December 31, 2009, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of 3ie's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 3ie's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 3ie as of December 31, 2009, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

December 13, 2010

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INTERNATIONAL INITIATIVE FOR IMPACT EVALUATION, INC.

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2009

ASSETS

CURRENT ASSETS

| | |
|---|------------------|
| Cash and cash equivalents | \$ 1,393,416 |
| Investments (Notes 2 and 9) | 6,088,271 |
| Interest receivable | 17,218 |
| Grants receivable, current portion (Note 3) | <u>8,559,215</u> |

| | |
|----------------------|-------------------|
| Total current assets | <u>16,058,120</u> |
|----------------------|-------------------|

OTHER ASSETS

| | |
|--|-------------------|
| Grants receivable, net of current portion (Note 3) | <u>12,132,360</u> |
|--|-------------------|

| | |
|---------------------|-----------------------------|
| TOTAL ASSETS | <u>\$ 28,190,480</u> |
|---------------------|-----------------------------|

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|--------------------------------|----------------|
| Accrued liabilities (Note 8) | \$ 193,294 |
| Grants payable (Notes 4 and 8) | <u>163,089</u> |

| | |
|---------------------------|----------------|
| Total current liabilities | <u>356,383</u> |
|---------------------------|----------------|

NET ASSETS

| | |
|---------------------------------|-------------------|
| Unrestricted | 7,142,522 |
| Temporarily restricted (Note 5) | <u>20,691,575</u> |

| | |
|------------------|-------------------|
| Total net assets | <u>27,834,097</u> |
|------------------|-------------------|

| | |
|---|-----------------------------|
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 28,190,480</u> |
|---|-----------------------------|

INTERNATIONAL INITIATIVE FOR IMPACT EVALUATION, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|--|----------------------------|-----------------------------------|-----------------------------|
| REVENUE | | | |
| Contributions (Note 6) | \$ 53,725 | \$ 14,228,460 | \$ 14,282,185 |
| Conference | 845,969 | - | 845,969 |
| Investment income (Note 2) | 11,870 | - | 11,870 |
| Other revenue | 25,000 | - | 25,000 |
| Net assets released from donor restrictions (Note 5) | <u>1,251,492</u> | <u>(1,251,492)</u> | <u>-</u> |
| Total revenue | <u>2,188,056</u> | <u>12,976,968</u> | <u>15,165,024</u> |
| EXPENSES | | | |
| Program Services | 3,490,691 | - | 3,490,691 |
| General and Administrative | <u>854,821</u> | <u>-</u> | <u>854,821</u> |
| Total expenses | <u>4,345,512</u> | <u>-</u> | <u>4,345,512</u> |
| Change in net assets | (2,157,456) | 12,976,968 | 10,819,512 |
| Net assets at beginning of year, as restated (Note 10) | <u>9,299,978</u> | <u>7,714,607</u> | <u>17,014,585</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 7,142,522</u> | <u>\$ 20,691,575</u> | <u>\$ 27,834,097</u> |

See accompanying notes to financial statements.

INTERNATIONAL INITIATIVE FOR IMPACT EVALUATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

| | <u>Program Services</u> | <u>General and Administrative</u> | <u>Total Expenses</u> |
|----------------------------------|-----------------------------|---------------------------------------|----------------------------|
| Seconded staff salaries (Note 8) | \$ 226,985 | \$ 146,446 | \$ 373,431 |
| Office expense | 4,763 | - | 4,763 |
| Professional fees | 159,234 | 134,461 | 293,695 |
| Management fee (Note 8) | - | 368,000 | 368,000 |
| Grants expense (Note 8) | 2,024,041 | - | 2,024,041 |
| Cairo conference expense | 944,883 | - | 944,883 |
| Training/printing | 3,026 | - | 3,026 |
| Travel (Note 8) | 121,006 | 204,103 | 325,109 |
| IT support for website | 1,975 | - | 1,975 |
| Financial fees | 4,636 | 411 | 5,047 |
| Miscellaneous | 142 | 1,400 | 1,542 |
| TOTAL | <u>\$ 3,490,691</u> | <u>\$ 854,821</u> | <u>\$ 4,345,512</u> |

See accompanying notes to financial statements.

INTERNATIONAL INITIATIVE FOR IMPACT EVALUATION, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009**CASH FLOWS FROM OPERATING ACTIVITIES**

| | |
|---|--------------------|
| Change in net assets | \$ 10,819,512 |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | |
| Unrealized loss | 15,019 |
| Realized gain | (268) |
| Discount on long-term receivables | 207,292 |
| (Increase) decrease in: | |
| Interest receivable | (17,218) |
| Grants receivable | (13,184,260) |
| Prepaid expenses | 193,149 |
| Increase (decrease) in: | |
| Accrued liabilities | 193,294 |
| Deferred revenue | (1,266) |
| Grants payable | <u>148,089</u> |
| Net cash used by operating activities | <u>(1,626,657)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|----------------------------|
| Purchase of investments | (15,102,754) |
| Sale of investments | <u>8,999,732</u> |
| Net cash used by investing activities | <u>(6,103,022)</u> |
| Net decrease in cash and cash equivalents | (7,729,679) |
| Cash and cash equivalents at beginning of year | <u>9,123,095</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 1,393,416</u> |

See accompanying notes to financial statements.

INTERNATIONAL INITIATIVE FOR IMPACT EVALUATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The International Initiative for Impact Evaluation, Inc. (3ie) is a non-profit organization, incorporated in 2008 in the State of Delaware, and located in Washington, D.C with offices in India and the United Kingdom. 3ie's mission is increasing development effectiveness through better use of evidence in developing countries.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Recently issued accounting standards -

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 105, *Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, 3ie has updated references to GAAP in its financial statements issued for the year ended December 31, 2009. The adoption of FASB ASC 105 did not impact 3ie's financial position or results of operations.

Cash and cash equivalents -

3ie considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

At times during the year, 3ie maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable market value. Realized and unrealized gains and losses are included in investment income in the Statement of Activities and Change in Net Assets.

Grants receivable -

Grants receivable approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Income taxes -

3ie is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. 3ie is not a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes.

INTERNATIONAL INITIATIVE FOR IMPACT EVALUATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Uncertain tax positions (continued) -

For the year ended December 31, 2009, 3ie has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of 3ie and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of 3ie and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by 3ie. There were no permanently restricted net assets as of December 31, 2009.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Temporarily restricted contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

3ie invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks.

INTERNATIONAL INITIATIVE FOR IMPACT EVALUATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Risks and uncertainties (continued) -

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 accompanying financial statements.

Fair value measurements -

3ie adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. 3ie accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

2. INVESTMENTS

Investments consisted of the following at December 31, 2009:

| | <u>Market Value</u> |
|--------------------------|---------------------------|
| Money market funds | \$ 51,041 |
| Government bonds | <u>6,037,230</u> |
| TOTAL INVESTMENTS | <u>\$6,088,271</u> |

Included in investment income are the following:

| | |
|--------------------------------|-------------------------|
| Interest and dividends | \$ 26,621 |
| Unrealized loss | (15,019) |
| Realized gain | <u>268</u> |
| TOTAL INVESTMENT INCOME | <u>\$ 11,870</u> |

3. GRANTS RECEIVABLE

As of December 31, 2009, contributors to 3ie have made written promises to give totaling \$21,263,763. Grants due in more than one year have been recorded at the present value of the estimated cash flows using a discount rate of 3.25%.

Grants are due as follows at December 31, 2009:

| | |
|---------------------------------|-----------------------------|
| Less than one year | \$ 8,559,215 |
| One to five years | <u>12,704,548</u> |
| Total | 21,263,763 |
| Less: Discount to present value | <u>(572,188)</u> |
| NET GRANTS RECEIVABLE | <u>\$ 20,691,575</u> |

INTERNATIONAL INITIATIVE FOR IMPACT EVALUATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

4. GRANT COMMITMENTS

Grant commitments not yet authorized for payment due to timing and conditions of the grant awards have not been accrued and reported as liabilities. Grants will be expensed and paid as deliverables are met. Grant terms vary, and are payable as follows at various times through 2014. Grants authorized and expended during the year ended December 31, 2009 were \$2,024,041, including \$163,089 of grants payable.

The following is a summary of commitments and estimated years of payment as of December 31, 2009:

| <u>Year Ended December 31,</u> | |
|--------------------------------|-----------------------------|
| 2010 | \$ 5,657,642 |
| 2011 | <u>12,788,923</u> |
| | <u>\$ 18,446,565</u> |

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of time restricted, long-term grants receivable, totaling \$20,691,575 at December 31, 2009.

During the year ended December 31, 2009, \$1,251,492 of temporarily restricted net assets was released from donor restrictions through the passage of time.

6. CONCENTRATION OF REVENUE AND RECEIVABLES

Approximately 95% of 3ie's revenue for the year ended December 31, 2009, was derived from multi-year grants awarded by four international government agencies. Approximately 89% of grant receivables is due from two grantors as of December 31, 2009. 3ie has no reason to believe that relationships with these agencies will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew grant agreements or withholding of funds) would adversely affect 3ie's ability to finance ongoing operations.

7. COMMITMENTS

3ie is committed under agreements for conference space through the year 2011. The total commitments under the agreements are not determinable as it depends upon attendance and other unknown factors. There are cancellation penalties that would be due if the agreements were cancelled prior to the event date. The amount of the cancellation penalties increase through the date of the event.

8. MANAGEMENT AGREEMENT

Effective November 2008, 3ie entered into a three-year Memorandum of Understanding with the Global Development Network (GDN).

INTERNATIONAL INITIATIVE FOR IMPACT EVALUATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

8. MANAGEMENT AGREEMENT (Continued)

Under this agreement, 3ie and GDN will collaborate in pursuing their shared objectives through the following:

- a) They will draw upon their expertise, experience and synergies from, and the sharing of exchange of information between, each other including the undertaking of joint activities or collaborative programs;
- b) 3ie will utilize GDN as a networking asset and intellectual partner in support of its activities and programs;
- c) 3ie staff are seconded to GDN to carry out 3ie activities and programs; and
- d) GDN will provide facilities and services, including office space, equipment and other services to 3ie.

3ie paid GDN for the following services during the year ended December 31, 2009:

| | |
|-----------------------------|---------------------------|
| Management fee | \$ 368,000 |
| 3ie seconded staff salaries | 373,431 |
| Travel reimbursement costs | 325,109 |
| Grants expense | 2,024,041 |
| Other | <u>251,146</u> |
| | <u>\$3,341,727</u> |

As of December 31, 2009, 3ie owed GDN \$356,382, which is included in the Statement of Financial Position.

9. FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, 3ie has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market 3ie has the ability to access.

Level 2. These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

INTERNATIONAL INITIATIVE FOR IMPACT EVALUATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

9. FAIR VALUE MEASUREMENTS (Continued)

Financial assets recorded in the Statement of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended December 31, 2009:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--------------------------------------|-------------------------|----------------------------|--------------------|----------------------------|
| Asset Category - Investments: | | | | |
| Money Market Funds | \$ 51,041 | \$ - | \$ - | \$ 51,041 |
| Government Bonds | <u>-</u> | <u>6,037,230</u> | <u>-</u> | <u>6,037,230</u> |
| TOTAL | <u>\$ 51,041</u> | <u>\$ 6,037,230</u> | <u>\$ -</u> | <u>\$ 6,088,271</u> |

10. PRIOR PERIOD ADJUSTMENT

3ie restated its beginning of the year net assets as reported on the 2008 IRS Form 990 in order to reclassify net assets restricted for timing purposes and to record a discount on the long-term grants receivable. Net assets as of December 31, 2008 have been restated as follows:

| | <u>Unrestricted Net Assets</u> | <u>Temporarily Restricted Net Assets</u> | <u>Permanently Restricted Net Assets</u> | <u>Total</u> |
|--|------------------------------------|--|--|----------------------------|
| Net assets at December 31, 2008, as previously stated | \$ 17,379,481 | \$ - | \$ - | \$17,379,481 |
| Reclassification of restricted net assets | (8,079,503) | 8,079,503 | - | - |
| Record discount on long-term grants receivable | <u>-</u> | <u>(364,896)</u> | <u>-</u> | <u>(364,896)</u> |
| NET ASSETS AT DECEMBER 31, 2009, AS RESTATED | <u>\$ 9,299,978</u> | <u>\$ 7,714,607</u> | <u>\$ -</u> | <u>\$17,014,585</u> |

11. SUBSEQUENT EVENTS

In preparing these financial statements, 3ie has evaluated events and transactions for potential recognition or disclosure through December 13, 2010, the date the financial statements were issued.