FINANCIAL STATEMENTS

# INTERNATIONAL INITIATIVE FOR IMPACT EVALUATION, INC.

## FOR THE YEAR ENDED DECEMBER 31, 2012
## WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

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

**CONTENTS**

GELMAN, ROSENBERG
& FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the International Initiative for Impact Evaluation, Inc. (3ie) (a non-profit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## 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, 2012, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

We have previously audited 3ie's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 27, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Freedman

Bethesda, Maryland
April 16, 2013

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

**STATEMENT OF FINANCIAL POSITION**
**AS OF DECEMBER 31, 2012**
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

## ASSETS

| | 2012 | 2011 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 33,421,536 | $ 22,863,536 |
| Investments (Note 2) | 100 | 100 |
| Accounts receivable | 6,327 | - |
| Advance to GDN (Note 9) | 912,569 | - |
| Grants receivable, current portion (Notes 3, 5 and 6) | 17,994,498 | 13,725,803 |
| Prepaid expenses | 2,292 | - |
| Total current assets | 52,337,322 | 36,589,439 |
| **FIXED ASSETS** | | |
| Furniture and equipment | 9,314 | - |
| Computer software | 113,690 | 110,189 |
| | 123,004 | 110,189 |
| Less: Accumulated depreciation and amortization | (93,402) | (55,093) |
| Net fixed assets | 29,602 | 55,096 |
| **OTHER ASSETS** | | |
| Deposits | 4,430 | 3,600 |
| Grants receivable, net of current portion (Notes 3, 5 and 6) | 20,334,348 | 18,431,046 |
| Total other assets | 20,338,778 | 18,434,646 |
| **TOTAL ASSETS** | **$ 72,705,702** | **$ 55,079,181** |

## LIABILITIES AND NET ASSETS

| | 2012 | 2011 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accrued liabilities (Note 9) | $ 476,191 | $ 471,190 |
| Total current liabilities | 476,191 | 471,190 |
| **NET ASSETS** | | |
| Unrestricted | 33,900,665 | 22,451,142 |
| Temporarily restricted (Note 5) | 38,328,846 | 32,156,849 |
| Total net assets | 72,229,511 | 54,607,991 |
| **TOTAL LIABILITIES AND NET ASSETS** | **$ 72,705,702** | **$ 55,079,181** |

See accompanying notes to financial statements.

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

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**
**FOR THE YEAR ENDED DECEMBER 31, 2012**
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Total |
| **REVENUE** | | | | |
| Grants and contributions (Note 6) | $ 4,339,572 | $ 25,405,722 | $ 29,745,294 | $ 39,710,430 |
| Conference | 81,383 | - | 81,383 | 497,103 |
| Investment income (Note 2) | 33,678 | - | 33,678 | 44,783 |
| Service income and other | 38,170 | - | 38,170 | 234,767 |
| Net assets released from donor restrictions (Note 5) | 19,233,725 | (19,233,725) | - | - |
| Total revenue | 23,726,528 | 6,171,997 | 29,898,525 | 40,487,083 |
| **EXPENSES** | | | | |
| Program Services | 9,993,748 | - | 9,993,748 | 8,586,539 |
| General and Administrative | 2,283,257 | - | 2,283,257 | 2,100,154 |
| Total expenses | 12,277,005 | - | 12,277,005 | 10,686,693 |
| Change in net assets | 11,449,523 | 6,171,997 | 17,621,520 | 29,800,390 |
| Net assets at beginning of year | 22,451,142 | 32,156,849 | 54,607,991 | 24,807,601 |
| **NET ASSETS AT END OF YEAR** | **$ 33,900,665** | **$ 38,328,846** | **$ 72,229,511** | **$ 54,607,991** |

See accompanying notes to financial statements.

## INTERNATIONAL INITIATIVE FOR IMPACT EVALUATION, INC.

### STATEMENT OF FUNCTIONAL EXPENSES
### FOR THE YEAR ENDED DECEMBER 31, 2012
### WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | Program Services | General and Administrative | Total Expenses | Total Expenses |
| Salaries and benefits (Notes 8 and 9) | $ 1,463,206 | $ 586,190 | $ 2,049,396 | $ 1,506,536 |
| Office expense (Note 7) | 913 | 139,005 | 139,918 | 84,033 |
| Professional fees (Note 9) | 1,098,408 | 200,587 | 1,298,995 | 843,970 |
| Management fees (Note 9) | - | 958,523 | 958,523 | 868,619 |
| Grants expense (Note 4 and 9) | 6,716,473 | - | 6,716,473 | 6,180,644 |
| Conference and meeting expense | 131,599 | 40,587 | 172,186 | 594,327 |
| Travel (Note 9) | 501,958 | 276,225 | 778,183 | 437,072 |
| IT support for website | - | - | - | 6,807 |
| Financial fees | 1,300 | 1,456 | 2,756 | 4,741 |
| Recruitment fees | - | 17,198 | 17,198 | 37,797 |
| Depreciation and amortization | 37,998 | 311 | 38,309 | 36,728 |
| Equipment | 3,172 | 25,178 | 28,350 | 20,761 |
| Miscellaneous (Note 10) | 38,721 | 37,997 | 76,718 | 64,658 |
| **TOTAL** | **$ 9,993,748** | **$ 2,283,257** | **$ 12,277,005** | **$ 10,686,693** |

See accompanying notes to financial statements.

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

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2012**
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

| | 2012 | 2011 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ 17,621,520 | $ 29,800,390 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 38,309 | 36,728 |
| Unrealized loss | - | 4,077 |
| Discount on long-term receivables | (132,630) | 860,753 |
| Foreign currency gains | (219,154) | (628,868) |
| (Increase) decrease in: | | |
| Accounts receivable | (6,327) | - |
| Advance to GDN | (912,569) | 11,365 |
| Grants receivable | (5,820,213) | (16,186,811) |
| Prepaid expenses | (2,292) | - |
| Deposits | (830) | (500) |
| Increase (decrease) in: | | |
| Accrued liabilities | 5,001 | 161,679 |
| Net cash provided by operating activities | 10,570,815 | 14,058,813 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of fixed assets | (12,815) | - |
| Purchase of investments | - | (1,000,000) |
| Proceeds from sale of investments | - | 3,016,316 |
| Net cash (used) provided by investing activities | (12,815) | 2,016,316 |
| Net increase in cash and cash equivalents | 10,558,000 | 16,075,129 |
| Cash and cash equivalents at beginning of year | 22,863,536 | 6,788,407 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **$ 33,421,536** | **$ 22,863,536** |

## 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*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with 3ie's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

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. At December 31, 2012, total uninsured cash balances equaled $32,315,809.

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) provided temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) insured depository institutions (the “Dodd-Frank Deposit Insurance Provision”). 3ie maintained a portion of its cash balance at a financial institution in a non-interest bearing account; thereby, all of this cash balance was protected by the FDIC under this Act. Beginning January 1, 2013, funds deposited in non-interest bearing accounts will no longer receive unlimited deposit insurance coverage. Bank deposit accounts at one institution will be insured by the FDIC up to a limit of $250,000.

Investments -

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

Grants and accounts receivable -

Grants and accounts receivable that are expected to be collected within one year are recorded at their net realizable value, which approximates fair value. Grants and accounts receivable that are expected to be collected in future years are recorded at their fair value, measured as the present value of the future cash flows. The discount on these amounts is computed using risk-adjusted interest rates applicable to the years in which the grants are received. Depreciation and amortization of the discounts are included in grants and contributions revenue. Management considers all amounts to be fully collectible.

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

Fixed assets -

Fixed assets in excess of $500 are capitalized and stated at cost. Furniture and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three years. Computer software is amortized on a straight-line basis over the estimated useful lives of the related assets, generally three years. The cost of maintenance and repairs is recorded as expenses are incurred.

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. For the year ended December 31, 2012, 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. The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

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, 2012.

Grants and contributions -

Unrestricted and temporarily restricted grants and contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted grants and contributions 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 grants and contributions received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

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

Grants and contributions (continued) -

Conditional pledges to give are recognized by 3ie when the conditions on which they depend are substantially met. In 2008, 3ie received a conditional promise to give up to $10,000,000 from one donor. The promise is conditional on receipt of matching contributions of $10,000,000. As of December 31, 2012, 3ie had completed $10,000,000 of this match and received payment of $10,000,000 of the pledge.

Foreign currency translation -

The U.S. Dollar is the functional currency for 3ie operations. Transactions in the currency other than U.S. Dollars are translated into dollars at the rate of exchange in effect during the month of the transaction. Current assets and liabilities denominated in non-U.S. currency are translated into dollars at the exchange rate in effect at the date of the Statement of Financial Position. The net exchange gains from foreign currency of $219,154 for the year ended December 31, 2012 have been reported in grants and contributions revenue in the accompanying Statement of Activities and Change in Net Assets.

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.

Fair value measurement -

3ie adopted the provisions of FASB ASC 820, *Fair Value Measurement*. 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 measurement. 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, 2012:

| | Fair Value |
|---|---|
| **Money Market Funds** | **$ 100** |

## 2. INVESTMENTS (Continued)

Included in investment income are the following at December 31, 2012:

| | |
|---|---|
| **Interest and Dividends** | **$ 33,678** |

## 3. GRANTS RECEIVABLE

As of December 31, 2012, contributors to 3ie have made written promises to give totaling $39,256,102. 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, 2012:

| | |
|---|---|
| Less than one year | $ 17,994,498 |
| One to five years | 21,261,604 |
| Total | 39,256,102 |
| Less: Discount to present value | (927,256) |
| **NET GRANTS RECEIVABLE** | **$ 38,328,846** |

## 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 at various times through 2017. Grants authorized and expended during the year ended December 31, 2012 totaled $6,716,473. There were no outstanding grant payments due as of December 31, 2012.

The following is a summary of commitments and estimated years of payment as of December 31, 2012:

| Year Ending December 31, | |
|---|---|
| 2013 | $ 7,333,694 |
| 2014 | 4,672,319 |
| 2015 | 2,694,164 |
| 2016 | 478,297 |
| 2017 | 159,177 |
| | **$ 15,337,651** |

## 5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of time restricted, long-term grants receivable, totaling $38,328,846 at December 31, 2012.

During the year ended December 31, 2012, $19,233,725 of temporarily restricted net assets were released from donor restrictions through the passage of time.

## 6. CONCENTRATION OF REVENUE AND RECEIVABLES

Approximately 77% of 3ie's revenue for the year ended December 31, 2012 was derived from multi-year grants awarded by one international government agency and one private foundation. Approximately 93% of grants receivables is due from these two grantors as of December 31, 2012.

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. LEASE COMMITMENTS

In November 2010, 3ie signed a two-year lease for office space. The lease was amended in 2011 to expand the space in September 2011 and again in January 2012. In September 2012, 3ie extended the lease agreement for another three years.

The following is a schedule of the future minimum lease payments:

| Years Ending December 31, | |
|---|---|
| 2013 | $ 80,499 |
| 2014 | 83,719 |
| 2015 | 57,282 |
| | $ 221,500 |

Rent expense, which is included in office expense in the Statement of Functional Expenses, for the year ended December 31, 2012 was $108,902.

## 8. RETIREMENT PLAN

3ie offers a 401(k) retirement plan in which employees may voluntarily contribute a percentage of wages, up to the legal maximum. Eligible employees (those who work 1,000 hours or more in any calendar year) may participate in this plan effective with the first payroll after hire. 3ie will contribute three percent of the employee’s earnings on a monthly basis up to the annual legal maximum. In addition, 3ie will contribute a profit sharing contribution equal to seven percent of the compensation of all eligible participants to share in allocations. Both the employee and employer contributions are immediately fully vested. 3ie's contributions to the plan during the year ended December 31, 2012 totaled $49,265.

## 9. MANAGEMENT AGREEMENT

Effective November 2008, 3ie entered into a Memorandum of Understanding (MOU) with the Global Development Network (GDN). The MOU was amended to extend the agreement through November 14, 2015.

## 9. 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) GDN staff are seconded to 3ie 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 reimbursed GDN for the following services during the year ended December 31, 2012:

| | |
|---|---|
| Management fee | $ 958,523 |
| 3ie seconded staff salaries | 776,789 |
| Travel/Conference/Meeting reimbursement costs | 826,670 |
| Consultants/Reviewers | 601,126 |
| | $ 3,163,108 |

In addition, GDN disbursed grants of $7,516,070 during the period January 1, 2012 to December 31, 2012 under the terms of the MOU. GDN was advanced $912,569 from 3ie as of December 31, 2012 for grants and other expenses that will be disbursed in fiscal year 2013.

## 10. MISCELLANEOUS EXPENSES

The miscellaneous expenses appearing in the accompanying Statement of Functional Expenses is comprised of the following at December 31, 2012:

| Expense Category | |
|---|---|
| Insurance - Commercial and Workers Compensation | $ 2,243 |
| Insurance - Directors and Officers | 6,271 |
| Miscellaneous | 2,254 |
| Promotion - Advertising | 390 |
| Publications | 14,644 |
| Subscriptions | 45,441 |
| Office supplies | 5,475 |
| | $ 76,718 |

## 11. SUBSEQUENT EVENTS

In preparing these financial statements, 3ie has evaluated events and transactions for potential recognition or disclosure through April 16, 2013, the date the financial statements were issued.