

Financial Statements and OMB Circular A-133
Supplementary Information Together with
Reports of Independent Certified Public Accountants

THE INSTITUTE OF WORLD POLITICS

For the years ended July 31, 2014 and 2013

THE INSTITUTE OF WORLD POLITICS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
The Institute of World Politics:

Report on the financial statements

We have audited the accompanying financial statements of The Institute of World Politics (the “Institute”), which comprise the statements of financial position as of July 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to these financial statements.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute’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 Institute’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Institute of World Politics as of July 31, 2014 and 2013, 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.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the financial statements as of and for the years ended July 31, 2014 and 2013 taken as a whole. The schedule of expenditures of federal awards for the year ended July 31, 2014, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 2014 financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2014 financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the 2014 financial statements or to the 2014 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the 2014 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 December 31, 2014, on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.



Washington, D.C.
December 31, 2014

THE INSTITUTE OF WORLD POLITICS
Statements of Financial Position
As of July 31, 2014 and 2013

ASSETS	2014	2013
Cash and cash equivalents	\$ 796,780	\$ 432,525
Permanently restricted cash	488,288	239,521
Tuition receivables, net of allowances for doubtful accounts and discounts of \$215,713 and \$328,165 in 2014 and 2013, respectively	376,909	256,490
Contributions and grant receivables	256,775	-
Prepaid expenses and other assets	90,080	85,887
Deferred rent receivable	22,276	287,761
Investments (Note 8)	2,909,089	3,429,148
Investments in split - interest agreements (Note 9)	210,398	203,442
Website development costs, net of accumulated amortization of \$102,172 and \$70,594 in 2014 and 2013, respectively	80,483	56,213
 Fixed assets (Note 2):		
Leasehold improvements	7,593	3,189
Furniture and equipment	195,687	160,127
Software development costs	197,991	152,965
	<u>401,271</u>	<u>316,281</u>
 Less: accumulated depreciation and amortization	<u>(177,318)</u>	<u>(138,962)</u>
Fixed assets, net	<u>223,953</u>	<u>177,319</u>
 Total assets	<u>\$ 5,455,031</u>	<u>\$ 5,168,306</u>
 LIABILITIES AND NET ASSETS		
 LIABILITIES		
Accounts payable and accrued expenses	\$ 220,305	\$ 271,549
Deferred tuition revenue	34,197	94,011
Charitable gift annuity - payable to annuitants (Note 9)	107,698	119,663
Debt obligations (Note 11)	986,199	701,199
Total liabilities	<u>1,348,399</u>	<u>1,186,422</u>
 NET ASSETS		
Unrestricted	2,187,093	1,970,271
Temporarily restricted (Note 5)	424,134	535,693
Permanently restricted (Notes 5 and 6)	1,495,405	1,475,920
Total net assets	<u>4,106,632</u>	<u>3,981,884</u>
 Total liabilities and net assets	<u>\$ 5,455,031</u>	<u>\$ 5,168,306</u>

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

THE INSTITUTE OF WORLD POLITICS
Statement of Activities
For the year ended July 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Student tuition and fees, net of discounts and scholarships of \$616,300	\$ 2,982,691	\$ -	\$ -	\$ 2,982,691
Contributions from individuals, corporations and foundations	1,290,174	673,971	19,485	1,983,630
Interest and dividends	48,477	24,772	-	73,249
Realized gain on sales of investments	317,757	143,533	-	461,290
Unrealized (depreciation) appreciation in the fair value of investments	17,670	(2,590)	-	15,080
Other	30,141	-	-	30,141
Net assets released from restrictions (Notes 4 and 6)	<u>951,245</u>	<u>(951,245)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>5,638,155</u>	<u>(111,559)</u>	<u>19,485</u>	<u>5,546,081</u>
EXPENSES (Note 12)				
Instruction	1,902,858	-	-	1,902,858
Academic support	301,573	-	-	301,573
Student services	1,125,800	-	-	1,125,800
Institutional support	<u>2,091,102</u>	<u>-</u>	<u>-</u>	<u>2,091,102</u>
Total expenses	<u>5,421,333</u>	<u>-</u>	<u>-</u>	<u>5,421,333</u>
Changes in net assets	216,822	(111,559)	19,485	124,748
Net assets, beginning of year	<u>1,970,271</u>	<u>535,693</u>	<u>1,475,920</u>	<u>3,981,884</u>
Net assets, end of year	<u>\$ 2,187,093</u>	<u>\$ 424,134</u>	<u>\$ 1,495,405</u>	<u>\$ 4,106,632</u>

The accompanying notes are an integral part of this financial statement.

THE INSTITUTE OF WORLD POLITICS
Statement of Activities
For the year ended July 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Student tuition and fees, net of discounts and scholarships of \$655,590	\$ 3,084,950	\$ -	\$ -	\$ 3,084,950
Contributions from individuals, corporations and foundations	1,287,964	308,640	1,500	1,598,104
Interest and dividends	58,413	15,629	-	74,042
Realized gain on sales of investments	176,961	81,107	-	258,068
Unrealized appreciation in the fair value of investments	254,303	88,615	-	342,918
Other	33,202	-	-	33,202
Net assets released from restrictions (Notes 4 and 6)	<u>555,264</u>	<u>(555,264)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>5,451,057</u>	<u>(61,273)</u>	<u>1,500</u>	<u>5,391,284</u>
EXPENSES (Note 12)				
Instruction	2,041,456	-	-	2,041,456
Academic support	332,700	-	-	332,700
Student services	1,222,954	-	-	1,222,954
Institutional support	<u>2,002,131</u>	<u>-</u>	<u>-</u>	<u>2,002,131</u>
Total expenses	<u>5,599,241</u>	<u>-</u>	<u>-</u>	<u>5,599,241</u>
Changes in net assets	(148,184)	(61,273)	1,500	(207,957)
Net assets, beginning of year	<u>2,118,455</u>	<u>596,966</u>	<u>1,474,420</u>	<u>4,189,841</u>
Net assets, end of year	<u>\$ 1,970,271</u>	<u>\$ 535,693</u>	<u>\$ 1,475,920</u>	<u>\$ 3,981,884</u>

The accompanying notes are an integral part of this financial statement.

THE INSTITUTE OF WORLD POLITICS
Statements of Cash Flows
For the years ended July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 124,748	\$ (207,957)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	89,694	63,281
Unrealized appreciation in the fair value of investments	(15,080)	(342,918)
Bad debt expense	61,048	-
Realized gain on sales of investments	(461,290)	(258,068)
Investments in split-interest agreements	(6,956)	(203,442)
Changes in assets and liabilities:		
Increase in tuition receivables	(181,467)	(28,828)
(Increase) decrease in contributions and grant receivables	(256,775)	112,926
Decrease in bequest receivable	-	1,000,000
(Increase) decrease in prepaid expenses and other assets	(4,193)	30,418
Decrease in deferred rent receivable	265,485	243,964
(Decrease) increase in accounts payable and accrued expenses	(51,244)	53,204
Decrease in deferred tuition revenue	(59,814)	(203,071)
Net cash (used in) provided by operating activities	<u>(495,844)</u>	<u>259,509</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(104,750)	(138,224)
Enhancements to website	(55,848)	(27,924)
Proceeds from sales of investments	2,040,656	3,753,825
Purchases of investments	(1,292,994)	(4,161,034)
Net cash provided by (used in) investing activities	<u>587,064</u>	<u>(573,357)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on lines of credit	285,000	-
Payments to annuitant	(11,965)	-
Net cash provided by financing activities	<u>273,035</u>	<u>-</u>
Change in cash and cash equivalents	364,255	(313,848)
Cash and cash equivalents, beginning of year	<u>432,525</u>	<u>746,373</u>
Cash and cash equivalents, end of year	<u>\$ 796,780</u>	<u>\$ 432,525</u>
Supplemental disclosures:		
Contributed instructional and administrative space	<u>\$ 265,485</u>	<u>\$ 243,964</u>
Interest paid	<u>\$ 46,166</u>	<u>\$ 35,773</u>

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

THE INSTITUTE OF WORLD POLITICS

Notes to Financial Statements

July 31, 2014 and 2013

1. THE INSTITUTE OF WORLD POLITICS

The Institute of World Politics (the “Institute”) is a graduate school of national security and international affairs, dedicated to developing leaders with a sound understanding of international realities and the ethical conduct of statecraft, based on knowledge and appreciation of the principles of the American political economy and the Western moral tradition. The classrooms, library and administrative offices of the Institute are located in Washington, DC.

The Institute offers Master’s degree, certificate, and continuing education programs with a professional curriculum covering the various elements of statecraft. It includes an interdisciplinary foundational course of study of the relevant elements of comparative political culture, Western moral precepts, practical political economics, and political and diplomatic history.

The Institute currently offers three Master’s degrees: M.A. in Statecraft and National Security Affairs; M.A. in Statecraft and International Affairs; and, M.A. in Strategic Intelligence Studies. All are professional degrees designed for students who are pursuing a career in the international affairs, intelligence, or national security fields.

The Institute derives its revenues principally from student tuition and fees, grants, contributions and investment earnings. The Institute spends these resources to meet its instructional and educational mission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Institute have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Classification of Net Assets

The Institute reports its net assets and changes therein based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations and are therefore available for use in carrying out the operations of the Institute. Unrestricted net assets are comprised of the general fund, representing unrestricted funds available for the operations of the Institute, and the board-designated fund, representing unrestricted funds designated by the Institute’s Board of Trustees for special purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Institute and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by the Institute. Generally, the donors of these assets permit the Institute to use all or part of the income earned on related investments for general or specific purposes.

THE INSTITUTE OF WORLD POLITICS

Notes to Financial Statements

July 31, 2014 and 2013

Revenues and gains and losses on investments and other assets are reported as changes in unrestricted net assets unless limited by explicit donor-imposed stipulations. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished, or the stipulated time period has elapsed, are reported as net assets released from restrictions on the statement of activities. Provisions for uncollectible contributions receivable are charged directly to temporarily or permanently restricted net assets.

Fixed Assets

The Institute capitalizes fixed assets at a cost of \$1,000 or more and which have useful lives greater than three years. Maintenance, repairs, and minor improvements are charged to operations as incurred. Major improvements, which substantially extend the useful lives of assets, are capitalized. Upon sale or other disposition of assets, the cost and related accumulated depreciation are removed from the accounts of the Institute and the resulting gain or loss, if any, is reflected on the statement of activities.

Fixed assets are included on the statement of financial position at cost, less depreciation which is computed on the straight-line basis using the following estimated useful lives:

Furniture and equipment	3 to 10 years
Software and development costs	3 to 5 years
Leasehold improvements	Shorter of the duration of the lease agreement or useful life of betterment

Website development costs are capitalized and amortized over five years.

Cash and Cash Equivalents

The Institute classifies as cash and cash equivalents all highly liquid financial instruments with original maturities of three months or less from the date of purchase. Excluded from cash and cash equivalents are certain cash accounts pertaining to the Institute's permanently restricted endowments.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions received for restricted purposes are reported as part of temporarily restricted net assets until the restriction expires or as permanently restricted. When temporary restrictions expire, the related net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released due to satisfaction of program and/or time restrictions. The Institute's share of bequests is recorded when the Institute has an irrevocable right to the bequest and the proceeds are measurable.

Concentrations of Credit Risk

Financial instruments that potentially subject the Institute to concentrations of credit risk consist principally of cash and cash equivalents, investments, and student receivables. The Institute maintains its cash and cash equivalents in various bank deposit accounts that, at times, may exceed federally insured limits. To minimize the risk of loss with regard to the Institute's investments, it maintains a diversified portfolio in a variety of asset classes. The Institute's cash and cash equivalents and investments are on deposit with high

THE INSTITUTE OF WORLD POLITICS

Notes to Financial Statements

July 31, 2014 and 2013

quality financial institutions. The Institute has not experienced, nor does it anticipate, any losses with respect to such accounts. The Institute extends credit to students for tuition and related charges for which collateral is not required.

Collection

The Institute maintains a collection of books, periodicals and government documents which has been acquired through purchases and contributions since the Institute's inception. The Institute has policies and procedures addressing the collection's upkeep and management. The Institute has adopted the policy of not capitalizing its collection. Purchases of collections are recorded as decreases in unrestricted net assets in the year in which the items are acquired. The Institute received no significant donations to its collection during the years ended July 31, 2014 and 2013.

Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As required by U.S. generally accepted accounting principles for fair value measurements, the Institute uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed. The Institute had no level 2 financial instruments as of July 31, 2014 and 2013.
- Level 3 - Securities that have little to no observable pricing. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. The Institute had no Level 3 financial instruments as of July 31, 2014 and 2013.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by an entity. The Institute considers observable data to be that market data

THE INSTITUTE OF WORLD POLITICS

Notes to Financial Statements

July 31, 2014 and 2013

that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant markets. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Institute's perceived risk of that instrument (see Note 8).

The carrying amounts of cash and cash equivalents, receivables, other assets and accounts payable, accrued expenses, deferred tuition revenue and other liabilities approximate fair value due to the short-term maturity of these financial instruments.

Student Tuition and Fees

Student tuition and fees are recognized during the period when the respective instructional program occurs. Student tuition and fees received in advance are deferred and recognized ratably as revenue over the period in which the related instruction occurs. The carrying value of tuition receivables has been reduced by an appropriate allowance for uncollectible accounts based on historical collection experience and therefore approximates net realizable value. Certain student tuition amounts will be paid to the Institute over several years and are presented at the present value of their expected future cash flows using a credit adjusted discount factor that articulates with the collection period of the respective receivables.

Functional Expenses

Expenses are reported on the statement of activities in categories recommended by the National Association of College and University Business Officers. The Institute's primary program service is instruction. Expenses reported as academic support, student services, and institutional support are incurred in support of this primary program service. The Institute allocates operation and maintenance of plant, interest on indebtedness and depreciation and amortization proportionally amongst functional expense categories using estimates of building square footage and the extent of labor employed on behalf of the related activities (see Note 12).

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of allowances for doubtful student accounts and related discounts; the determination of year-end operating accruals; useful lives assigned to fixed assets; and, the reported fair values of certain of the Institute's assets and liabilities. Actual results could differ from those estimates.

Subsequent Events

The Institute evaluated its July 31, 2014 financial statements for subsequent events through December 31, 2014, the date the financial statements were available to be issued. There are no other subsequent events to disclose or account for in the accompanying financial statements, other than as disclosed in Note 10.

THE INSTITUTE OF WORLD POLITICS
Notes to Financial Statements
July 31, 2014 and 2013

3. INCOME TAXES

The Institute has been recognized by the Internal Revenue Service (“IRS”) as exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

The income taxes topic number 740, “Income Taxes” of the FASB Accounting Standards Codification establishes criterion that an individual tax position must meet for some or all the benefits of that position to be recognized in an entity’s financial statements. This criterion was adopted by the Institute on August 1, 2009, and has had no impact on the Institute’s financial statements. The tax years ended 2012, 2013 and 2014 remain open to audit for both federal and District of Columbia purposes. The Institute has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; determine its filing and tax obligations in jurisdictions for which it has nexus; and, to review other matters that may be considered tax positions.

4. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended July 31, 2014 and 2013 for the following purposes:

	<u>2014</u>	<u>2013</u>
Qualifying faculty appointments	\$ 257,917	\$ 214,395
Contributed instructional and administrative space	265,485	243,964
Institutional support	111,990	51,860
Endowment earnings appropriated for expenditure	<u>315,853</u>	<u>45,045</u>
	<u>\$ 951,245</u>	<u>\$ 555,264</u>

5. RESTRICTED NET ASSETS

At July 31, 2014 and 2013, the Institute’s temporarily restricted net assets are held for the following purposes:

	<u>2014</u>	<u>2013</u>
Qualifying faculty appointments	\$ 67,503	\$ 62,581
Contributed instructional and administrative space	22,276	287,761
Institutional support	299,142	-
Awaiting appropriation for expenditure	<u>35,213</u>	<u>185,351</u>
	<u>\$ 424,134</u>	<u>\$ 535,693</u>

The Institute had permanently restricted endowment funds totaling \$1,495,405 and \$1,475,920 at July 31, 2014 and 2013, respectively. Investment income from these funds is restricted principally to support the cost of qualifying faculty appointments, pursuant to express donor-imposed stipulations.

THE INSTITUTE OF WORLD POLITICS
Notes to Financial Statements
July 31, 2014 and 2013

6. ENDOWMENT NET ASSETS

The Institute’s Board of Trustees has interpreted the District of Columbia Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the Institute, absent explicit donor stipulations to the contrary, 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 accumulate 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.

The Institute classifies as permanently restricted net assets: (a) the original value of gifts donated to its permanent endowment; (b) the original value of subsequent gifts to its permanent endowment; and, (c) accumulations to its permanent endowment required by the applicable donor gift instrument. The remaining portion of donor-restricted endowment funds that is not classified as permanently restricted is classified as part of temporarily restricted net assets until such amounts are appropriated for expenditure by the Institute.

The Institute’s endowment consists of five individually named endowments funds, three of which are permanently restricted with two others board-designated to function as endowments (quasi-endowment). Such endowments have been established principally to support qualifying faculty appointments.

Endowment net asset composition, by type of fund, as of July 31, 2014 follows:

Endowment Net Asset Composition by Type of Fund	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 35,213	\$ 1,495,405	\$ 1,530,618
Board-designated endowment funds	<u>2,157,602</u>	<u>-</u>	<u>-</u>	<u>2,157,602</u>
Total endowment funds	<u>\$ 2,157,602</u>	<u>\$ 35,213</u>	<u>\$ 1,495,405</u>	<u>\$ 3,688,220</u>
Endowment net assets, beginning of year	\$ 2,274,903	\$ 185,351	\$ 1,475,920	\$ 3,936,174
Interest and dividends	47,161	24,772	-	71,933
Net appreciation in the fair value of investments (unrealized and realized)	312,438	140,943	-	453,381
Contributions	-	-	19,485	19,485
Amounts appropriated for expenditure	<u>(476,900)</u>	<u>(315,853)</u>	<u>-</u>	<u>(792,753)</u>
Endowment net assets, end of year	<u>\$ 2,157,602</u>	<u>\$ 35,213</u>	<u>\$ 1,495,405</u>	<u>\$ 3,688,220</u>

During the year ended July 31, 2013, the Institute borrowed approximately \$140,000 from its quasi-endowment to provide for certain working capital needs. The amounts borrowed were subsequently returned and reinvested into the quasi-endowment in August of 2014 (Fiscal 2015).

THE INSTITUTE OF WORLD POLITICS
Notes to Financial Statements
July 31, 2014 and 2013

Endowment net asset composition, by type of fund, as of July 31, 2013 follows:

Endowment Net Asset Composition by Type of Fund	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 185,351	\$ 1,475,920	\$ 1,661,271
Board-designated endowment funds	<u>2,274,903</u>	<u>-</u>	<u>-</u>	<u>2,274,903</u>
Total endowment funds	<u>\$ 2,274,903</u>	<u>\$ 185,351</u>	<u>\$ 1,475,920</u>	<u>\$ 3,936,174</u>
Endowment net assets, beginning of year	\$ 2,232,886	\$ 45,045	\$ 1,474,420	\$ 3,752,351
Interest and dividends, net of investment fees of \$16,429	40,470	15,629	-	56,099
Net appreciation in the fair value of investments (unrealized and realized)	408,165	169,722	-	577,887
Contributions	-	-	1,500	1,500
Transfer out	(140,000)	-	-	(140,000)
Amounts appropriated for expenditure	<u>(266,618)</u>	<u>(45,045)</u>	<u>-</u>	<u>(311,663)</u>
Endowment net assets, end of year	<u>\$ 2,274,903</u>	<u>\$ 185,351</u>	<u>\$ 1,475,920</u>	<u>\$ 3,936,174</u>

The Institute has adopted investment management policies for its endowment assets, the purpose of which is to provide a sustainable and increasing level of income distribution to further the purpose for which the endowments were established.

7. PENSION PLAN

The Institute maintains a salary reduction defined contribution retirement plan pursuant to Section 403(b) of the Internal Revenue Code. The Institute, at its option, may contribute to the plan on behalf of its eligible employees. The Institute temporarily suspended employer contributions to the plan for all employees in March 2009. The Institute resumed its contribution during the year ended July 31, 2012 with a match up to 5% of employee salaries. Pension expense totaled \$38,561 and \$71,027 for the year ended July 31, 2014 and 2013, respectively.

8. INVESTMENTS

Investments in equity securities (corporate stocks) with readily determinable fair values are measured at fair value on the accompanying statements of financial position and reported on the basis of quoted market prices.

The following table details the composition of the Institute's investments at July 31, 2014 and 2013 and summarizes the prioritization of the inputs used to report the fair value of the Institute's investments within the fair value hierarchy as of July 31, 2014 and 2013.

	2014			Total
	Level 1	Level 2	Level 3	
Corporate stocks	<u>\$ 2,909,089</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,909,089</u>

THE INSTITUTE OF WORLD POLITICS
Notes to Financial Statements
July 31, 2014 and 2013

	2013			Total
	Level 1	Level 2	Level 3	
Corporate stocks	<u>\$ 3,429,148</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,429,148</u>

9. SPLIT-INTEREST AGREEMENTS

The Institute maintains an investment in a split-interest agreement established with a donor during fiscal 2013. Changes in the life expectancy of the donor or stated beneficiary, amortization of the discount, and other changes in the estimates of future payments are reported as change in value of split-interest agreements on the statement of activities.

The Institute serves as the trustee of the charitable gift annuity fund, referred to above, where the investments are reflected as part of unrestricted assets and a liability has been established for amounts, payable to annuitants, using an appropriate discount rate for the period of the obligation (i.e., amounts due to the life tenant). Gifts to the charitable gift annuity fund are recorded at fair value when received and any investment income earned in excess of amounts paid to the respective annuity beneficiary is reported as change in value of split-interest agreements.

The discount rate used to value the charitable gift annuity split-interest agreement is 1.20%.

The following tables prioritizes the inputs used to report the fair value of the Institute's investments in split-interest agreement within the fair value hierarchy as of July 31, 2014 and 2013:

	2014	2013
	Level 1	Level 1
Charitable gift annuity:		
Money market fund	\$ 613	\$ 525
Equities - domestic mutual funds	131,659	125,205
Fixed income - mutual funds	78,126	77,712
Total investments	<u>\$ 210,398</u>	<u>\$ 203,442</u>

The following table summarizes the changes in the split-interest agreement liability for the year ended July 31, 2014:

	2014	2013
	Charitable Gift Annuity	Charitable Gift Annuity
Beginning of the year	\$ 119,663	\$ -
New agreement	-	127,001
Payments to annuitant	(11,965)	(6,070)
Change in value due to actuarial valuation	-	(1,764)
Investment income	-	1,028
Fees	-	(532)
End of the year	<u>\$ 107,698</u>	<u>\$ 119,663</u>

THE INSTITUTE OF WORLD POLITICS

Notes to Financial Statements

July 31, 2014 and 2013

10. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Institute leases space to house its library and also for its instructional and administrative activities in Washington, DC which required monthly rental payments of \$10,630 for the period November 2009 through August 15, 2010, \$16,550 per month for the period August 16, 2010 through August 2011, \$19,936 per month for the period September 2011 through September 30, 2012, \$29,790 per month for the period October 2012 through August 31, 2013, and \$30,723 per month for the period September 2013 through August 31, 2014. Pursuant to the terms of the lease agreement, in addition to the monthly rent, the Institute is also responsible for certain utility and parking costs which totaled \$101,687 and \$94,630, for the years ended July 31, 2014 and 2013, respectively. Rent expense totaled \$367,743 and \$337,772 for the years ended July 31, 2014 and 2013, respectively. In addition, the Institute received contributed rent for the years ended July 31, 2014 and 2013. Rent expense, inclusive of cash payments and amounts contributed, for the years ended July 31, 2014 and 2013 totaled \$671,928 and \$619,147, respectively.

During fiscal 2011, the Institute received the right to use the space described above for the period September 1, 2011 through August 31, 2014 at a below market rate. The Institute recognized a contribution of approximately \$754,000 for the right to use this space upon execution of the respective lease agreement. The contribution is included as part of temporarily restricted net assets and contributions receivable and is being amortized over the respective rental period. Subsequent to July 31, 2014, this lease was renewed for an additional one year period from September 1, 2014 through August 31, 2015 with monthly rental payments of \$40,390.

Future minimum rental payments, exclusive of amounts contributed, are due as follows:

2015	\$	483,509
2016		<u>40,390</u>
Total	\$	<u>523,899</u>

Capital Leases

As of July 31, 2014, the Institute has entered into three capital leases for purposes of acquiring office equipment which expire at various dates through fiscal 2019.

Future minimum lease payments due under the equipment leases in effect at July 31, 2014 are as follows:

2015	\$	19,203
2016		18,627
2017		18,215
2018		12,234
2019		<u>5,172</u>
Total	\$	<u>73,451</u>

The Institute is a party to legal matters that have arisen in the ordinary course of its operations. In the opinion of management, the Institute does not expect the ultimate resolution of these actions to have a material effect on its financial statements.

THE INSTITUTE OF WORLD POLITICS

Notes to Financial Statements

July 31, 2014 and 2013

The Institute receives funding from the U.S. Department of Education under the federal direct loan program. This program is subject to independent audit under the Office of Management and Budget Circular A-133 and review by grantor agencies. Such review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Institute's management believes that costs ultimately disallowed, if any, would not materially affect the financial statements of the Institute.

11. DEBT OBLIGATIONS

The Institute maintains a line of credit of \$350,000 with a bank which requires monthly payments of interest at a fixed rate of 4.00% and 5.00% during the years ended July 31, 2014 and 2013, respectively, with the principal payable due at the earlier of the bank's demand or the line's maturity on October 1, 2015. At July 31, 2014 and 2013, the Institute had an outstanding balance on the line of credit of \$347,367.

The Institute maintains an additional line of credit with the same bank which requires monthly payments of interest at a fixed rate of 4.00% and 5.00% during the years ended July 31, 2014 and 2013, respectively, with the principal payable due at the earlier of the bank's demand or the line's maturity on September 1, 2015. This line of credit had an original availability of \$300,000. In August 2013, the availability was increased to \$500,000. At July 31, 2014 and 2013, the Institute had an outstanding balance on the line of credit of \$500,000 and \$215,000, respectively.

The Institute also maintains a loan agreement with the same bank for a maximum amount of \$138,832, which provides for monthly payments of interest at a fixed rate of 4.00% and 5.00% during the years ended July 31, 2014 and 2013, respectively, with the principal payable due at the earlier of the bank's demand or the note's maturity on July 1, 2015. At July 31, 2014 and 2013, the Institute had an outstanding balance on the loan of \$138,832.

Both the lines of credit and the loan are collateralized by certain cash and investments of the Institute, which the lender also serves as the custodian for, with a fair value of \$2,157,602 and \$2,354,186 at July 31, 2014 and 2013, respectively. Apart from the Institute's requirement to maintain collateral on deposit with the lender in an amount equal to at least 125% of the amount outstanding, there are no other financial covenants the Institute is required to comply with.

THE INSTITUTE OF WORLD POLITICS
Notes to Financial Statements
July 31, 2014 and 2013

12. FUNCTIONAL EXPENSES

The following presents the natural expense classification by functional activities for the year ended July 31, 2014 and reflects the allocation of depreciation and amortization, operation and maintenance and interest on indebtedness amongst the categories benefitted.

<u>Expense Category</u>	<u>Instruction</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Institutional Support</u>	<u>Total</u>
Salaries	\$ 1,198,059	\$ 92,263	\$ 558,834	\$ 712,311	\$ 2,561,467
Payroll Taxes	83,607	9,471	48,731	53,891	195,700
Employee Benefits	63,053	14,755	76,608	82,388	236,804
Staff Training	483	151	347	528	1,509
Payroll Processing Fees	8,564	2,676	6,155	9,366	26,761
Faculty Honorariums	33,700	-	-	-	33,700
Professional Fees	11,363	1,007	2,316	224,796	239,482
Consultants	17,947	-	-	334,079	352,026
Software Consultants	-	-	-	8,297	8,297
Advertising	879	275	35,878	962	37,994
Bad Debt	-	-	-	60,741	60,741
Bank Fees	122	19	6,592	27,894	34,627
Career Placement Services	-	-	60,175	-	60,175
College Fairs	-	-	4,560	-	4,560
Conferences	575	-	2,603	1,150	4,328
Depreciation and Amortization	28,684	8,964	20,616	31,430	89,694
Dues	-	-	4,914	14,435	19,349
Equipment	7,618	1,760	4,314	10,023	23,715
Insurance	12,041	3,763	8,654	15,680	40,138
Interest Expense	-	-	-	46,166	46,166
Meetings and Events	46,680	-	14,340	49,341	110,361
Miscellaneous	6,700	-	-	307	7,007
Postage and Delivery	1,758	441	1,136	6,578	9,913
Printing	4,093	90	7,296	8,201	19,680
Publications and Subscriptions	2,438	72,479	2,401	1,065	78,383
Rent	215,017	67,193	154,544	235,175	671,929
Repairs and Maintenance	39,100	12,187	52,537	52,205	156,029
Software Expense	-	-	2,500	625	3,125
Software Maintenance	4,648	1,439	5,385	15,320	26,792
Supplies	8,903	2,122	4,560	14,595	30,180
Telephone and Internet	5,385	1,672	3,846	8,930	19,833
Travel	73,714	182	15,910	34,286	124,092
Utilities	27,727	8,664	20,048	30,337	86,776
Total	<u>\$ 1,902,858</u>	<u>\$ 301,573</u>	<u>\$ 1,125,800</u>	<u>\$ 2,091,102</u>	<u>\$ 5,421,333</u>

THE INSTITUTE OF WORLD POLITICS
Notes to Financial Statements
July 31, 2014 and 2013

The following presents the natural expense classification by functional activities for the year ended July 31, 2013 and reflects the allocation of depreciation and amortization, operation and maintenance and interest on indebtedness amongst the categories benefitted.

<u>Expense Category</u>	<u>Instruction</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Institutional Support</u>	<u>Total</u>
Salaries	\$ 1,356,954	\$ 112,178	\$ 564,214	\$ 850,346	\$ 2,883,692
Payroll Taxes	95,838	8,371	45,068	65,148	214,425
Employee Benefits	50,814	20,737	81,301	64,820	217,672
Payroll Processing Fees	7,821	2,044	5,287	7,551	22,703
Faculty Honorariums	17,417	-	-	19,500	36,917
Professional Fees	59,637	8,388	30,985	223,578	322,588
Consultants	30,048	-	-	113,300	143,348
Software Consultants	1,407	231	3,199	7,389	12,226
Advertising	40	-	89,728	618	90,386
Bad Debt	-	-	2,075	-	2,075
Bank Fees	-	-	-	5,522	5,522
Career Placement Services	-	-	59,875	-	59,875
College Fairs	-	-	9,285	-	9,285
Conferences	625	-	3,316	788	4,729
Depreciation and Amortization	20,115	6,286	14,457	22,423	63,281
Dues	6,676	-	4,469	16,836	27,981
Equipment	210	4,724	2,071	6,846	13,851
Insurance	10,167	3,177	7,308	12,688	33,340
Interest Expense	-	-	-	35,773	35,773
Meetings and Events	42,811	-	10,451	133,479	186,741
Miscellaneous	-	-	2,703	5,565	8,268
Postage and Delivery	2,310	615	2,684	27,860	33,469
Printing	13,917	82	10,033	5,909	29,941
Publications and Subscriptions	30,903	85,109	2,381	15,341	133,734
Rent	198,127	61,915	142,404	216,701	619,147
Repairs and Maintenance	19,794	6,185	14,597	27,780	68,356
Software Expense	276	86	1,761	1,448	3,571
Software Maintenance	11,218	-	50,636	11,218	73,072
Supplies	10,810	2,756	12,217	24,010	49,793
Telephone and Internet	7,673	1,479	3,402	12,418	24,972
Travel	19,140	-	27,858	38,075	85,073
Utilities	26,708	8,337	19,189	29,201	83,435
Total	<u>\$ 2,041,456</u>	<u>\$ 332,700</u>	<u>\$ 1,222,954</u>	<u>\$ 2,002,131</u>	<u>\$ 5,599,241</u>

THE INSTITUTE OF WORLD POLITICS
Schedule of Expenditures of Federal Awards
For the year ended July 31, 2014

<u>Federal Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education:		
Federal Direct Loan Program	84.268	<u>\$ 2,077,756</u>
Total Expenditures of Federal Awards		<u>\$ 2,077,756</u>

The accompanying notes to schedule of expenditures of federal awards should be read in conjunction with this schedule.

THE INSTITUTE OF WORLD POLITICS
Notes to Schedule of Expenditures of Federal Awards
For the year ended July 31, 2014

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards for the year ended July 31, 2014 has been prepared using the accrual basis of accounting and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Organization did not provide any funding to subrecipients during the year ended July 31, 2014.

2. FEDERAL STUDENT LOAN PROGRAM

The Institute is responsible only for the performance of certain administrative duties with respect to the federally guaranteed student loan program, particularly the Federal Direct Loan program, and accordingly, the value of loans outstanding with respect to this program are not included in its basic financial statements. It is not practical to determine the balance of loans outstanding to students of the Institute under this federally guaranteed program at July 31, 2014.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
The Institute of World Politics:

We have audited, 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, the financial statements of The Institute of World Politics (the "Institute"), which comprise the statement of financial position as of July 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 31, 2014.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Institute's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Institute's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Institute's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Grant Thornton LLP".

Washington, D.C.
December 31, 2014

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Trustees of
The Institute of World Politics:

Compliance

We have audited the compliance of The Institute of World Politics (the “Institute”) with the types of compliance requirements described in the U.S. Office of Management and Budget’s *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended July 31, 2014. The Institute’s major federal program is identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs.

Management’s responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Institute’s federal program.

Auditor’s responsibility

Our responsibility is to express an opinion on compliance for the Institute’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The above-mentioned standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Institute’s compliance.

Opinion on each major federal program

In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended July 31, 2014.

Instances of noncompliance

The results of our audit procedures disclosed an instance of noncompliance, described in the accompanying schedule of findings and questioned costs as item 2014-001, that is required to be reported in accordance with OMB Circular A-133. Our opinion on the major federal program is not modified with respect to this matter.

Institute's response to findings

The Institute's response to our noncompliance finding, which is described in the accompanying schedule of findings and questioned costs, was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the Institute's response.

Report on internal control over compliance

Management of the Institute is responsible for designing, implementing, and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Institute's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We identified a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency in the Institute's internal control over compliance.

The Institute's response to our finding on internal control over compliance, which is described in the accompanying schedule of findings and questioned costs, was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the Institute's response.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Washington, D.C.
December 31, 2014

THE INSTITUTE OF WORLD POLITICS
Schedule of Findings and Questioned Costs
For the year ended July 31, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over the major program:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

Type of auditors' report issued on compliance for the major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of the major program:

<u>Federal Grantor /Program Title</u>	<u>Federal CFDA Number</u>
U.S. Department of Education: Federal Direct Loan Program	84.268
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

THE INSTITUTE OF WORLD POLITICS
Schedule of Findings and Questioned Costs (continued)
For the year ended July 31, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

None identified.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2014-001 – Eligibility - Promissory Note

Criteria:

Before an institution makes its first disbursement to a student, the student shall sign a promissory note and the institution shall provide the student with the following information: (i) The name of the institution and the address to which communications and payments should be sent; (ii) The principal amount of the loan and a statement that the institution will report the amount of the loan to a national credit bureau at least annually; (iii) The stated interest rate on the loan; (iv) The yearly and cumulative maximum amounts that may be borrowed; (v) An explanation of when repayment of the loan will begin and when the borrower will be obligated to pay interest that accrues on the loan; (vi) The minimum and maximum repayment terms which the institution may impose and the minimum monthly repayment required; (vii) A statement of the total cumulative balance owed by the student to that institution, and an estimate of the monthly payment amount needed to repay that balance; (viii) Special options the borrowers may have for loan consolidation or other refinancing of the loan; (ix) The borrower's right to prepay all or part of the loan, at any time, without penalty, and a summary of the circumstances in which repayment of the loan or interest that accrues on the loan may be deferred or canceled including a brief notice of the Department of Defense program for repayment of loans on the basis of specified military service; (x) A definition of default and the consequences to the borrower, including a statement that the institution may report the default to a national credit bureau; (xi) The effect of accepting the loan on the eligibility of the borrower for other forms of student assistance; (xii) The amount of any charges collected by the institution at or prior to the disbursement of the loan and any deduction of such charges from the proceeds of the loan or paid separately by the borrower; and, (xiii) Any cost that may be assessed on the borrower in the collection of the loan including late charges and collection and litigation costs (34 CFR 674.16 (a) (1)).

Condition, Context and Effect:

We selected (9) nine students who received a Direct Unsubsidized Loan from a total eligibility sample of nine students. Of those nine students selected, we noted (1) one student with current year loan disbursements totaling \$20,500 who had their Direct Unsubsidized Loan proceeds disbursed before they executed their respective promissory note. The student subsequently signed the promissory note.

Questioned Costs

None noted, as the promissory note was subsequently signed.

Recommendation

We recommend that the Institute ensure all students sign a promissory note before making the respective disbursement.

Views of Responsible Officials and Planned Corrective Action:

Management agrees with the recommendation to ensure promissory notes are signed before making disbursements of any funds and, prior to this finding, management had already redeveloped and published a

THE INSTITUTE OF WORLD POLITICS
Schedule of Findings and Questioned Costs (continued)
For the year ended July 31, 2014

financial aid policies and procedures manual that is available to all staff and outlines necessary requirements for loan disbursements.

In mid-August 2013, the Institute converted to a new Student Information System (Empower), with which the Financial Aid staff was still becoming familiar at the time of financial aid disbursement on September 16, 2013. The conversion to Empower included both automated and manual data input. The combination of implementing a new student information system and communication issues between that system and Federal financial aid systems, led to disbursement of funds in advance of a signed Master Promissory Note. Based on a review of the Federal government's Common Origination and Disbursements system, this oversight was corrected on November 8, 2013.

Since the time of this oversight, the Institute has hired a new Director of Financial Aid who comes with more than seven years of experience in financial aid systems and processing. Additionally, because the Director of Financial Aid is fully proficient with the Empower system, oversights like the one described above will not be repeated in the future. A new financial aid handbook has been developed which describes the process for financial aid disbursement.

In an effort to maintain compliance, the Institute has updated its communication practices with regard to informing students about their responsibilities for the financial aid process. Aside from having information listed on the Institute's financial aid website, students will be contacted via e-mail before the beginning of the semester to ensure that all documents necessary for disbursement are completed. The financial aid director will also run an internal check during this communication period as well as the day of disbursement to confirm that all students who are to receive financial aid are in compliance with these rules.

THE INSTITUTE OF WORLD POLITICS
Summary Schedule of Prior Year Findings and Questioned Costs
For the year ended July 31, 2014

Finding 2013-001 – Material Weakness – Journal Entry Process

Criteria:

Recipients of federal awards have the responsibility to design, implement, and maintain an appropriate system of internal controls and procedures to achieve effective and efficient operations; the preparation of reliable financial reporting; and, compliance with applicable laws and regulations.

Condition, Context and Effect:

During our review of the Institute's journal entry process, we noted that there is no formal journal entry preparation and approval process in place. Based on discussion with management and review of specific journal entries recorded during fiscal 2014, we noted an absence of a formal documented review of individual journal entries pertaining to the activities of the Institute. Given the limited number of Accounting Department personnel, the absence of an independent qualified review of each journal entry prior to being recorded to the general ledger is critical to ensure that the activities of the Institute are properly, completely and timely recorded. Further, an appropriate segregation of duties amongst incompatible functions would mitigate the risk of misstatements in the preparation of the annual financial statements.

Questioned Costs:

None noted.

Recommendation:

We recommend that the Institute establish a formal review and approval process for all of the Institute's transactions and related journal entries. Modeling the review and approval process of transactions and journal entries similar to the design of the control environment at similarly sized institutions would aid in ensuring that transactions are processed and reflected properly and timely in the general ledger. In addition, expanding the level of oversight and review, better leveraging existing system functionality to assign an appropriate level of accountability for entries recorded would ensure the propriety of account postings and expedite the process of reporting financial related activities and preparation of year-end account analyses and financial statements.

Views of Responsible Officials and Planned Corrective Action:

Management agrees with the recommendation subject to understanding that due to system constraints, separate sign-ons were not possible. To overcome the inadequacy of utilized software, the Institute implemented multiple sets of additional controls to counteract the presence of this weakness. Ultimately the system was changed and a new system has been implemented. In the interim, progress reviews are performed by the Executive Vice President, Chief Financial Officer and the Audit Committee to ensure that there were no material misstatement of the financial statements.

2014 Update:

No such matters were identified as part of the fiscal 2014 audit. The Institute believes that its process and review improvements effectuated in fiscal 2014 prevented a recurrence of this instance of noncompliance for the year ended July 31, 2014.