The Institute of World Politics

Financial Report
July 31, 2015

Contents

Independent Auditor's Report

To the Audit Committee
The Institute of World Politics
Washington, D.C.

Report on the Financial Statements
We have audited the accompanying financial statements of The Institute of World Politics (the Institute), which comprise the statement of financial position as of July 31, 2015, the related statements of activities 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 and the standards applicable to financial audit 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 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.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of July 31, 2015, and the changes 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.

Other Matter
The financial statements of the Institute, as of and for the year ended July 31, 2014, were audited by other auditors whose report dated December 31, 2014, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report, dated February 9, 2016, 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.

RSM US LLP

Washington, D.C.
February 9, 2016

The Institute of World Politics

Statements of Financial Position
July 31, 2015 and 2014

	2015	2014
Assets		
Cash and Cash Equivalents	**$ 1,750,587**	$ 518,731
Tuition Receivables, Net of Allowances for Doubtful Accounts and Discounts of $191,740 and $215,713 in 2015 and 2014, Respectively	**59,743**	376,909
Contributions Receivable	**65,645**	256,775
Prepaid Expenses and Other Assets	**90,903**	90,080
Deferred Rent Receivable	**11,272**	22,276
Restricted Cash	**649,495**	766,337
Investments	**3,276,137**	2,909,089
Investments in Split-Interest Agreement	**207,187**	210,398
Website Development Costs, Net of Accumulated Amortization of $131,152 and $102,172 in 2015 and 2014, Respectively	**70,120**	80,483
Property and Equipment, Net	**176,609**	223,953
	$ 6,357,698	$ 5,455,031
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 63,833**	$ 156,923
Deferred tuition revenue	**66,500**	34,197
Debt obligations	**897,131**	986,199
Capital lease obligation	**48,290**	63,382
Annuity obligation	**85,299**	107,698
	1,161,053	1,348,399
Commitments and Contingencies (Note 7)		
Net Assets		
Unrestricted:		
Undesignated	**924,376**	29,491
Board-designated	**2,244,318**	2,157,602
	3,168,694	2,187,093
Temporarily restricted	**380,846**	424,134
Permanently restricted	**1,647,105**	1,495,405
	5,196,645	4,106,632
	$ 6,357,698	$ 5,455,031

See Notes to Financial Statements.

The Institute of World Politics

Statement of Activities
Year Ended July 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Student tuition and fees, net of discounts and scholarships of $462,505	$ 2,879,461	$ -	$ -	$ 2,879,461
Contributions	2,302,288	842,459	151,700	3,296,447
Investment income, net	180,674	83,812	-	264,486
Other	10,130	-	-	10,130
Net assets released from restrictions	969,559	(969,559)	-	-
Total revenue and support	6,342,112	(43,288)	151,700	6,450,524
Expenses				
Program	3,358,604	-	-	3,358,604
Management and general	1,366,331	-	-	1,366,331
Fundraising	646,011	-	-	646,011
Total expenses	5,370,946	-	-	5,370,946
Change in net assets before other gains	971,166	(43,288)	151,700	1,079,578
Other Gains				
Adjustment to annuity obligation	10,435	-	-	10,435
Change in net assets	981,601	(43,288)	151,700	1,090,013
Net Assets				
Beginning	2,187,093	424,134	1,495,405	4,106,632
Ending	$ 3,168,694	$ 380,846	$ 1,647,105	$ 5,196,645

See Notes to Financial Statements.

The Institute of World Politics

Statement of Activities
Year Ended July 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Student tuition and fees, net of discounts and scholarships of $548,300	$ 3,050,691	$ -	$ -	$ 3,050,691
Contributions	1,290,174	673,971	19,485	1,983,630
Investment income, net	383,904	165,715	-	549,619
Other	30,141	-	-	30,141
Net assets released from restrictions	951,245	(951,245)	-	-
Total revenue and support	5,706,155	(111,559)	19,485	5,614,081
Expenses				
Program	3,330,231	-	-	3,330,231
Management and general	1,695,388	-	-	1,695,388
Fundraising	463,714	-	-	463,714
Total expenses	5,489,333	-	-	5,489,333
Change in net assets	216,822	(111,559)	19,485	124,748
Net Assets				
Beginning	1,970,271	535,693	1,475,920	3,981,884
Ending	$ 2,187,093	$ 424,134	$ 1,495,405	$ 4,106,632

See Notes to Financial Statements.

The Institute of World Politics

Statements of Cash Flows
Years Ended July 31, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Change in net assets	**$ 1,090,013**	$ 124,748
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**87,997**	89,694
Realized and unrealized gain on investments, net	**(199,935)**	(483,326)
Bad debt expense	**11,396**	61,048
Adjustment to annuity obligation	**(10,435)**	-
Contributions restricted to investment in perpetuity	**(151,700)**	(19,485)
Changes in assets and liabilities:		
(Increase) decrease in:		
Tuition receivables	**305,770**	(181,467)
Contributions receivable	**191,130**	(256,775)
Prepaid expenses and other assets	**(823)**	(4,193)
Deferred rent receivable	**11,004**	265,485
Increase (decrease) in:		
Accounts payable and accrued expenses	**(93,090)**	(71,111)
Capital lease obligation	**(15,092)**	19,867
Deferred tuition revenue	**32,303**	(59,814)
Annuity obligation	**(11,964)**	(11,965)
Net cash provided by (used in) operating activities	**1,246,574**	(527,294)
Cash Flows From Investing Activities		
Proceeds from sales of investments	**4,023,342**	2,289,423
Purchases of investments	**(4,187,244)**	(1,292,994)
Purchases of equipment	**(11,674)**	(104,750)
Enhancements to website	**(18,616)**	(55,848)
(Increase) decrease in restricted cash	**116,842**	(408,371)
Net cash (used in) provided by investing activities	**(77,350)**	427,460
Cash Flows From Financing Activities		
Net principal (payments) borrowing on lines of credit	**(89,068)**	285,000
Contributions restricted to investment in perpetuity	**151,700**	19,485
Net cash provided by financing activities	**62,632**	304,485
Net increase in cash and cash equivalents	**1,231,856**	204,651
Cash and Cash Equivalents		
Beginning	**518,731**	314,080
Ending	**$ 1,750,587**	$ 518,731
Interest Paid	**$ 39,945**	$ 46,166

See Notes to Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: 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, D.C.

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. All degrees designed for students who are pursuing a career in the international affairs, intelligence, or national security fields.

A summary of the Institute's significant accounting policies follows:

Basis of accounting: The financial statements of the Institute have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is realized when earned and expenses are recognized when incurred. Resources are reported, for accounting purposes, in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into categories as follows:

> *Permanently restricted:* Net assets subject to donor-imposed stipulations that they 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.
>
> *Temporarily restricted:* Net assets whose use by the Institute is subject to donor-imposed stipulations that can be fulfilled by actions of the Institute pursuant to those stipulations or that expire by the passage of time.
>
> *Unrestricted:* Net assets that are not subject to donor-imposed stipulations. The Institute's unrestricted net assets are comprised of the following:
>
> > *Undesignated net assets:* Represents funds available for general operations.
> >
> > *Board designated net assets:* Represents funds set aside by the Institute's Board of Trustees to support the Institute's programs and activities.

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. Temporarily restricted contributions received that are used according to donor restrictions in the same period are recognized as temporarily restricted contributions, and reclassified as net assets released from restrictions in the same period.

Cash equivalents: The Institute considers all highly-liquid instruments with original maturities of three months or less to be cash equivalents. Cash equivalents include demand deposits and short-term certificates of deposit held in banks.

Restricted cash: Restricted cash pertains to the Institute's permanently restricted endowments, and include one restricted cash account and money market funds included in investment portfolios.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Financial risk: The Institute maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Institute has not experienced any losses in such accounts. The Institute believes it is not exposed to any significant financial risk on cash.

The Institute invests in a professionally managed portfolio that contains money market funds, government and corporate bonds, mutual funds and corporate stocks. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risk in the near term would materially affect investment balances and the amounts reported in the financial statements.

Tuition receivable: Tuition receivable is carried at original tuition contract amount, less an estimate made for doubtful receivables based on a review of all outstanding accounts on an annual basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are reflected at fair market value. To adjust the carrying values of these securities, the change in fair market value is recorded as a component of investment income in the statement of activities.

Split-interest agreement: The Institute is a trustee of certain assets under a split-interest agreement which provides for payments to the donors of specified annuity amounts. Assets held under this agreement are reported as investments in split-interest agreement on the statement of financial position. Contribution revenue was recognized at the date of the agreement after providing for the present value of estimated future payments to be made to the donors. The annuity obligation liability is adjusted during the term of the agreements for accretion of the discount, payments made, and other changes in the estimates. The discount rate used to value the charitable gift annuity split-interest agreement is 4.19% and 1.20% at July 31, 2015 and 2014, respectively.

Property and equipment: Acquisitions of property and equipment in excess of $1,000 and which have useful lives greater than three years are recorded at cost and depreciated using the straight-line method over the useful lives of three to ten years. Leasehold improvements are amortized using the straight-line method over the estimated life of the asset or the term of the lease, whichever is less.

Revenue recognition: The Institute's activities are primarily supported through student tuition and fees, grants, contributions and investment earnings.

Tuition and fees, and scholarship allowances are recognized ratably over the academic year. Tuition and fees received in advance are deferred and recognized ratably as revenue over the period in which the related instruction occurs. Allowances are made for uncollectible tuition and fees based on prior collection experience and economic factors, which in management's judgment, could influence the ability of students to repay outstanding amounts. Tuition amounts to be received after one year are discounted at a rate commensurate with the risk involved.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

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. Provisions for uncollectible contributions receivable are charged directly to temporarily or permanently restricted net assets.

The Institute's share of bequests is recorded when the Institute has an irrevocable right to the bequest and the proceeds are measurable. Gifts in-kind are reported at their fair value at the date of the gift.

Functional allocation of expenses: The Institute's expenses have been presented on a functional basis in the statement of activities and schedule of functional expenses (see supplementary information). Certain overhead costs have been allocated among program services, management and general, and fundraising.

Income taxes: The Institute is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Institute had no net unrelated business income for the years ended July 31, 2015 and 2014. The Institute is not classified as a private foundation under Section 509(a)(1) of the Internal Revenue Code.

In accordance with authoritative guidance on accounting for uncertainty in income taxes issued by the Financial Accounting Standards Board (FASB), the Institute recognizes tax liabilities for uncertain tax positions when it is more-likely-than-not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes and accounting in interim periods. The Institute recognizes interest accrued and penalties related to unrecognized tax benefits, if any, as income tax expense. With few exceptions, the Institute is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ended July 31, 2012, and prior.

Management has evaluated the Institute's tax positions and has concluded that the Institute has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification: Certain items in the July 31, 2014, financial information have been reclassified to comply with the current year presentation. These reclassifications had no effect on previously reported change in net assets or net assets.

Subsequent events: In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through February 9, 2016, the date the financial statements were available to be issued.

Note 2. Investments

Investments consist of the following at July 31, 2015 and 2014:

	2015	2014
Corporate stocks	$ 1,566,198	$ 2,909,089
Equity mutual funds	805,765	-
Fixed income		
Corporate bonds	452,581	-
Government bonds	451,593	-
	$ 3,276,137	$ 2,909,089

Investment income for the years ended July 31, 2015 and 2014, is comprised of the following:

	2015	2014
Interest and dividends	$ 64,551	$ 73,249
Realized gains	453,461	461,290
Unrealized gains (losses)	(253,526)	15,080
	$ 264,486	$ 549,619

Note 3. Split-Interest Agreement

Charitable gift annuity's investments as of July 31, 2015 and 2014, are comprised of the following:

	2015	2014
Money market fund	$ 2,671	$ 613
Domestic equity mutual funds	127,390	131,659
Fixed income mutual funds	77,126	78,126
	$ 207,187	$ 210,398

The following is a summary of the changes in the annuity obligation for the years ended July 31, 2015 and 2014:

	2015	2014
Beginning of the year	$ 107,698	$ 119,663
Payments to annuitant	(11,964)	(11,965)
Change in value due to actuarial valuation	(10,435)	-
End of the year	$ 85,299	$ 107,698

Note 4. Fair Value Measurements

The Fair Value Measurement Topic of the Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and sets out a 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). Inputs are broadly defined under this topic as assumptions market participants would use in pricing an asset or liability.

The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments in Level 1 include money market funds, equity securities, mutual funds, corporate and government bonds. As required by the Fair Value Measurement Topic, the Institute does not adjust the quoted price for these investments, even in situations where the Institute holds a large position and a sale could reasonably impact the quoted price.

Level 2 Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement. There were no Level 2 inputs for any assets or liabilities held by the Institute at July 31, 2015.

Level 3 Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. There were no Level 3 inputs for any assets or liabilities held by the Institute at July 31, 2015.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Institute’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. To determine the appropriate levels, the Institute performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurement Topic.

Note 4. Fair Value Measurements (Continued)

The tables below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy:

	2015			
	Total	Level 1	Level 2	Level 3
Assets				
Restricted cash:				
Money market funds	$ 649,495	$ 649,495	$ -	$ -
Investments:				
Corporate stocks	$ 1,566,198	$ 1,566,198	$ -	$ -
Equity mutual funds	805,765	805,765	-	-
Fixed income:				
Corporate bonds	452,581	452,581	-	-
Government bonds	451,593	451,593	-	-
	$ 3,276,137	$ 3,276,137	$ -	$ -
Investments in split-interest agreement :				
Money market fund	$ 2,671	$ 2,671	$ -	$ -
Domestic equity mutual funds	127,390	127,390	-	-
Fixed income mutual funds	77,126	77,126	-	-
	$ 207,187	$ 207,187	$ -	$ -

	2014			
	Total	Level 1	Level 2	Level 3
Assets				
Restricted cash:				
Money market funds	$ 766,337	$ 766,337	$ -	$ -
Investments:				
Corporate stocks	$ 2,909,089	$ 2,909,089	$ -	$ -
	$ 2,909,089	$ 2,909,089	$ -	$ -
Investments in split-interest agreement :				
Money market fund	$ 613	$ 613	$ -	$ -
Domestic equity mutual funds	131,659	131,659	-	-
Fixed income mutual funds	78,126	78,126	-	-
	$ 210,398	$ 210,398	$ -	$ -

Note 5. Property and Equipment

Property and equipment as of July 31, 2015 and 2014, and the related accumulated depreciation, are as follows:

	2015	2014
Leasehold improvements	$ 7,593	$ 7,593
Furniture and equipment	202,326	195,687
Software development costs	203,026	197,991
	412,945	401,271
Less accumulated depreciation	(236,336)	(177,318)
	$ 176,609	$ 223,953

Note 6. Debt Obligations

The Institute maintains two lines of credit and one demand loan, as follows:

Lines of credit: The Institute has a line of credit of $350,000 with a bank which requires monthly payments of interest at a fixed rate of 4.00% during the years ended July 31, 2015 and 2014, 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, 2015 and 2014, the Institute had an outstanding balance on the line of credit of $347,367. The line of credit was renewed in September 2015 with maturity on October 1, 2016.

The Institute has an additional line of credit of $500,000 with the same bank which requires monthly payments of interest at a fixed rate of 4.00% during the years ended July 31, 2015 and 2014, with the principal payable due at the earlier of the bank's demand or the line's maturity on September 1, 2015. At July 31, 2015 and 2014, the Institute had an outstanding balance on the line of credit of $500,000. The line of credit was renewed in August 2015 with maturity on September 1, 2016.

Demand loan: 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% during the years ended July 31, 2015 and 2014, with the principal payable due at the earlier of the bank's demand or the note's maturity on July 1, 2016. At July 31, 2015 and 2014, the Institute had an outstanding balance on the loan of $49,764 and $138,832, respectively.

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 $2,204,318 and $2,157,602 at July 31, 2015 and 2014, 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.

Note 7. Commitments and Contingencies

Employment agreement: As of July 31, 2015, the Institute has in place signed employment agreements with its president, which expires on July 31, 2023, subject to the termination provisions in the agreement. Under the agreement, the president is entitled to a one-year sabbatical, or alternatively, two half-year sabbatical leaves, during which he is entitled to all of the benefits and annual compensation provided under his agreement. As of July 31, 2015, as it is determined that in the future, when the president takes the sabbatical leave, he will continue to perform work to benefit the Institute, the sabbatical benefit is not accrued.

Note 7. Commitments and Contingencies (Continued)

Operating leases: The Institute has leased space to house its library and also for its instructional and administrative activities in Washington, D.C. since November 2009. Monthly rental payments were $30,723 per month for the period September 2013 through August 31, 2014, and $40,390 per month for the period September 1, 2014 through August 31, 2015. 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 $104,439 and $101,687, for the years ended July 31, 2015 and 2014, respectively. Rent expense totaled $377,893 and $367,743 for the years ended July 31, 2015 and 2014, respectively. In addition, the Institute received contributed rent for the years ended July 31, 2015 and 2014. Rent expense, inclusive of cash payments and amounts contributed, for the years ended July 31, 2015 and 2014, totaled $685,148 and $671,928, 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 was included as part of temporarily restricted net assets and contributions receivable and was amortized over the respective rental period. Subsequent to July 31, 2015, this lease was renewed for an additional one year period from September 1, 2015 through August 31, 2016, with monthly rental payments of $40,390.

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

Year Ending July 31,		Amount
2016	$	498,014
2017		41,602
Total	$	539,616

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, 2015, are as follows:

Year Ending July 31,		Amount
2016	$	18,627
2017		18,215
2018		12,234
2019		5,172
Total		54,248
Less imputed interest		(5,958)
	$	48,290

Federal grants: The Institute participates in federally-assisted grant programs, which are subject to financial and compliance audits by the grantors or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such an audit. Management does not anticipate any significant adjustments as a result of such an audit.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets include donor-restricted funds, which are only available for program activities or general support designated for future years. At July 31, 2015 and 2014, temporarily restricted net assets are as follows:

	2015			
	July 31, 2014	Additions	Releases	July 31, 2015
Qualifying faculty appointments	$ 67,503	$ 214,256	$ (269,765)	$ 11,994
Contributed instructional and administrative space	22,276	11,272	(22,276)	11,272
Institutional support	299,142	616,931	(592,701)	323,372
Endowment earnings	35,213	83,812	(84,817)	34,208
	$ 424,134	$ 926,271	$ (969,559)	$ 380,846

	2014			
	July 31, 2013	Additions	Releases	July 31, 2014
Qualifying faculty appointments	$ 62,581	$ 262,839	$ (257,917)	$ 67,503
Contributed instructional and administrative space	287,761	-	(265,485)	22,276
Institutional support	-	411,132	(111,990)	299,142
Endowment earnings	185,351	165,715	(315,853)	35,213
	$ 535,693	$ 839,686	$ (951,245)	$ 424,134

Note 9. Endowment

The Institute follows the FASB Codification topic related to endowments of nonprofit organizations, which provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission (ULC, formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. In 2008, the District of Columbia enacted UPMIFA. Under UPMIFA, all unappropriated endowment fund assets are considered restricted.

The Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instruments at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Institute and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Institute
- The investment policies of the Institute

Note 9. Endowment (Continued)

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) to support mainly qualifying faculty appointments and Scholarships. Assets related to the endowment funds are included in the investments and restricted cash in the statement of financial position. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the temporarily restricted unexpended endowment earnings and permanently restricted net assets.

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Institute to retain as a fund for perpetual duration. In accordance with GAAP, deficiencies of this nature are reported as a reduction of unrestricted net assets. There were no deficiencies as of July 31, 2015 and 2014.

Return objectives and risk parameters: Management of the endowment assets is designed to ensure a total return (income plus capital change) necessary to preserve and enhance (in real dollar terms) the principal of the fund and, at the same time, provide a dependable source of support for current operations and programs. Therefore, the Institute's goal for its endowment funds is to preserve and enhance purchasing power after accounting for investment returns, spending, and inflation (but excluding gifts).

Strategies employed for achieving objectives: Reasonable diversification is sought at all times. Experience has shown financial markets and inflation rates are cyclical and, therefore, control of volatility will be achieved through diversification of asset classes and selection of managers of diverse investment styles. The Board of Trustees examines the correlation of the investment portfolio and it has historically had positive returns.

Spending policy: The Institute's policy is to appropriate each year the average of the previous three fiscal years' beginning period endowment values.

The Institute's endowment balances, by net asset classification, are as follows as of July 31, 2015 and 2014:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment	$ 2,244,318	$ -	$ -	$ 2,244,318
Donor-restricted endowment	-	34,208	1,647,105	1,681,313
	$ 2,244,318	$ 34,208	$ 1,647,105	$ 3,925,631

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment	$ 2,157,602	$ -	$ -	$ 2,157,602
Donor-restricted endowment	-	35,213	1,495,405	1,530,618
	$ 2,157,602	$ 35,213	$ 1,495,405	$ 3,688,220

Note 9. Endowment (Continued)

The change in endowment net assets for the years ended July 31, 2015 and 2014, is as follows:

	Board Designated Endowment	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, as of July 31, 2013	$ 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	(476,900)	(315,853)	-	(792,753)
Endowment net assets, as of July 31, 2014	2,157,602	35,213	1,495,405	3,688,220
Interest and dividends	40,372	16,015	-	56,387
Net appreciation in the fair value of investments (unrealized and realized)	120,283	68,980	-	189,263
Contributions	4,000	-	151,700	155,700
Amounts appropriated for expenditure	(77,939)	(86,000)	-	(163,939)
Endowment net assets, as of July 31, 2015	$ 2,244,318	$ 34,208	$ 1,647,105	$ 3,925,631

Note 10. 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 $64,928 and $38,561 for the year ended July 31, 2015 and 2014, respectively.

Note 11. Subsequent Event

Subsequent to July 31, 2015, the Institute fully executed an agreement to purchase the building which includes the premises it currently leases. The agreement was effective on January 12, 2015, and the purchase price is $10.3 million. The purchase is contingent on the Institute's ability to secure a commitment for financing (both debt and equity) during the period ending on March 31, 2016 (the financing contingency period). The closing date is 180 days following the expiration of the financing contingency period. Pursuant to the purchase agreement, the Institute has paid a deposit of $515,000 to the escrow agent.

Independent Auditor's Report
on the Supplementary Information

To the Audit Committee
The Institute of World Politics
Washington, D.C.

We have audited the financial statements of The Institute of World Politics (the Institute) as of and for the year ended July 31, 2015, and have issued our report thereon which contains an unmodified opinion on those financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole.

The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Washington, D.C.
February 9, 2016

The Institute of World Politics

Schedule of Functional Expenses
Year Ended July 31, 2015

Expense Category	Program	Management and General	Fundraising	Total
Salaries	$ 1,959,465	$ 667,576	$ 283,784	$ 2,910,825
Occupancy	469,123	148,164	67,861	685,148
Other Professional Fees	118,986	11,228	103,733	233,947
Other Employee Benefits	138,701	61,956	21,376	222,033
Payroll Taxes	150,522	44,059	22,973	217,554
Conferences, Conventions and Meetings	109,384	8,618	57,851	175,853
Accounting	-	139,819	-	139,819
Office Expenses	80,422	30,347	19,179	129,948
Publications and Subscriptions	91,398	1,229	1,855	94,482
Depreciation and Amortization	60,390	18,725	8,882	87,997
Pension Plan Contributions	32,901	30,419	1,608	64,928
Travel	22,928	17,635	22,743	63,306
Tuition remission	-	56,375	-	56,375
Miscellaneous	23,589	17,307	4,761	45,657
Insurance	24,165	13,342	3,502	41,009
Interest Expense	-	39,945	-	39,945
Advertising	37,050	-	132	37,182
Information Technology	23,203	6,532	4,030	33,765
Printing	12,973	1,236	15,965	30,174
Legal	-	19,042	4,486	23,528
Investment Management Fees	-	20,019	-	20,019
Dues	3,404	12,758	1,290	17,452
Total	$ 3,358,604	$ 1,366,331	$ 646,011	$ 5,370,946