

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

THE INSTITUTE OF WORLD POLITICS

For the year ended July 31, 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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012 taken as a whole. The schedule of expenditures of federal awards for the year ended July 31, 2013, 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 2013 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 2013 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2013 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 2013 financial statements or to the 2013 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 2013 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 April 17, 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.
April 17, 2014

THE INSTITUTE OF WORLD POLITICS
Statements of Financial Position
As of July 31, 2013 and 2012

ASSETS	2013	2012
Cash and cash equivalents	\$ 432,525	\$ 746,373
Permanently restricted cash	239,521	434,483
Tuition receivables, net of allowances for doubtful accounts and discounts of \$328,165 and \$595,487 in 2012 and 2011	256,490	227,662
Contributions and grant receivables	-	112,926
Bequest receivable	-	1,000,000
Prepaid expenses and other assets	85,887	116,303
Deferred rent receivable	287,761	531,725
Investments (Note 8)	3,429,148	2,225,991
Investments in split - interest agreements (Note 9)	203,442	-
Website development costs, net of accumulated amortization of \$126,808 and \$114,921 in 2013 and 2012, respectively	56,213	48,066
Fixed assets (Note 2):		
Leasehold improvements	3,189	59,059
Furniture and equipment	160,127	277,611
Software development costs	<u>152,965</u>	<u>178,050</u>
	316,281	514,720
Less: accumulated depreciation and amortization	<u>(138,962)</u>	<u>(432,198)</u>
Fixed assets, net	<u>177,319</u>	<u>82,522</u>
Total assets	<u>\$ 5,168,306</u>	<u>\$ 5,526,051</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 271,549	\$ 337,929
Deferred tuition revenue	94,011	297,082
Charitable gift annuity - payable to annuitants (Note 9)	119,663	-
Debt obligations (Note 11)	<u>701,199</u>	<u>701,199</u>
Total liabilities	<u>1,186,422</u>	<u>1,336,210</u>
NET ASSETS		
Unrestricted	1,970,271	2,118,455
Temporarily restricted (Note 5)	535,693	596,966
Permanently restricted (Notes 5 and 6)	<u>1,475,920</u>	<u>1,474,420</u>
Total net assets	<u>3,981,884</u>	<u>4,189,841</u>
Total liabilities and net assets	<u>\$ 5,168,306</u>	<u>\$ 5,526,051</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, 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 (depreciation) 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
Statement of Activities
For the year ended July 31, 2012

	<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 \$445,900	\$ 2,699,099	\$ -	\$ -	\$ 2,699,099
Contributions from individuals, corporations and foundations	1,459,190	412,225	521,050	2,392,465
Interest and dividends	53,057	15,226	-	68,283
Realized gain on sales of investments	70,818	23,754	-	94,572
Unrealized (depreciation) appreciation in the fair value of investments	(33,252)	4,805	-	(28,447)
Other	6,660	-	-	6,660
Net assets released from restrictions and reclassifications (Notes 4 and 6)	<u>934,141</u>	<u>(934,141)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>5,189,713</u>	<u>(478,131)</u>	<u>521,050</u>	<u>5,232,632</u>
EXPENSES (Note 12)				
Instruction	1,622,118	-	-	1,622,118
Academic support	419,524	-	-	419,524
Student services	1,084,530	-	-	1,084,530
Institutional support	<u>1,789,901</u>	<u>-</u>	<u>-</u>	<u>1,789,901</u>
Total expenses	<u>4,916,073</u>	<u>-</u>	<u>-</u>	<u>4,916,073</u>
Changes in net assets	273,640	(478,131)	521,050	316,559
Net assets, beginning of year	<u>1,844,815</u>	<u>1,075,097</u>	<u>953,370</u>	<u>3,873,282</u>
Net assets, end of year	<u>\$ 2,118,455</u>	<u>\$ 596,966</u>	<u>\$ 1,474,420</u>	<u>\$ 4,189,841</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (207,957)	\$ 316,559
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	63,281	70,260
Unrealized (appreciation) depreciation in the fair value of investments	(342,918)	28,447
Realized gain on sales of investments	(258,068)	(94,572)
Investments in split-interest agreements	(203,442)	-
Changes in assets and liabilities:		
(Increase) decrease in tuition receivables	(28,828)	6,817
Decrease in contributions and grant receivables	112,926	24,476
Decrease (increase) in bequest receivable	1,000,000	(1,000,000)
Decrease (increase) in prepaid expenses and other assets	30,418	(24,436)
Decrease in deferred rent	243,964	221,756
Increase in accounts payable and accrued expenses	53,204	40,604
(Decrease) increase in deferred tuition revenue	(203,071)	114,873
Net cash provided by (used in) operating activities	<u>259,509</u>	<u>(295,216)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(138,224)	(15,393)
Enhancements to website	(27,924)	-
Proceeds from sales of investments	3,753,825	2,064,619
Purchases of investments	(4,161,034)	(1,894,107)
Net cash (used in) provided by investing activities	<u>(573,357)</u>	<u>155,119</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on lines of credit	-	283,656
Repayment of principal on note payable	-	(40,839)
Net cash provided by financing activities	<u>-</u>	<u>242,817</u>
Change in cash and cash equivalents	(313,848)	102,720
Cash and cash equivalents, beginning of year	<u>746,373</u>	<u>643,653</u>
Cash and cash equivalents, end of year	<u>\$ 432,525</u>	<u>\$ 746,373</u>
Supplemental disclosures:		
Contributed instructional and administrative space	<u>\$ 243,964</u>	<u>\$ 221,756</u>
Interest paid	<u>\$ 35,773</u>	<u>\$ 27,993</u>

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

THE INSTITUTE OF WORLD POLITICS

Notes to Financial Statements

July 31, 2013 and 2012

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, 2013 and 2012

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 quality financial institutions. The Institute has not experienced, nor does it anticipate, any losses with

THE INSTITUTE OF WORLD POLITICS

Notes to Financial Statements

July 31, 2013 and 2012

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, 2013 and 2012.

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.
- 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, 2013 and 2012.

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 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

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Notes to Financial Statements

July 31, 2013 and 2012

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.

Reclassifications

Accounts payable and accrued expenses which were previously shown separately in the 2012 financial statements, have been combined in order to conform with the 2013 presentation. This reclassification did not change total assets, liabilities or net assets as previously presented in the 2012 financial statements.

Subsequent Events

The Institute evaluated its July 31, 2013 financial statements for subsequent events through April 17, 2014, the date the financial statements were available to be issued. The Institute is not aware of any material subsequent events, other than discussed in Note 11, which would require recognition or disclosure in the accompanying financial statements.

THE INSTITUTE OF WORLD POLITICS
Notes to Financial Statements
July 31, 2013 and 2012

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 has to 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 had no impact on the Institute’s financial statements. The tax years ended 2011, 2012 and 2013 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, 2013 and 2012 for the following purposes:

	<u>2013</u>	<u>2012</u>
Qualifying faculty appointments	\$ 214,395	\$ 399,066
Scholarships and fellowships	-	26,800
Contributed instructional and administrative space	243,964	221,756
Institutional support	51,860	87,985
Endowment earnings	45,045	-
Academic support/research	-	10,287
Conferences	-	13,247
Satisfaction of time restriction	-	25,000
Administrative support	-	150,000
	<u>\$ 555,264</u>	<u>\$ 934,141</u>

5. RESTRICTED NET ASSETS

At July 31, 2013 and 2012, the Institute’s temporarily restricted net assets are held for the following purposes:

	<u>2013</u>	<u>2012</u>
Qualifying faculty appointments	\$ 62,581	\$ 20,196
Contributed instructional and administrative space	287,761	531,725
Awaiting Board appropriation for expenditure	185,351	45,045
	<u>\$ 535,693</u>	<u>\$ 596,966</u>

THE INSTITUTE OF WORLD POLITICS
Notes to Financial Statements
July 31, 2013 and 2012

The Institute had permanently restricted endowment funds totaling \$1,475,920 and \$1,474,420 at July 31, 2013 and 2012, respectively. Investment income from these funds is restricted principally to support the cost of qualifying faculty appointments, pursuant to express donor-imposed stipulations.

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 the 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, 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	2,274,903	-	-	2,274,903
Total endowment funds	\$ 2,274,903	\$ 185,351	\$ 1,475,920	\$ 3,936,174
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	(266,618)	(45,045)	-	(311,663)
Endowment net assets, end of year	\$ 2,274,903	\$ 185,351	\$ 1,475,920	\$ 3,936,174

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 2013 (Fiscal 2014). For purposes of the changes in the endowment net asset composition for the year ended July 31, 2013 presented in the table above, the amounts borrowed have been reflected as a transfer out.

THE INSTITUTE OF WORLD POLITICS
Notes to Financial Statements
July 31, 2013 and 2012

Endowment net asset composition, by type of fund, as of July 31, 2012 follows:

Endowment Net Asset Composition by Type of Fund	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 45,045	\$ 1,474,420	\$ 1,519,465
Board-designated endowment funds	2,232,886	-	-	2,232,886
Total endowment funds	<u>\$ 2,232,886</u>	<u>\$ 45,045</u>	<u>\$ 1,474,420</u>	<u>\$ 3,752,351</u>
Endowment net assets, beginning of year	\$ 2,199,968	\$ 14,344	\$ 953,370	\$ 3,167,682
Interest and dividends, net of investment fees of \$14,777	38,024	15,226	-	53,250
Net appreciation of fair value of investments (unrealized and realized)	34,888	28,559	-	63,447
Contributions	-	-	521,050	521,050
Amounts appropriated for expenditure	(39,994)	(13,084)	-	(53,078)
Endowment net assets, end of year	<u>\$ 2,232,886</u>	<u>\$ 45,045</u>	<u>\$ 1,474,420</u>	<u>\$ 3,752,351</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 \$71,027 and 112,310 for the year ended July 31, 2013 and 2012, 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, 2013 and 2012 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, 2013 and 2012.

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

THE INSTITUTE OF WORLD POLITICS
Notes to Financial Statements
July 31, 2013 and 2012

	2012			Total
	Level 1	Level 2	Level 3	
Corporate stocks	<u>\$ 2,225,991</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,225,991</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 a charitable gift annuity fund, where the investments are reflected as part of unrestricted assets and a liability, payable to annuitants, has been recorded 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% for fiscal 2013.

The following tables prioritize 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, 2013:

	Level 1
Charitable gift annuity:	
Money market fund	\$ 525
Equities - domestic mutual funds	125,205
Fixed income - mutual funds	<u>77,712</u>
Total investments	<u>\$ 203,442</u>

The following table summarizes the changes in the split-interest agreement liability for the year ended July 31, 2013:

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

THE INSTITUTE OF WORLD POLITICS

Notes to Financial Statements

July 31, 2013 and 2012

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 \$94,630 and \$43,445, for the years ended July 31, 2013 and 2012, respectively. Rent expense totaled \$337,772 and \$287,956 for the years ended July 31, 2013 and 2012, respectively. In addition, the Institute received contributed rent for the years ended July 31, 2013 and 2012. Rent expense, inclusive of cash payments and amounts contributed, for the years ended July 31, 2013 and 2012 totaled \$619,147 and \$466,267, 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 cost that is below fair value. 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.

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

2014	\$	469,430
2015		<u>39,214</u>
Total	\$	<u>508,644</u>

Capital Leases

As of July 31, 2013, the Institute has entered into three capital leases for purposes of acquiring office equipment which expire at various dates through fiscal 2018.

Future minimum lease payments due under the equipment leases in effect at July 31, 2013 are as follows:

2014	\$	15,299
2015		15,229
2016		8,733
2017		6,935
2018		<u>3,467</u>
Total	\$	<u>49,663</u>

THE INSTITUTE OF WORLD POLITICS

Notes to Financial Statements

July 31, 2013 and 2012

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 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 rate of 5.00% and 6.00% at July 31, 2013 and 2012, respectively, with the principal payable due at the earlier of the bank's demand or the line's maturity on October 1, 2013. At July 31, 2013 and 2012, the Institute had an outstanding balance on the line of credit of \$347,367.

The Institute also maintains a loan agreement with the same bank for a maximum amount of \$200,000 which provides for monthly payments of interest at a rate of 5.00% at July 31, 2013 and 2012, respectively, with the principal payable at the earlier of the bank's demand or the note's maturity on July 1, 2013. At July 31, 2013 and 2012, the Institute had an outstanding balance of \$138,832 on the loan, respectively.

During fiscal year 2012, the Institute obtained an additional line of credit with the same bank of \$300,000 which provides for monthly payments of interest at a rate of 5.00% at July 31, 2012, with the principal payable at the earlier of the bank's demand or the line's maturity on August 1, 2013. Subsequent to July 31, 2013, the line of credit was extended to \$500,000 bearing the same rate of interest. At July 31, 2013 and 2012, the Institute had an outstanding balance on the line of credit of \$215,000, respectively.

Both the line of credits 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 \$2,387,886 and \$2,232,886 at July 31, 2013 and 2012, 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.

On July 13, 2011, the Institute extended an irrevocable stand-by letter of credit in favor of the U. S. Department of Education from the Philadelphia Trust Company in the amount of \$866,000. The stand-by letter of credit expired on July 31, 2012 and the Institute was not required to renew the letter of credit.

THE INSTITUTE OF WORLD POLITICS
Notes to Financial Statements
July 31, 2013 and 2012

12. FUNCTIONAL EXPENSES

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
Notes to Financial Statements
July 31, 2013 and 2012

The following presents the natural expense classification by functional activities for the year ended July 31, 2012 and reflects the allocation of depreciation and amortization, operation and maintenance and interest on indebtedness amongst the categories benefitted.

Expense Category	Academic		Student	Institutional	Total
	Instruction	Support	Services	Support	
Salaries	\$ 947,754	\$ 133,226	\$ 459,478	\$ 849,030	\$ 2,389,488
Payroll Taxes	70,557	10,245	35,883	63,419	180,104
Employee Benefits	119,636	31,955	89,776	101,871	343,238
Staff Training	400	-	764	-	1,164
Payroll Processing Fees	5,055	779	2,887	5,143	13,864
Faculty Honorariums	23,550	-	-	-	23,550
Professional Fees	27,905	4,282	28,966	274,666	335,819
Consultants	77,858	-	-	83,209	161,067
Software Consultants	3,619	-	14,476	3,905	22,000
Advertising	435	-	83,851	-	84,286
Bank Fees	-	-	-	9,589	9,589
Career Placement Services	-	-	60,640	-	60,640
College Fairs	-	-	5,253	-	5,253
Conferences	775	-	29	442	1,246
Depreciation and Amortization	26,522	4,088	15,552	24,098	70,260
Dues	3,566	1,445	4,686	8,956	18,653
Equipment	1,820	-	224	2,166	4,210
Insurance	9,536	1,470	5,592	9,155	25,753
Interest Expense	-	-	-	27,293	27,293
Meetings and Events	3,093	-	49,591	27,003	79,687
Miscellaneous	-	-	2,211	11,465	13,676
Postage and Delivery	5,100	668	3,682	13,728	23,178
Printing	11,024	-	19,264	10,138	40,426
Publications and Subscriptions	10,986	75,752	25	2,696	89,459
Rent	163,793	123,873	72,097	106,504	466,267
Repairs and Maintenance	26,490	4,111	15,455	44,680	90,736
Software Expense	2,190	579	1,853	9,241	13,863
Software Maintenance	13,424	-	53,687	14,684	81,795
Supplies	10,568	2,159	6,211	27,802	46,740
Telephone and Internet	14,351	1,703	6,290	14,537	36,881
Travel	23,809	26	39,209	34,781	97,825
Utilities	18,302	23,163	6,898	9,700	58,063
Total	\$ 1,622,118	\$ 419,524	\$ 1,084,530	\$ 1,789,901	\$ 4,916,073

THE INSTITUTE OF WORLD POLITICS
Schedule of Expenditures of Federal Awards
For the year ended July 31, 2013

<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>\$ 2,216,242</u>
Total Expenditures of Federal Awards		<u>\$ 2,216,242</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, 2013

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards for the year ended July 31, 2013 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, 2013.

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, 2013.

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, 2013, 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 April 17, 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.

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. However, we identified a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Finding 2013-001 that we consider to be a material weakness in the Institute’s internal control.

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*.

Institute's response to findings

The Institute's response to our 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 the financial statements, and accordingly, we express no opinion on the Institute's response.

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 black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Washington, D.C.
April 17, 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, 2013. 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, 2013.

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.

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.

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.



Washington, D.C.
April 17, 2014

THE INSTITUTE OF WORLD POLITICS
Schedule of Findings and Questioned Costs
For the year ended July 31, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Federal Awards:

Internal control over the major program:

- Material weakness(es) identified? yes X no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes X 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 X 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?	<u> </u> yes <u> X </u> no

THE INSTITUTE OF WORLD POLITICS
Schedule of Findings and Questioned Costs (continued)
For the year ended July 31, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

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 2013, 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.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

THE INSTITUTE OF WORLD POLITICS
Summary Schedule of Prior Year Findings and Questioned Costs
For the year ended July 31, 2013

Finding 2012-01 - Special Tests - Student Status Changes (Material Weakness)

U.S. Department of Education – Direct Loan Program (CFDA # 84.268)

Criteria:

Pursuant to 34 CFR Section 685.309, upon receipt of a student status confirmation report from the Secretary or a similar student status confirmation report form from any guaranty agency, a school shall complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate, unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days.

Condition:

We identified four (4) students in the population that we tested who did not have their student status enrollment change reported to the National Student Loan Data System (“NSLDS”) and one (1) student who did not have his student status enrollment change reported to the NSLDS within the required 60-day timeframe.

Context:

We identified four (4) students who did not have their student status enrollment change reported to the NSLDS and one (1) student who did not have his student status enrollment change reported to the NSLDS within the required 60-day timeframe, out of a sample of five (5) students selected for review.

Questioned Costs:

None noted.

Cause:

The Institute did not have controls in place to ensure that student status enrollment changes were accurately and timely reported to the NSLDS.

Effect:

As a result, the Institute did not comply with the student status change reporting requirements for graduating students during fiscal 2012.

Recommendation:

We recommend the Institute implement procedures and controls to ensure that all required reporting to the NSLDS is performed accurately and in a timely manner.

Views of Responsible Officials and Planned Corrective Action:

Management agrees with the recommendation subject to the understanding that this problem is a carryover from an issue identified in the 2011 audit for which the Institute immediately began to remediate this weakness. Specifically, the Institute hired a new financial aid officer during the last quarter of fiscal 2012 and the findings reported above all occurred prior to the new hire. The Institute has put in place a procedure to ensure that this does not happen again. It should also be noted that during the academic year of 2013-14, the Institute is converting to a new student information system which will allow the Institute to report these changes on a monthly basis through a clearinghouse thereby rectifying the problem for future periods and thereby providing a preventive control in addition to detective controls identified above.

THE INSTITUTE OF WORLD POLITICS
Summary Schedule of Prior Year Findings and Questioned Costs
For the year ended July 31, 2013

2013 Update:

No such matters were identified as part of the fiscal 2013 audit. The Institute believes that its process and review improvements effectuated in fiscal 2012 prevented a recurrence of this instance of noncompliance for the year ended July 31, 2013.

Finding No. 2012-02 – Cash Management (Material Weakness)

U.S. Department of Education – Direct Loan Program (CFDA # 84.268)

Criteria:

Pursuant to OMB Circular A-133, an Institution is permitted to draw down federal Title IV funds prior to disbursing funds to eligible students and parents. The institution's request must not exceed the amount immediately needed to disburse funds to students or parents. A disbursement of funds occurs on the date an institution credits a student's account or pays a student or parent directly. The institution must make the disbursements as soon as administratively feasible, but no later than 3 business days following receipt of funds. Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned to DOE (34 CFR section 668.166(a)(1)).

Condition:

The Institute drew down funds from the U.S. Department of Education ("DOE") that it did not disburse to students.

Context:

The Institute drew down \$249,015 in November 2011 that it did not disburse to students. This amount was subsequently refunded back to the DOE on December 28, 2011.

Questioned Costs:

\$249,015 which was refunded back to the U.S. Department of Education on December 28, 2011.

Cause:

The Institute's internal control structure was not operating effectively, which resulted in excess funds being drawdown.

Effect:

The Institute requested and received more funding than was applied to students' accounts, resulting in \$249,015 of over-drawn funds that were required to be returned to the U.S. Department of Education.

Recommendation:

During fiscal year 2012, the Institute instituted a number of staffing changes and process improvements which led to the identification of this overdraw and subsequent refund of this overdraw to the U.S. Department of Education. We recommend that the Institute continue to enhance its policies, procedures and controls to ensure that future drawdowns of federal funds are disbursed to eligible students timely.

THE INSTITUTE OF WORLD POLITICS
Summary Schedule of Prior Year Findings and Questioned Costs
For the year ended July 31, 2013

Views of Responsible Officials and Planned Corrective Action:

The Institute concurs with the finding subject to the understanding that this issue pre-dated the management changes which were instituted previously in late 2011 and early 2012 to correct prior reported deficiencies and weaknesses in the system of internal controls. During the course of late 2011, the Institute identified weaknesses in our business office operations. At that point, a new management and accounting team was hired to strengthen and organize the procedures and controls. Given the change in staff, the audit for fiscal 2011 was delayed and therefore it did not become apparent that the overdraft had occurred during the transition and remediation process. The overdraw of funds was a holdover from prior staff and appropriate controls are now in place with the new management team to ensure compliance going forward. Action has been taken and policies and procedures have been put in place to ensure that this will not occur again.

2013 Update:

No such matters were identified as part of the fiscal 2013 audit. The Institute believes that its process and review improvements effectuated in fiscal 2013 and 2012 prevented a recurrence of this instance of noncompliance for the year ended July 31, 2013.