The Institute of World Politics

Financial Report
July 31, 2017

Contents

Independent Auditor's Report

To the Audit Committee
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, 2017 and 2016, the related statements of activities and cash flows for the years 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 audits. We conducted our audits 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, 2017 and 2016, 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.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our reports, dated January 12, 2018 and December 21, 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 those reports 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. Those reports are 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.
January 12, 2018

The Institute of World Politics

Statements of Financial Position
July 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	**$ 493,440**	$ 695,231
Tuition receivables, net of allowances for doubtful accounts and discounts (2017 – $108,392; 2016 – $181,640)	**61,256**	37,626
Contributions receivable, net	**2,444,033**	2,741,251
Prepaid expenses and other assets	**73,415**	744,431
Deferred rent receivable	**-**	10,324
Restricted cash	**853,173**	1,499,850
Investments	**2,905,345**	3,507,946
Investments in split-interest agreement	**204,841**	196,029
Interest rate swap contract	**215,605**	-
Website development costs, net of accumulated amortization (2017 – $172,107; 2016 – $151,629)	**29,165**	49,643
Property and equipment, net	**10,464,779**	135,226
	$ 17,745,052	$ 9,617,557
Liabilities and Net Assets		
Liabilities:		
Lines of credit	**$ 500,000**	$ 897,131
Accounts payable and accrued expenses	**183,505**	156,098
Deferred tuition and revenue	**13,400**	20,400
Refundable advances	**1,000,000**	1,000,000
Long-term debt, net of issuance costs	**8,167,691**	-
Capital lease obligations	**22,757**	40,715
Annuity obligations	**61,370**	73,334
	9,948,723	2,187,678
Commitments and contingencies (Note 9)		
Net assets:		
Unrestricted:		
Undesignated	**2,494,598**	677,181
Board-designated	**1,462,188**	2,276,005
	3,956,786	2,953,186
Temporarily restricted	**2,793,808**	2,818,598
Permanently restricted	**1,045,735**	1,658,095
	7,796,329	7,429,879
	$ 17,745,052	$ 9,617,557

See notes to financial statements.

The Institute of World Politics

Statement of Activities
Year Ended July 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Student tuition and fees, net of discounts and scholarships of $405,320	$ 2,428,133	$ -	$ -	$ 2,428,133
Contributions	2,028,597	1,209,500	137,640	3,375,737
Investment income, net	562,874	73,275	-	636,149
Other	63,970	-	-	63,970
Net assets released from restrictions	1,295,407	(1,295,407)	-	-
Total revenue and support	6,378,981	(12,632)	137,640	6,503,989
Expenses:				
Program	4,005,059	-	-	4,005,059
Management and general	1,693,997	-	-	1,693,997
Fundraising	654,088	-	-	654,088
Total expenses	6,353,144	-	-	6,353,144
Other gains:				
Unrealized gain on interest rate swaps	215,605	-	-	215,605
	215,605	-	-	215,605
Change in net assets before reclassifications	241,442	(12,632)	137,640	366,450
Reclassifications:				
Donor release of endowment fund restrictions	762,158	(12,158)	(750,000)	-
Change in net assets	1,003,600	(24,790)	(612,360)	366,450
Net assets:				
Beginning	2,953,186	2,818,598	1,658,095	7,429,879
Ending	$ 3,956,786	$ 2,793,808	$ 1,045,735	$ 7,796,329

The Institute of World Politics

Statement of Activities
Year Ended July 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Student tuition and fees, net of discounts and scholarships of $214,655	$ 2,342,928	$ -	$ -	$ 2,342,928
Contributions	2,997,431	2,762,251	10,990	5,770,672
Investment income, net	64,161	27,036	-	91,197
Other	2,685	-	-	2,685
Net assets released from restrictions	351,535	(351,535)	-	-
Total revenue and support	5,758,740	2,437,752	10,990	8,207,482
Expenses:				
Program	3,559,289	-	-	3,559,289
Management and general	1,556,171	-	-	1,556,171
Fundraising	858,788	-	-	858,788
Total expenses	5,974,248	-	-	5,974,248
Change in net assets	(215,508)	2,437,752	10,990	2,233,234
Net assets:				
Beginning	3,168,694	380,846	1,647,105	5,196,645
Ending	$ 2,953,186	$ 2,818,598	$ 1,658,095	$ 7,429,879

See notes to financial statements.

The Institute of World Politics

Statements of Cash Flows
Years Ended July 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 366,450**	$ 2,233,234
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**272,457**	82,136
Amortization of debt issuance costs	**14,677**	-
Realized and unrealized gain on investments, net	**(547,113)**	(37,401)
Realized and unrealized gain on swap, net	**(215,605)**	-
Bad debt expense	**(74,348)**	-
Contributions restricted to investment in perpetuity	**(137,640)**	(10,990)
Changes in assets and liabilities:		
(Increase) decrease in:		
Tuition receivables	**50,718**	22,117
Contributions receivable	**297,218**	(2,675,606)
Prepaid expenses and other assets	**21,509**	(4,021)
Deferred rent receivable	**10,324**	948
Increase (decrease) in:		
Accounts payable and accrued expenses	**27,407**	92,265
Deferred tuition and revenue	**(7,000)**	(46,100)
Refundable advances	**-**	1,000,000
Net cash provided by operating activities	**79,054**	656,582
Cash flows from investing activities:		
Proceeds from sales of investments	**3,816,218**	2,557,471
Purchases of investments	**(2,675,316)**	(2,740,721)
Purchases of property and equipment	**(2,081,532)**	(20,276)
Change in prepayments against building purchase	**649,507**	(649,507)
(Increase) decrease in restricted cash	**646,677**	(850,355)
Net cash provided by (used in) investing activities	**355,554**	(1,703,388)
Cash flows from financing activities:		
Net principal (payments) borrowing on lines of credit	**(397,131)**	-
Contributions restricted to investment in perpetuity	**137,640**	10,990
Capital lease obligation payments	**(17,958)**	(7,575)
Annuity obligations	**(11,964)**	(11,965)
Payments borrowing on note payable	**(186,000)**	-
Debt issuance costs	**(160,986)**	-
Net cash used in financing activities	**(636,399)**	(8,550)
Net decrease in cash and cash equivalents	**(201,791)**	(1,055,356)
Cash and cash equivalents:		
Beginning	**695,231**	1,750,587
Ending	**$ 493,440**	$ 695,231
Cash paid for interest	**$ 169,851**	$ 38,769
Supplemental disclosure of cash flow information:		
Property and equiment purchased with debt	**$ 8,500,000**	$ -

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 unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: 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: For purposes of the statements of financial position and cash flows, the Institute considers all highly-liquid debt instruments with original maturities of three months or less to be cash equivalents, consisting of demand deposits, money market funds and short-term certificates of deposit held with banks.

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

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.

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 receivables: Tuition receivables are 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.

Contributions receivable: Contributions receivable are recognized when the donor makes a written promise to give to the Institute that is, in substance, unconditional. Contributions to be received in a future period are discounted to their net present value at the time the support is recorded. The Institute's contributions receivable are generally receivable over a one-to-four year period and are discounted at a rate of 1.00% per annum. The allowance for doubtful contributions receivable is based on management's experience with prior campaigns and its analysis of specific contributions receivable. Recoveries of promises to give previously written off are recorded as support as received. Based on management's evaluation of the collectability of the contributions receivable, no allowance for doubtful promises to give was recorded at July 30, 2017 and 2016.

Other assets: During the year ended July 31, 2016, the Institute paid for and deferred certain costs in connection with the building purchase, which was consummated on September 26, 2016. Those costs included a deposit of $515,000 paid to the escrow agent and $134,507 paid for other related costs. Those costs were recorded as part of prepaid expenses and other assets in the asset section of the statements of financial position at July 31, 2016, and were capitalized as part of property and equipment during the year ended July 2017.

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.

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

Property and equipment: Acquisitions of property and equipment in excess of $1,000 and which have useful lives greater than one year are recorded at cost and depreciated using the straight-line method over the useful lives of three to forty 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.

Debt issuance costs: The Institute paid certain customary fees as required to secure the long-term debt used to acquire real property. These fees have been capitalized and are being amortized over the loan period up to the initial redemption date. The unamortized portion of these costs are netted with the respective debt on the accompany statements of financial position. Amortization expense for the years ended July 31, 2017 and 2016, was $14,677 and $0, respectively.

Interest rate swap contract: The Institute follows the accounting standard for derivative instruments and hedging activities, related to participation in an interest rate swap contract pertaining to certain long-term debt acquired. This standard requires that all derivative financial instruments be recognized in the financial statements at fair value. Changes in the fair value of the derivative instrument are recognized each period as a component of change in net assets.

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

Unconditional contributions, including unconditional promises to give, are recognized as support in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Receipts of conditional contributions are recorded as refundable advances in the liability section of the statement of financial position. 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 restricted 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. Certain overhead costs have been allocated among program services, management and general, and fundraising.

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

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, 2017 and 2016. The Institute is not classified as a private foundation under Section 509(a)(1) of the IRC.

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, 2014, 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.

Adopted accounting pronouncements: During the year ended July 31, 2017, the Institute adopted FASB issued Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30); Simplifying the Presentation of Debt Issuance Costs*. This ASU simplifies the presentation of debt issuance costs as it requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments of the ASU. However, amortization of debt issuance costs is now considered a component of interest expense rather than amortization expense.

Recent accounting pronouncements: In August 2016, the FASB ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Institute is currently evaluating the impact of this ASU on the financial statements.

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

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU will be effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Institute is currently evaluating the impact of this ASU on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is permitted. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. Management has not yet selected a transition method and is currently evaluating the effect that the ASU will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Institute is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Subsequent events: In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through January 12, 2018, the date the financial statements were available to be issued.

Note 2. Contributions Receivable

At July 31, 2017 and 2016, the anticipated receipts of contributions receivable are as follows:

	2017	2016
Less than one year	$ 662,700	$ 851,200
One to four year	1,838,522	2,000,000
	2,501,222	2,851,200
Less discount factor	(57,189)	(109,949)
	$ 2,444,033	$ 2,741,251

During the year ended July 31, 2016, the Institute received a contribution in the amount of $1 million for the Center for Human Rights and International Affairs. The contribution contained conditions that precluded its recording as contribution revenue. The conditional contribution has been classified as a refundable advance liability as of July 31, 2017 and 2016, on the statements of financial position.

Note 3. Investments

Investments consist of the following at July 31, 2017 and 2016:

	2017	2016
Corporate stocks	$ 2,687,842	$ 1,671,127
Equity mutual funds	217,503	924,694
Fixed income:		
Corporate bonds	-	459,277
Government bonds	-	452,848
	$ 2,905,345	$ 3,507,946

Investment income for the years ended July 31, 2017 and 2016, is comprised of the following:

	2017	2016
Interest and dividends	$ 89,036	$ 53,796
Realized and unrealized gains	547,113	37,401
	$ 636,149	$ 91,197

Note 4. Split-Interest Agreement

Charitable gift annuity's investments as of July 31, 2017 and 2016, are comprised of the following:

	2017	2016
Money market fund	$ 6,018	$ 1,591
Domestic equity mutual funds	129,153	119,735
Fixed income mutual funds	69,670	74,703
	$ 204,841	$ 196,029

The following is a summary of the changes in the annuity obligation for the years ended July 31, 2017 and 2016:

	2017	2016
Beginning of the year	$ 73,334	$ 85,299
Payments to annuitant	(11,964)	(11,965)
End of the year	$ 61,370	$ 73,334

Note 5. Fair Value Measurements

The Fair Value Measurement Topic of the Accounting Standards Codification (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. The interest rate swap contract connected to the Institute's long-term debt is classified as a Level 2 instrument because its value is a function of the difference between the interest rate on the Institute's long-term debt and the rate in the swap agreement; hence there are observable market based inputs. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

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, 2017 and 2016.

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 5. Fair Value Measurements (Continued)

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

	2017			
	Total	Level 1	Level 2	Level 3
Assets				
Restricted cash:				
Money market funds	$ 853,173	$ 853,173	$ -	$ -
Investments:				
Corporate stocks	$ 2,687,842	$ 2,687,842	$ -	$ -
Equity mutual funds	217,503	217,503	-	-
	$ 2,905,345	$ 2,905,345	$ -	$ -
Investments in split-interest agreement:				
Domestic equity mutual funds	$ 129,153	$ 129,153	$ -	$ -
Fixed income mutual funds	69,670	69,670	-	-
Money market fund	6,018	6,018	-	-
	$ 204,841	$ 204,841	$ -	$ -
Interest Rate Swap Contract	$ 215,605	$ -	$ 215,605	$ -

	2016			
	Total	Level 1	Level 2	Level 3
Assets				
Restricted cash:				
Money market funds	$ 1,499,850	$ 1,499,850	$ -	$ -
Investments:				
Corporate stocks	$ 1,671,127	$ 1,671,127	$ -	$ -
Equity mutual funds	924,694	924,694	-	-
Fixed income:				
Corporate bonds	459,277	459,277	-	-
Government bonds	452,848	452,848	-	-
	$ 3,507,946	$ 3,507,946	$ -	$ -
Investments in split-interest agreement:				
Money market fund	$ 119,735	$ 119,735	$ -	$ -
Domestic equity mutual funds	74,703	74,703	-	-
Fixed income mutual funds	1,591	1,591	-	-
	$ 196,029	$ 196,029	$ -	$ -

Note 6. Property and Equipment

Property and equipment as of July 31, 2017 and 2016, and the related accumulated depreciation, are as follows:

	2017	2016
Land	$ 2,060,000	$ -
Building and improvements	8,521,598	-
Leasehold improvements	7,593	7,593
Furniture and equipment	211,896	211,896
Software development costs	213,732	213,732
	11,014,819	433,221
Less accumulated depreciation	(550,040)	(297,995)
	$ 10,464,779	$ 135,226

Note 7. Lines of Credit

On September 26, 2016, the Institute obtained a line of credit with SunTrust Bank for $500,000, which requires monthly payments of interest at a variable rate of London Interbank Offered Rate (LIBOR) plus 1.75% per annum. The Principal payable is due on September 25, 2018. The Institute had three lines of credit with an aggregate outstanding balance at July 31, 2016, of $897,131. These lines were paid off during the year ended
July 31, 2017, partially using the proceeds from the new line of credit.

Under the line of credit agreement, the Institute is subject to a number of covenants including requirements to maintain a specified debt service coverage ratio at the end of each fiscal year.

Note 8. Long-term Debt

On September 26, 2016, the Institute closed on its purchase of land and building for $10.3 million, which includes the space it previously leased. In connection with the purchase of the leased property, the Institute obtained partial financing through the issuance of $8.5 million District of Columbia Revenue Bonds, Series 2016 (the Bonds). The Bonds were purchased by SunTrust (the Bank) and mature on October 1, 2041, and subject to mandatory repurchase on October 1, 2026. The Bonds are secured by all facilities of the Institute.

The Bonds bear interest at the Adjusted LIBOR, which is the per annum rate equal to the product of (x) 70% multiplied by the sum of (i) LIBOR, plus (ii) 183 basis points, and (y) the Margin Rate Factor, which is 1.0 and subject to adjustments based on changes in the Maximum Federal Corporate Tax Rate, which as of July 31, 2017, was 3.5%. Principal and interest payments are due monthly starting on November 1, 2016.

Notes payable, net consists of the following at July 31, 2017:

Notes payable	$ 8,314,000
Less unamortized debt issuance costs	(146,309)
	$ 8,167,691

Note 8. Long-term Debt (Continued)

Annual principal payments on the Bonds are due in future years as follows:

Years ending July 31:	
2018	$ 257,000
2019	262,000
2020	268,000
2021	275,000
2022	282,000
Thereafter	6,970,000
	$ 8,314,000

To protect the Institute against a rise in interest rates, the Institute executed an interest rate swap agreement, whereby, the Institute receives a variable interest rate of 70% of LIBOR and pays a fixed rate of 1.073%. The "all-in" synthetic fixed rate is 2.354% after factoring in the bond credit spread of 1.281%. The notional amount is equal to the declining principal of the Bonds as required principal payments are made. The swap was effective on September 26, 2016, and terminates on October 1, 2026. The Institute recognized a gain of $215,605 under this swap contract for the year ended July 31, 2017. At July 31, 2017, the fair value of the swap contract was an asset of $215,605.

Under the Bond agreement, the Institute is subject to a number of covenants including requirements to maintain a specified debt service coverage ratio and a minimum unrestricted liquidity of no less than $1 million at the end of each fiscal year.

Interest expense for the years ended July 31, 2017 and 2016, was $184,528 and $38,769, respectively.

Note 9. Commitments and Contingencies

Employment agreement: The Institute has in place a signed employment agreement 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, 2017 and 2016, 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.

Operating leases: The Institute purchased the leased premises effective September 26, 2016. The Institute had previously leased the space to house its library and also for its instructional and administrative activities in Washington, D.C. since November 2009. Monthly rental payments were $40,390 per month for the period September 1, 2014 through August 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.

Pursuant to the terms of the lease agreement, in addition to the monthly rent, the Institute was also responsible for certain utility and parking costs which totaled $18,016 and $107,835, for the years ended July 31, 2017 and 2016, respectively. Rent expense totaled $80,055 and $390,179 for the years ended July 31, 2017 and 2016, respectively. In addition, the Institute received contributed rent for the years ended July 31, 2016. Rent expense, inclusive of cash payments and amounts contributed, for the years ended July 31, 2017 and 2016, totaled $212,682 and $678,670, respectively.

Note 9. Commitments and Contingencies (Continued)

Capital leases: The Institute has entered into three capital leases for purposes of acquiring office equipment which expire at various dates through fiscal 2021. Future minimum lease payments due under the equipment leases in effect at July 31, 2017, are as follows:

	Amount
Years ending July 31:	
2018	$ 14,382
2019	7,320
2020	2,148
2021	179
Total	24,029
Less imputed interest	(1,272)
	$ 22,757

Federal program: The Institute participates in federally-assisted programs (direct student loans), 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 audits. These grants are related to student financial aid. Management does not anticipate any significant adjustments as a result of such audits.

Note 10. 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. During the years ended July 31, 2017 and 2016, changes in temporarily restricted net assets were as follows:

	2017				
	July 31, 2016	Additions	Releases	Reclass	July 31, 2017
Contributed instructional and administrative space	$ 10,324	$ -	$ (10,324)	$ -	$ -
Institutional support	18,987	-	(18,987)	-	-
Other	21,000	359,500	(104,000)	-	276,500
Time restricted pledges	2,741,251	850,000	(1,147,218)	-	2,444,033
Endowment earnings	27,036	73,275	(14,878)	(12,158)	73,275
	$ 2,818,598	$ 1,282,775	$ (1,295,407)	$ (12,158)	$ 2,793,808

Note 10. Temporarily Restricted Net Assets (Continued)

	2016				
	July 31, 2015	Additions	Releases	Reclass	July 31, 2016
Qualifying faculty appointments	$ 11,994	$ -	$ (11,994)	$ -	$ -
Contributed instructional and administrative space	11,272	-	(948)	-	10,324
Institutional support	323,372	-	(304,385)	-	18,987
Other	-	21,000	-	-	21,000
Time restricted pledges	-	2,741,251	-	-	2,741,251
Endowment earnings	34,208	27,036	(34,208)	-	27,036
	$ 380,846	$ 2,789,287	$ (351,535)	$ -	$ 2,818,598

Note 11. 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

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 donor-restricted endowment funds are classified and reported based on the temporarily restricted unexpended endowment earnings and permanently restricted net assets.

Note 11. Endowment (Continued)

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, 2017 and 2016.

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, 2017 and 2016:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment	$ 1,462,188	$ -	$ -	$ 1,462,188
Donor-restricted endowment	-	73,275	1,045,735	1,119,010
	$ 1,462,188	$ 73,275	$ 1,045,735	$ 2,581,198

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment	$ 2,276,005	$ -	$ -	$ 2,276,005
Donor-restricted endowment	-	27,036	1,658,095	1,685,131
	$ 2,276,005	$ 27,036	$ 1,658,095	$ 3,961,136

Note 11. Endowment (Continued)

The change in endowment net assets for the years ended July 31, 2017 and 2016, is as follows:

	Board Designated Endowment	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, as of July 31, 2015	$ 2,244,318	$ 34,208	$ 1,647,105	$ 3,925,631
Interest and dividends	32,448	17,023	-	49,471
Net (depreciation) appreciation in the fair value of investments (unrealized and realized)	(761)	10,013	-	9,252
Contributions	-	-	10,990	10,990
Amounts appropriated for expenditure	-	(34,208)	-	(34,208)
Endowment net assets, as of July 31, 2016	2,276,005	27,036	1,658,095	3,961,136
Reclassification of endowment funds due to donor release	762,158	(12,158)	(750,000)	-
Interest and dividends	52,894	13,077	-	65,971
Net (depreciation) appreciation in the fair value of investments (unrealized and realized)	266,812	60,198	-	327,010
Contributions	-	-	137,640	137,640
Releases	(1,895,681)	-	-	(1,895,681)
Amounts appropriated for expenditure	-	(14,878)	-	(14,878)
Endowment net assets, as of July 31, 2017	$ 1,462,188	$ 73,275	$ 1,045,735	$ 2,581,198

Note 12. Pension Plan

The Institute maintains a salary reduction defined contribution retirement plan pursuant to Section 403(b) of the IRC. 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 $94,229 and $62,756 for the year ended July 31, 2017 and 2016, respectively.

RSM

RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Audit Committee
The Institute of World Politics

We have audited the financial statements of The Institute of World Politics (the Institute) as of and for the years ended July 31, 2017 and 2016, 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.
January 12, 2018

The Institute of World Politics

Schedule of Functional Expenses
Year Ended July 31, 2017

Expense Category	Program	Management and General	Fundraising	Total
Salaries	$ 2,511,592	$ 781,840	$ 301,250	$ 3,594,682
Other professional fees	258,129	88,911	59,222	406,262
Other employee benefits	215,988	81,458	30,750	328,196
Depreciation and amortization	224,923	9,519	38,015	272,457
Payroll taxes	190,876	56,240	21,880	268,996
Occupancy	124,194	67,665	20,823	212,682
Conferences, conventions and meetings	110,350	18,496	61,542	190,388
Interest expense	-	184,528	-	184,528
Office expenses	106,500	39,409	20,927	166,836
Accounting	-	145,595	-	145,595
Travel	80,162	35,927	26,826	142,915
Pension plan contributions	48,255	34,637	11,337	94,229
Publications and subscriptions	79,205	340	4,807	84,352
Information technology	15,195	42,074	6,532	63,801
Printing	23,876	1,720	35,104	60,700
Insurance	37,111	11,356	6,273	54,740
Legal	-	45,676	5,385	51,061
Investment management fees	-	19,811	-	19,811
Dues	4,275	6,018	2,900	13,193
Advertising	6,136	50	370	6,556
Miscellaneous	(31,708)	22,727	145	(8,836)
Total	$ 4,005,059	$ 1,693,997	$ 654,088	$ 6,353,144