The Institute of World Politics

Financial Report
July 31, 2019

Contents

Independent Auditor's Report

Executive 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, 2019 and 2018, the related statements of activities, functional expenses 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 audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, 2019 and 2018, 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.

Emphasis of Matter
As disclosed in Note 1 to the financial statements, for the year ended July 31, 2019, the Institute retrospectively adopted the Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in additional footnote disclosures and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
March 16, 2020

The Institute of World Politics

Statements of Financial Position
July 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 720,720	$ 875,913
Tuition receivables, net of allowances for doubtful accounts and discounts (2019 – $113,000; 2018 – $107,817)	113,970	228,748
Contributions receivable, net	989,822	1,609,197
Prepaid expenses and other assets	100,544	126,613
Restricted cash	1,309,772	1,095,769
Investments	2,778,550	1,845,726
Investments held for split-interest agreement	386,281	404,350
Interest rate swap contract	66,004	481,745
Website development costs, net of accumulated amortization (2019 – $218,664; 2018 – $192,584)	150,677	8,688
Property and equipment, net	10,022,199	10,246,062
	$ 16,638,539	$ 16,922,811
Liabilities and Net Assets		
Liabilities:		
Lines of credit	$ 500,000	$ 500,000
Accounts payable and accrued expenses	81,928	115,446
Deferred tuition and revenue	12,882	86,830
Refundable advances	1,061,907	1,047,611
Long-term debt, net of issuance costs	7,680,968	7,926,870
Capital lease obligations	37,784	49,368
Annuity obligations	174,528	200,493
	9,549,997	9,926,618
Commitments and contingencies (Notes 8 and 9)		
Net assets:		
Without donor restrictions		
Undesignated	2,838,687	3,246,862
Board-designated	185,319	355,401
	3,024,006	3,602,263
With donor restrictions	4,064,536	3,393,930
	7,088,542	6,996,193
	$ 16,638,539	$ 16,922,811

See notes to financial statements.

The Institute of World Politics

Statement of Activities
Year Ended July 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Student tuition and fees, net of discounts and scholarships of $877,865	$ 2,626,493	$ -	$ 2,626,493
Contributions	2,971,360	1,787,410	4,758,770
Investment income (loss), net	(413)	18,423	18,010
Other	75,308	-	75,308
Net assets released from restrictions	1,135,227	(1,135,227)	-
Total revenue and support	6,807,975	670,606	7,478,581
Expenses:			
Program	4,272,317	-	4,272,317
Management and general	2,062,481	-	2,062,481
Fundraising	635,693	-	635,693
Total expenses	6,970,491	-	6,970,491
Other gains:			
Unrealized loss on interest rate swaps	(415,741)	-	(415,741)
Change in valuation of charitable gift annuities	-	-	-
	(415,741)	-	(415,741)
Change in net assets	(578,257)	670,606	92,349
Net assets:			
Beginning	3,602,263	3,393,930	6,996,193
Ending	$ 3,024,006	$ 4,064,536	$ 7,088,542

See notes to financial statements.

The Institute of World Politics

Statement of Activities
Year Ended July 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Student tuition and fees, net of discounts and scholarships of $612,342	$ 2,980,746	$ -	$ 2,980,746
Contributions	2,043,624	587,074	2,630,698
Investment income, net	135,892	14,246	150,138
Other	70,214	-	70,214
Net assets released from restrictions	1,046,933	(1,046,933)	-
Total revenue and support	6,277,409	(445,613)	5,831,796
Expenses:			
Program	4,133,616	-	4,133,616
Management and general	2,004,380	-	2,004,380
Fundraising	796,627	-	796,627
Total expenses	6,934,623	-	6,934,623
Other gains:			
Unrealized gain on interest rate swaps	266,140		266,140
Change in valuation of charitable gift annuities	36,551	-	36,551
	302,691	-	302,691
Change in net assets	(354,523)	(445,613)	(800,136)
Net assets:			
Beginning	3,956,786	3,839,543	7,796,329
Ending	$ 3,602,263	$ 3,393,930	$ 6,996,193

See notes to financial statements.

The Institute of World Politics

Statement of Functional Expenses
Year Ended July 31, 2019

	Program	Management and General	Fundraising	Total
Salaries	$ 2,769,250	$ 730,536	$ 269,816	$ 3,769,602
Other professional fees	234,472	153,831	14,886	403,189
Other employee benefits	263,828	69,790	59,760	393,378
Depreciation and amortization	176,610	59,057	27,397	263,064
Payroll taxes	207,806	54,765	19,830	282,401
Occupancy	115,142	84,066	16,450	215,658
Conferences, conventions and meetings	74,743	67,491	77,392	219,626
Interest expense	1,680	289,867	304	291,851
Office expenses	54,373	37,804	21,791	113,968
Accounting	-	261,599	-	261,599
Travel	47,063	10,598	45,016	102,677
Pension plan contributions	65,719	31,398	7,838	104,955
Publications and subscriptions	94,956	3,986	3,505	102,447
Information technology	26,981	44,221	8,725	79,927
Printing	34,369	1,117	21,945	57,431
Insurance	39,916	23,414	5,981	69,311
Legal	-	51,351	-	51,351
Investment management fees	-	21,416	-	21,416
Dues	10,775	7,051	6,109	23,935
Advertising	21,362	2,120	15,072	38,554
Miscellaneous	33,272	57,003	13,876	104,151
	$ 4,272,317	$ 2,062,481	$ 635,693	$ 6,970,491

See notes to financial statements.

The Institute of World Politics

Statement of Functional Expenses
Year Ended July 31, 2018

	Program	Management and General	Fundraising	Total
Salaries	$ 2,687,795	$ 846,926	$ 407,126	$ 3,941,847
Other professional fees	149,189	66,550	34,201	249,940
Other employee benefits	289,412	62,550	65,998	417,960
Depreciation and amortization	169,613	73,549	38,814	281,976
Payroll taxes	198,103	61,537	22,090	281,730
Occupancy	82,990	144,171	17,016	244,177
Conferences, conventions and meetings	125,941	29,687	86,062	241,690
Interest expense	2,537	246,777	542	249,856
Office expenses	75,160	39,463	19,616	134,239
Accounting	-	120,775	-	120,775
Travel	38,466	49,253	37,134	124,853
Pension plan contributions	48,935	37,412	10,146	96,493
Publications and subscriptions	89,668	6,654	1,744	98,066
Information technology	57,847	75,612	12,221	145,680
Printing	21,151	5,657	21,233	48,041
Insurance	40,877	19,428	8,731	69,036
Legal	-	64,378	3,796	68,174
Investment management fees	-	16,440	-	16,440
Dues	14,027	14,846	2,655	31,528
Advertising	3,344	235	495	4,074
Miscellaneous	38,561	22,480	7,007	68,048
	$ 4,133,616	$ 2,004,380	$ 796,627	$ 6,934,623

See notes to financial statements.

The Institute of World Politics

Statements of Cash Flows
Years Ended July 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 92,349	$ (800,136)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	263,064	281,976
Amortization of debt issuance costs	16,098	16,179
Realized and unrealized loss (gain) on investments, net	53,869	(94,554)
Realized and unrealized loss (gain) on swap, net	415,741	(266,140)
Bad debt expense	38,142	-
Contributions restricted to investment in perpetuity	(1,244,059)	(216,085)
Change in valuation of annuity obligations	-	(36,551)
Loss on disposal of fixed assets	-	4,610
Changes in assets and liabilities:		
(Increase) decrease in:		
Tuition receivables	76,636	(167,492)
Contributions receivable	619,375	834,836
Prepaid expenses and other assets	26,069	(53,198)
(Decrease) increase in:		
Accounts payable and accrued expenses	(33,518)	(68,059)
Deferred tuition and revenue	(73,948)	73,430
Refundable advances	14,296	47,611
Net cash provided by (used in) operating activities	264,114	(443,573)
Cash flows from investing activities:		
Proceeds from sales of investments	1,301,174	4,806,232
Purchases of investments	(2,253,700)	(3,851,568)
Purchases of property and equipment	(29,219)	-
Purchases of website development costs	(168,069)	-
Increase in restricted cash	(214,003)	(242,596)
Net cash (used in) provided by investing activities	(1,363,817)	712,068
Cash flows from financing activities:		
Contributions restricted to investment in perpetuity	1,244,059	216,085
Capital lease obligation payments	(11,584)	(20,781)
Payments on annuity obligations	(25,965)	(23,018)
Cash received to establish annuity obligation	-	198,692
Payments on note payable	(262,000)	(257,000)
Net cash provided by financing activities	944,510	113,978
Net (decrease) increase in cash and cash equivalents	(155,193)	382,473
Cash and cash equivalents:		
Beginning	875,913	493,440
Ending	$ 720,720	$ 875,913
Cash paid for interest	$ 275,753	$ 233,640
Supplemental disclosure of cash flow information:		
Property and equipment purchased with debt	$ -	$ 47,392

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 a Doctoral program, Master's degrees, 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 are 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: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Not-for-Profit Entities topic of the Accounting Standards Codification (Codification). The Institute is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: Represent resources that are neither invested in perpetuity, nor purpose or time restricted by donor-imposed stipulations. Board-designated net assets represent funds set aside by the Institute's Board of Trustees to support the Institute's programs and activities. Undesignated net assets represent funds available for general operations.

Net assets with donor restrictions: Represent resources whose use is limited by donor-imposed stipulations that either expire by the passage of time, are invested in perpetuity or can be fulfilled and removed by actions of the Institute pursuant to these stipulations. Net assets may be restricted for various purposes, such as use in future periods or use for specified parties. Earnings on endowment funds are either net assets with donor restrictions for program purposes or are available for operations as specified by the donor.

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.

Restricted cash: Restricted cash pertains to the Institute's permanently restricted endowments and includes 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.

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

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, 2019 and 2018.

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 statements 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 statements 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.

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 3 to 40 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.

Valuation of long-lived assets: The Institute reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

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

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, 2019 and 2018, was $16,098 and $16,179, 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 statements 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 net assets with donor restrictions until the restriction expires. When restrictions expire, the related net assets are reclassified to net assets without donor restrictions and reported on the statements 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 net assets with donor restrictions.

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 costs of providing various program and supporting services have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated between the programs and supporting services benefited. Salaries and benefits are allocated based on estimates of time and effort. All other expenses that are not directly related are allocated based on a percentage of time and effort for each department.

Income taxes: The Institute is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Institute is exempt from federal taxes on income other than unrelated business income. Effective January 1, 2018, the Institute is now subject to unrelated business income tax on certain pretax employee benefits. Income tax expense for the years ended June 30, 2019 and 2018, was insignificant. The Institute is not classified as a private foundation under Section 509(a)(1) of the IRC.

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

In accordance with authoritative guidance on accounting for uncertainty in income taxes issued by the 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.

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 pronouncement: In August 2016, the FASB issued Accounting Standards Update (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. This ASU was retrospectively adopted by the Institute in fiscal year 2019. As permitted by the ASU in the year of adoption, the Institute has elected to present the liquidity disclosure (Note 13) for only the year ended July 31, 2019.

Recent accounting pronouncements: In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the ASC. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for the Institute for fiscal years beginning August 1, 2019. The Institute is in the process of evaluating the impact of this new guidance.

In February 2016, the FASB issued ASU No. 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, 2020, 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.

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

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made,* which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. The updated standard will be effective for the Institute for annual reporting periods beginning August 1, 2019. The Institute is in the process of evaluating the impact of this new guidance.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force),* which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Institute beginning on August 1, 2019. ASU 2016-18 must be applied using a retrospective transition method. The Institute is currently evaluating the impact of the adoption of this guidance on its financial statements.

Subsequent events: In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through March 16, 2020, the date the financial statements were available to be issued.

Note 2. Contributions Receivable

At July 31, 2019 and 2018, the anticipated receipts of contributions receivable are as follows:

	2019	2018
Less than one year	$ 533,500	$ 634,500
One to four year	502,500	1,032,500
	1,036,000	1,667,000
Less discount factor	(46,178)	(57,803)
	$ 989,822	$ 1,609,197

Note 3. Investments

Investments consist of the following at July 31, 2019 and 2018:

	2019	2018
Corporate stocks	$ 2,600,253	$ 1,684,455
Equity mutual funds	178,297	161,271
	$ 2,778,550	$ 1,845,726

Note 3. Investments (Continued)

Investment income for the years ended July 31, 2019 and 2018, is comprised of the following:

	2019	2018
Interest and dividends	$ 71,879	$ 55,584
Realized and unrealized (loss) gain	(53,869)	94,554
	$ 18,010	$ 150,138

Note 4. Split-Interest Agreement

Charitable gift annuity's investments as of July 31, 2019 and 2018, are comprised of the following:

	2019	2018
Money market fund	$ 5,562	$ 1,817
Domestic equity mutual funds	184,211	200,486
International equity mutual funds	43,144	47,512
Fixed income mutual funds	153,364	154,535
	$ 386,281	$ 404,350

The following is a summary of the changes in the annuity obligation for the years ended July 31, 2019 and 2018:

	2019	2018
Beginning of the year	$ 200,493	$ 61,370
Payments to annuitant	(25,965)	(23,018)
Change in value due to actuarial valuation	-	(36,551)
Charitable gift annuity received	-	198,692
End of the year	$ 174,528	$ 200,493

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.

Note 5. Fair Value Measurements (Continued)

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.

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:

	2019			
	Total	Level 1	Level 2	Level 3
Assets:				
Restricted cash:				
Money market funds	$ 1,309,772	$ 1,309,772	$ -	$ -
Investments:				
Corporate stocks	$ 2,600,253	$ 2,600,253	$ -	$ -
Equity mutual funds	178,297	178,297	-	-
	$ 2,778,550	$ 2,778,550	$ -	$ -
Investments held for split-interest agreements:				
Domestic equity mutual funds	$ 227,355	$ 227,355	$ -	$ -
Fixed income mutual funds	153,364	153,364	-	-
Money market fund	5,562	5,562	-	-
	$ 386,281	$ 386,281	$ -	$ -
Interest rate swap contract	$ 66,004	$ -	$ 66,004	$ -
Liabilities:				
Annuity obligation	$ 174,528	$ -	$ -	$ 174,528

	2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Restricted cash:				
Money market funds	$ 1,095,769	$ 1,095,769	$ -	$ -
Investments:				
Corporate stocks	$ 1,684,455	$ 1,684,455	$ -	$ -
Equity mutual funds	161,271	161,271	-	-
	$ 1,845,726	$ 1,845,726	$ -	$ -
Investments held for split-interest agreements:				
Domestic equity mutual funds	$ 247,998	$ 247,998	$ -	$ -
Fixed income mutual funds	154,535	154,535	-	-
Money market fund	1,817	1,817	-	-
	$ 404,350	$ 404,350	$ -	$ -
Interest rate swap contract	$ 481,745	$ -	$ 481,745	$ -
Liabilities:				
Annuity obligation	$ 200,493	$ -	$ -	$ 200,493

Note 6. Property and Equipment

Property and equipment as of July 31, 2019 and 2018, and the related accumulated depreciation, are as follows:

	2019	2018
Land	$ 2,060,000	$ 2,060,000
Building and improvements	8,521,598	8,521,598
Leasehold improvements	24,393	7,593
Furniture and equipment	183,041	184,038
Software development costs	213,732	213,732
	11,002,764	10,986,961
Less accumulated depreciation	(980,565)	(740,899)
	$ 10,022,199	$ 10,246,062

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 line of credit is set to expire March 30, 2020, with intent to extend the line for an additional year.

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. The Institute was not in compliance with two of the financial covenants for the year ended July 31, 2019, which was waived by the lender on March 9, 2020.

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, 2019 and 2018, was 3.6% and 4.93%, respectively. Principal and interest payments began November 1, 2016.

Notes payable, net, consists of the following at July 31, 2019 and 2018:

	2019	2018
Notes payable	$ 7,795,000	$ 8,057,000
Less unamortized debt issuance costs	(114,032)	(130,130)
	$ 7,680,968	$ 7,926,870

Note 8. Long-Term Debt (Continued)

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

		Amount
Years ending July 31:		
2020	$	269,000
2021		275,000
2022		282,000
2023		289,000
2024		294,000
Thereafter		6,386,000
	$	7,795,000

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 loss of $415,741 and a gain of $266,140 under this swap contract for the years ended July 31, 2019 and 2018, respectively.

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. The Institute was not in compliance with two of the financial covenants for the year ended July 31, 2019, which was waived by the lender on March 9, 2020.

Interest expense for the years ended July 31, 2019 and 2018, was $275,753 and $249,856, 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, 2019 and 2018, 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.

Capital leases: The Institute has entered into three capital leases for purposes of acquiring office equipment, which expire at various dates through fiscal 2023. Future minimum lease payments due under the equipment leases in effect at July 31, 2019, are as follows:

		Amount
Years ending July 31:		
2020	$	9,657
2021		9,478
2022		9,478
2023		9,171
	$	37,784

Note 9. Commitments and Contingencies (Continued)

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. Net assets with donor restrictions

During the years ended July 31, 2019 and 2018, changes in net assets with donor restrictions were as follows:

	2019			
	July 31, 2018	Additions/Investment Income (Loss)	Releases	July 31, 2019
Subject to expenditure for a specific purpose or period:				
Aldona scholarship	$ 225,000	$ 10,500	$ (120,000)	$ 115,500
PhD program	160,000	-	(102,288)	57,712
Time restricted pledges	1,610,425	-	(616,684)	993,741
Other	67,375	532,851	(231,109)	369,117
	2,062,800	543,351	(1,070,081)	1,536,070
Donor-restricted endowment funds:				
Kosciuszko Chair Endowment	761,820	1,273,647	(48,664)	1,986,803
Hayes Endowment	569,310	(11,165)	(16,482)	541,663
	1,331,130	1,262,482	(65,146)	2,528,466
Total net assets with donor restrictions	$ 3,393,930	$ 1,805,833	$ (1,135,227)	$ 4,064,536

	2018			
	July 31, 2017	Additions/Investment Income (Loss)	Releases	July 31, 2018
Subject to expenditure for a specific purpose or period:				
Aldona scholarship	$ 200,000	$ 100,000	$ (75,000)	$ 225,000
PhD program	20,000	200,000	(60,000)	160,000
Time restricted pledges	2,444,033	5,614	(839,222)	1,610,425
Other	56,500	65,375	(54,500)	67,375
	2,720,533	370,989	(1,028,722)	2,062,800
Donor-restricted endowment funds:				
Kosciuszko Chair Endowment	546,905	217,379	(2,464)	761,820
Hayes Endowment	572,105	12,952	(15,747)	569,310
	1,119,010	230,331	(18,211)	1,331,130
Total net assets with donor restrictions	$ 3,839,543	$ 601,320	$ (1,046,933)	$ 3,393,930

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 Trustees 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 endowments held in perpetuity (a) the original value of gifts donated to the endowments held in perpetuity, (b) the original value of subsequent gifts to the endowments held in perpetuity and (c) accumulations to the endowments held in perpetuity 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 endowments held in perpetuity is classified as donor-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, two of which are restricted by donors to be invested in perpetuity 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 statements of financial position. As required by GAAP, net assets associated with donor-restricted endowment funds are classified as net assets with donor restrictions.

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 net assets with donor restrictions. There were no deficiencies as of July 31, 2019 and 2018.

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).

Note 11. Endowment (Continued)

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 3% of the average of the previous three fiscal years' beginning period endowment values each year.

The Institute's endowment balances, by net asset classification, are as follows as of July 31, 2019 and 2018:

	2019		
	Without Donor Restrictions	With Donor Restrictons	Total
Board-designated endowment	$ 185,319	$ -	$ 185,319
Donor-restricted endowment	-	2,528,466	2,528,466
	$ 185,319	$ 2,528,466	$ 2,713,785

	2018		
	Without Donor Restrictions	With Donor Restrictons	Total
Board-designated endowment	$ 355,401	$ -	$ 355,401
Donor-restricted endowment	-	1,331,130	1,331,130
	$ 355,401	$ 1,331,130	$ 1,686,531

The change in endowment net assets for the years ended July 31, 2019 and 2018, is as follows:

	Without Donor Restrictions	With Donor Restrictons	Total
Endowment net assets, as of July 31, 2017	$ 1,462,188	$ 1,119,010	$ 2,581,198
Reclassification of endowment funds due to donor release:			
Investment income, net	83,213	14,246	97,459
Contributions	-	216,085	216,085
Releases	(1,190,000)	-	(1,190,000)
Amounts appropriated for expenditure	-	(18,211)	(18,211)
Endowment net assets, as of July 31, 2018	355,401	1,331,130	1,686,531
Investment income (loss), net	(21,421)	18,423	(2,998)
Contributions	1,576	1,244,059	1,245,635
Releases	(150,237)	(65,146)	(215,383)
Amounts appropriated for expenditure	-	-	-
Endowment net assets, as of July 31, 2019	$ 185,319	$ 2,528,466	$ 2,713,785

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 $104,954 and $96,493 for the years ended July 31, 2019 and 2018, respectively.

Note 13. Liquidity and Availability

The Institute is substantially supported by both annual tuition and restricted contributions and endowments. Because a donor's restriction requires resources to be used in a particular manner, the Institute must maintain sufficient resources to meet those responsibilities to its donors. As part of the Institute's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. The Institute operates within its budget and monitors reserves to provide reasonable assurance obligations can be satisfied when due. In addition, the board designates a liquidity reserve of $185,319 for the year ended July 31, 2019, that can be drawn upon in the event of financial distress or an immediate liquidity need.

The following represents the Institute's financial assets at July 31, 2019:

Cash and cash equivalents	$ 720,720
Restricted cash	1,309,772
Tuition receivables, net	113,970
Contributions receivable, net	989,822
Investments	2,778,550
Investments held for split-interest agreements	386,281
Total financial assets	6,299,115
Less refundable advances held	(1,061,907)
Less annuity obligations	(174,528)
Less net assets with donor restrictions	(4,064,536)
Less board designated amounts	(185,319)
Financial assets available to meet operating needs over the next 12 months (deficit)	$ 812,825