

Institute of International Education, Inc.

**Financial Statements
September 30, 2017 and 2016**

Institute of International Education, Inc.

Index

September 30, 2017 and 2016

	Page(s)
Report of Independent Auditors	1–2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5–6
Statements of Cash Flows	7
Notes to Financial Statements	8–22



Report of Independent Auditors

To the Board of Trustees of
Institute of International Education, Inc.

We have audited the accompanying financial statements of Institute of International Education, Inc. ("IIE"), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities, of functional expenses and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 our 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, we consider internal control relevant to IIE'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 IIE'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 Institute of International Education, Inc. as of September 30, 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.

PricewaterhouseCoopers LLP

New York, New York
January 10, 2019

Institute of International Education, Inc.
Statements of Financial Position
September 30, 2017 and 2016

<i>(in thousands)</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 15,254	\$ 6,362
Accounts receivable on sponsored programs, net	56,239	71,861
Contributions receivable, net	1,011	1,670
Investments, at fair value	131,474	120,419
Prepaid expenses and other assets	9,226	8,329
Fixed assets, net	24,134	26,456
Beneficial interests in perpetual trusts held by third parties	3,170	3,066
Total assets	<u>\$ 240,508</u>	<u>\$ 238,163</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 43,634	\$ 51,330
Sponsored funds received in advance	30,486	29,573
Bonds payable, net	11,007	11,575
Total liabilities	<u>85,127</u>	<u>92,478</u>
Commitments and contingencies		
Net assets		
Unrestricted		
Board designated	15,806	14,380
Undesignated, available for general operations	68,645	64,904
Total unrestricted net assets	<u>84,451</u>	<u>79,284</u>
Temporarily restricted	64,233	59,808
Permanently restricted	6,697	6,593
Total net assets	<u>155,381</u>	<u>145,685</u>
Total liabilities and net assets	<u>\$ 240,508</u>	<u>\$ 238,163</u>

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

Institute of International Education, Inc.
Statements of Activities
Years Ended September 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<i>(in thousands)</i>								
Revenues								
Sponsored programs	\$ 340,520	\$ -	\$ -	\$ 340,520	\$ 580,425	\$ -	\$ -	\$ 580,425
Contributions	3,643	7,140	-	10,783	1,450	7,740	-	9,190
Net assets released from restrictions	9,499	(9,499)	-	-	9,636	(9,636)	-	-
Investment return	8,805	6,784	104	15,693	6,313	5,567	90	11,970
Publications and membership fees	1,137	-	-	1,137	747	-	-	747
Other revenues	2,183	-	-	2,183	1,157	-	-	1,157
Total revenues	\$ 365,787	\$ 4,425	\$ 104	\$ 370,316	\$ 599,728	\$ 3,671	\$ 90	\$ 603,489
Expenses								
Program services								
International exchange of students and scholars	\$ 266,475	\$ -	\$ -	\$ 266,475	\$ 500,282	\$ -	\$ -	\$ 500,282
Leadership development educational services	33,552	-	-	33,552	36,670	-	-	36,670
Higher education institutional development	13,572	-	-	13,572	14,482	-	-	14,482
Emergency student and scholar assistance	5,009	-	-	5,009	4,271	-	-	4,271
Research and publications	1,475	-	-	1,475	2,060	-	-	2,060
Total program services	320,083	-	-	320,083	557,765	-	-	557,765
Supporting services								
Management and general	38,316	-	-	38,316	33,560	-	-	33,560
Fund raising	2,221	-	-	2,221	1,067	-	-	1,067
Total supporting services	40,537	-	-	40,537	34,627	-	-	34,627
Total expenses	360,620	-	-	360,620	592,392	-	-	592,392
Increase in net assets before de-consolidation of IIEF	5,167	4,425	104	9,696	7,336	3,671	90	11,097
De-consolidation of IIEF	-	-	-	-	(1,114)	-	-	(1,114)
Increase in net assets	5,167	4,425	104	9,696	6,222	3,671	90	9,983
Net assets								
Beginning of year	79,284	59,808	6,593	145,685	73,062	56,137	6,503	135,702
End of year	\$ 84,451	\$ 64,233	\$ 6,697	\$ 155,381	\$ 79,284	\$ 59,808	\$ 6,593	\$ 145,685

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

Institute of International Education, Inc.
Statement of Functional Expenses
Year Ended September 30, 2017

	Program Services					Supporting Services				Total
	International Exchange of Students and Scholars	Leadership Development Educational Services	Higher Education Institutional Development	Emergency Student and Scholar Assistance	Research and Publications	Total Program Services	Management and General	Fund Raising	Total Supporting Services	
<i>(in thousands)</i>										
Grantee expenses										
Grantee stipends and grants	\$ 116,206	\$ 16,125	\$ 291	\$ 734	\$ -	\$ 133,356	\$ -	\$ -	\$ -	\$ 133,356
Tuition, books and fees	30,843	(368)	607	1,561	-	32,643	-	-	-	32,643
Enrichment programs	9,750	242	109	15	-	10,116	-	-	-	10,116
Grantee travel	15,303	2,243	1,695	76	-	19,317	-	-	-	19,317
Grantee health insurance	3,608	42	17	35	-	3,702	-	-	-	3,702
Other	985	135	219	17	-	1,356	-	-	-	1,356
	<u>176,695</u>	<u>18,419</u>	<u>2,938</u>	<u>2,438</u>	<u>-</u>	<u>200,490</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,490</u>
Institute expenses										
Employee salaries and benefits	27,453	6,587	5,163	1,231	703	41,137	19,873	1,231	21,104	62,241
Occupancy	5,409	1,060	1,006	226	135	7,836	4,997	228	5,225	13,061
Travel, receptions and benefits	6,811	636	1,629	130	54	9,260	1,065	99	1,164	10,424
Communication	1,119	174	322	36	59	1,710	1,897	50	1,947	3,657
Purchased services	44,462	6,442	1,534	343	412	53,193	7,658	592	8,250	61,443
Other	4,526	234	980	605	112	6,457	2,826	21	2,847	9,304
	<u>89,780</u>	<u>15,133</u>	<u>10,634</u>	<u>2,571</u>	<u>1,475</u>	<u>119,593</u>	<u>38,316</u>	<u>2,221</u>	<u>40,537</u>	<u>160,130</u>
	<u>\$ 266,475</u>	<u>\$ 33,552</u>	<u>\$ 13,572</u>	<u>\$ 5,009</u>	<u>\$ 1,475</u>	<u>\$ 320,083</u>	<u>\$ 38,316</u>	<u>\$ 2,221</u>	<u>\$ 40,537</u>	<u>\$ 360,620</u>

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

Institute of International Education, Inc.
Statement of Functional Expenses
Year Ended September 30, 2016

	Program Services					Supporting Services				Total
	International Exchange of Students and Scholars	Leadership Development Educational Services	Higher Education Institutional Development	Emergency Student and Scholar Assistance	Research and Publications	Total Program Services	Management and General	Fund Raising	Total Supporting Services	
<i>(in thousands)</i>										
Grantee expenses										
Grantee stipends and grants	\$ 196,436	\$ 9,092	\$ 1,434	\$ 708	\$ 35	\$ 207,705	\$ -	\$ -	\$ -	\$ 207,705
Tuition, books and fees	161,076	3,764	747	1,407	-	166,994	-	-	-	166,994
Enrichment programs	10,677	2,706	32	7	-	13,422	-	-	-	13,422
Grantee travel	14,343	5,329	913	25	-	20,610	-	-	-	20,610
Grantee health insurance	5,995	15	8	25	-	6,043	-	-	-	6,043
Other	7,846	193	8	4	-	8,051	-	-	-	8,051
	<u>396,373</u>	<u>21,099</u>	<u>3,142</u>	<u>2,176</u>	<u>35</u>	<u>422,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>422,825</u>
Institute expenses										
Employee salaries and benefits	28,206	6,818	5,323	1,404	1,010	42,761	18,512	482	18,994	61,755
Occupancy	5,263	812	1,016	224	155	7,470	4,344	87	4,431	11,901
Travel, receptions and benefits	5,188	1,226	1,430	92	292	8,228	1,215	43	1,258	9,486
Communication	1,120	212	289	91	57	1,769	1,887	28	1,915	3,684
Purchased services	58,877	6,012	2,808	233	449	68,379	8,796	375	9,171	77,550
Other	5,255	491	474	51	62	6,333	(1,194)	52	(1,142)	5,191
	<u>103,909</u>	<u>15,571</u>	<u>11,340</u>	<u>2,095</u>	<u>2,025</u>	<u>134,940</u>	<u>33,560</u>	<u>1,067</u>	<u>34,627</u>	<u>169,567</u>
	<u>\$ 500,282</u>	<u>\$ 36,670</u>	<u>\$ 14,482</u>	<u>\$ 4,271</u>	<u>\$ 2,060</u>	<u>\$ 557,765</u>	<u>\$ 33,560</u>	<u>\$ 1,067</u>	<u>\$ 34,627</u>	<u>\$ 592,392</u>

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

Institute of International Education, Inc.
Statements of Cash Flows
Years Ended September 30 2017 and 2016

<i>(in thousands)</i>	2017	2016
Cash flows from operating activities		
Increase in net assets	\$ 9,696	\$ 9,983
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	4,431	3,863
Amortization of gain on sale of building	(238)	(239)
Loss on disposal of fixed assets	-	287
Amortization of bond issuance costs	24	24
Amortization of premium on bonds	(42)	(43)
De-consolidation of IIEF	-	1,114
Net realized gains on sales of investments	(4,030)	(2,220)
Net unrealized gains on investments	(9,970)	(8,106)
Change in operating assets and liabilities		
Accounts receivable on sponsored programs	15,622	(6,565)
Contributions receivable, net	659	(684)
Prepaid expenses and other assets	(897)	(1,675)
Accounts payable and accrued expenses	(7,696)	(31,711)
Sponsored funds received in advance	913	(4)
Net cash provided by (used in) operating activities	<u>8,472</u>	<u>(35,976)</u>
Cash flows from investing activities		
Purchase of investments	(4,763)	(1,883)
Proceeds from sale of investments	7,604	2,855
Purchase of fixed assets	(1,871)	(7,214)
Cash outflow due to de-consolidation of IIEF	-	(822)
Net cash provided by (used in) investing activities	<u>970</u>	<u>(7,064)</u>
Cash flows from financing activities		
Payments made on bond obligations	(550)	(525)
Net cash used in financing activities	<u>(550)</u>	<u>(525)</u>
Net increase (decrease) in cash and cash equivalents	8,892	(43,565)
Cash and cash equivalents		
Beginning of year	<u>6,362</u>	<u>49,927</u>
End of year	<u>\$ 15,254</u>	<u>\$ 6,362</u>
Supplemental information		
Cash paid for interest	\$ 439	\$ 452
Non-cash supplemental information		
Fixed assets included in accounts payable	\$ -	\$ 110
Non-cash transactions associated with IIEF de-consolidation (Note 1)	-	292

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

Institute of International Education, Inc.

Notes to Financial Statements

September 30, 2017 and 2016

(in thousands)

1. Description of Organization

The financial statements include the accounts of all Institute of International Education, Inc.'s (the "Institute") affiliates, both domestic and international, including those which are separately incorporated and perform activities in the name of the Institute. All significant intercompany transactions have been eliminated. Accordingly, the accompanying financial statements include the financial positions, statements of activities, functional expenses and cash flows of the Institute and the Indonesian International Education Foundation ("IIEF"), (collectively, "IIE"). Effective October 1, 2015, management determined that IIEF no longer met the criteria for consolidation and accordingly, IIEF is not reflected in the financial statements as of and for the year ended September 30, 2016.

Institute of International Education, Inc.

The Institute was founded in 1919 and incorporated in 1928 in the State of New York. The Institute develops and administers programs of international educational exchange and technical assistance under negotiated contracts with governments, international organizations, corporations, foundations, colleges and universities throughout the United States and abroad.

Services to students, teachers, and other professionals from more than 175 countries are provided by the Institute's New York headquarters, domestic and international offices. The Institute also administers educational assistance to universities and foreign countries, sponsors conferences and seminars and provides procurement and educational testing services on behalf of various sponsors.

In addition, through general support, the Institute conducts counseling and information services, rescue programs, issues publications, and conducts conferences, seminars and other special projects, which provide assistance to individuals, colleges, universities and other organizations on matters of international education and cultural exchange.

Indonesian International Education Foundation

IIEF was established in May, 1992 and is located in South Jakarta, Indonesia. IIEF has developed expertise in four core areas: Scholarship and Fellowship Management, Capacity Development Initiatives, Services to Education and Testing and Certification.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP"). IIE is required under these principles to report revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of IIE are classified and reported as follows:

- Unrestricted net assets – net assets that are not subject to donor-imposed restrictions and that may be expended for any purpose in performing the primary objectives of IIE. Unrestricted net assets include board-designated net assets, which are used to account for all resources over which the Board of Trustees has discretionary control. Revenues are reported as increases in unrestricted net assets unless the related asset is limited by donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as

Institute of International Education, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

(in thousands)

increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law. Expenses are reported as decreases in unrestricted net assets.

- Temporarily restricted net assets – net assets that are subject to donor restrictions that either expire with the passage of time or can be fulfilled and removed by actions of IIE. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. In the event IIE is unable to meet their purposes, all remaining funds would be remitted back to the donors, unless subsequently re-designated by the donor.
- Permanently restricted net assets – net assets that are subject to donor-imposed restrictions that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of IIE. These net assets include funds which have been designated by the donor to be held and invested in perpetuity, but permit IIE to use the income and gains for specified and unspecified purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and related disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, IIE evaluates its estimates, including those described below. IIE bases its estimates on historical experience and on various other assumptions that IIE believes are reasonable under the circumstances. Actual results could differ from those estimates.

Revenues

Revenue is recognized when earned. Revenues from cost reimbursable sponsored programs are recognized as IIE incurs the related expenditures to the extent of anticipated funding. Fixed fee revenue from sponsored programs is recognized on a straight line basis.

Contributions are recorded as revenue when IIE has an unconditional right to receive those funds. Contributions are recorded in a net asset classification based upon the existence or absence of donor restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Cash Equivalents

All highly liquid investments having an original maturity of 90 days or less at time of purchase and money market funds are considered to be cash equivalents and reported at the lower of cost or market value.

Accounts receivable on sponsored programs

To the extent that revenues are recognized in excess of cash receipts, accounts receivable on sponsored agreements, net of allowances for doubtful accounts, are reported in the statements of financial position. The allowance for doubtful accounts is determined by a review of account balances, including the age of the balance and historical collection experience. As of September 30, 2017 and 2016, the allowance for doubtful accounts was \$875 and \$121, respectively.

Institute of International Education, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

(in thousands)

Beneficial Interests in Perpetual Trusts Held by Third Parties

IIE is an income beneficiary of various trusts funds held by others in perpetuity. As a result, IIE has recorded, as an asset, the net present value of the income estimated to be received from these trusts based upon multiplying the fair value of the underlying assets by IIE's ownership percentages.

Changes in fair value of IIE's beneficial interests are recognized as gains or losses in the permanently restricted net asset category. According to the original donors' stipulation, distributions of net income from these trusts are to be made to IIE and are to be spent for specified purposes. During fiscal years 2017 and 2016, changes in fair value of IIE's beneficial interests in the amount of \$104 and \$90, respectively, were recorded as permanently restricted contributions.

Sponsored Funds Received in Advance

Cash received prior to recognizing revenue is reported as sponsored funds received in advance in the statements of financial position. If revenue is not earned for the total amount of the funds received in advance, the remaining portion will be refunded to the sponsor upon the closeout of an award.

Retirement Benefits

Retirement benefits coverage is available for substantially all employees, provided through a 403(b) Plan. IIE's contributions for fiscal years 2017 and 2016 under the provisions of this defined contribution plan were \$3,467 and \$3,262, respectively.

The Institute has active 457B and 457F deferred compensation plans, which are offered to select management. The employee contributions are capped at the annual Federal limit for deferred compensation. The assets related to this plan are included in prepaid expenses and other assets and amounted to \$2,061 and \$1,832 as of September 30, 2017 and 2016, respectively. The assets primarily consist of money market funds and other marketable securities, which are considered Level 1 based on the fair value hierarchy described in Note 3. The liabilities that relate to these plans are included in accounts payable and accrued expenses in the statements of financial position.

Functional Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Certain costs have been allocated among the programs and supporting services benefited. Costs functionalized as "Grantee expenses" include support expenditures such as tuition and grantee maintenance, and costs functionalized as "Institute expenses" include all services and operational costs (e.g., salaries, occupancy).

Investments

Marketable debt and equity security investments are classified as trading securities, which are carried at estimated fair value, with unrealized gains and losses reflected in results of operations. Estimated fair values are principally based on quoted market prices.

Institute of International Education, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

(in thousands)

Limited liquidity investments are stated at estimated fair value. Limited liquidity investments are primarily made under agreements to participate in limited partnerships and limited liability corporations which are generally subject to certain withdrawal restrictions. These investments are valued on the basis of IIE's equity in the net assets. Values for these investments may include financial interest in both nonmarketable and market-traded securities, and may be based on appraisals, market values discounted for concentration of ownership, or other estimates. Because of the inherent uncertainty of valuing these investments, as well as the underlying investments, IIE's estimate of fair value may differ significantly from the values that would have been used had a ready market for the investments existed. The financial statements for these investment interests are audited annually by independent auditing firms. These investments may be illiquid, and thus IIE may not be able to realize the value of such investments in a timely manner.

Fixed Assets

Fixed assets are recorded at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method, ranging from two (2) to thirty (30) years. Such estimates are based upon management's judgments of how long the assets will remain in service. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. Depreciation and amortization expenses on fixed assets for fiscal years 2017 and 2016 were \$4,431 and \$3,863, respectively.

IIE periodically evaluates the estimated recoverability of its long-lived assets, annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There were no impairments of long-lived assets at September 30, 2017.

Indirect Costs

IIE recovers indirect costs by allocating such costs to specific programs administered by IIE. Indirect costs are those costs incurred by common and joint objectives (or activities) and therefore, cannot be readily assigned to a specific direct cost objective. Indirect costs include general and administrative and facility costs. IIE allocates and recovers these costs to federal programs at a rate negotiated with its cognizant federal agency.

Taxes

The Institute is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Institute is not generally required to pay corporate income tax in most countries in which it operates by virtue of, inter alia, IIE's not-for-profit status and/or the status of its local affiliate or representative offices. However, IIE pays payroll and use taxes in the normal course of business where required, and some activities may be subject to sales and value added taxes in certain jurisdictions. Accordingly, IIE pays or maintains appropriate provisions to account for such liabilities.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606). This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to

Institute of International Education, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

(in thousands)

understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. IIE is evaluating the impact this standard will have on the financial statements.

In April 2015, the FASB issued ASU 2015-03 (Subtopic 835-30), *Imputation of Interest - Simplifying the Presentation of Debt Issue Costs*. This standard requires all costs incurred to issue debt to be presented in the statement of financial position as a direct deduction from the carrying value of the associated debt liability. IIE adopted this guidance in the fiscal year ended September 30, 2016.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Per this guidance, entities that are not public business entities are not required to apply the fair value of financial instruments disclosure guidance in the General Subsection of Section 825-10-50. IIE adopted this guidance in the fiscal year ended September 30, 2016.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of leases with a term of twelve months or less) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The guidance requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented. A full retrospective transition approach is not permitted. This new standard is effective for fiscal years beginning after December 15, 2018, with early application permitted. IIE is evaluating the impact this standard will have on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*, which makes targeted changes to the not-for-profit reporting model. Under the new guidance, not-for-profit entities will present in the statement of financial position and statement of activities two classes of net assets, rather than the current three. Disclosures will be enhanced about: (a) the amounts and purposes of governing board net asset designations; (b) quantitative and qualitative information regarding the management of liquid resources; (c) functional expenses and the related allocation methodology; and (d) underwater endowments. Investment return will be reported net of certain investment expenses and breakout of the investment return components will no longer be required. This new standard is effective for fiscal years beginning after December 15, 2017, with early application permitted. IIE is evaluating the impact this standard will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update assists not-for-profit entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions, and in determining whether a contribution is conditional. IIE should apply the amendments in this update on contributions received to annual periods beginning after June 15, 2018 and on contributions made to annual periods beginning after December 15, 2018. IIE is evaluating the impact this standard will have on the financial statements.

Institute of International Education, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

(in thousands)

3. Financial Instruments

IIE follows guidance with respect to accounting and reporting for the fair value of financial assets and liabilities. This guidance establishes a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and IIE's assumptions (unobservable inputs). The hierarchy consists of three levels as noted below:

- Level 1 Quoted prices are available in active markets for identical investments as of the reporting date, without adjustment. The type of investments in Level 1 includes listed equities held in the name of IIE, and excludes listed equities and other securities held indirectly through commingled funds.
- Level 2 Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3 Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. Investments that are included in this category generally include privately held investments and securities held in partnership format.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three techniques are as follows:

Market Approach

Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

Cost Approach

Amount that would be required to replace the service capacity of an asset (i.e. replacement cost); and

Income Approach

Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques).

IIE adopted the accounting concept under GAAP to utilize the net asset value (NAV) as the "practical expedient." The practical expedient is an acceptable method under GAAP to determine the fair value of investments reported at net asset value from the respective general partners (a) that do not have a readily determinable fair value predicated upon a public market and (b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company under GAAP.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while IIE believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Institute of International Education, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

(in thousands)

The following table summarizes the valuation of IIE's investments measured on a recurring basis by caption and by level within the valuation hierarchy as of September 30:

	2017			Total
	Level 1 Quoted Prices in Active Markets	Level 2 Other Significant Observable	Level 3 Significant Unobservable Inputs	
Cash equivalents	\$ 182	\$ -	\$ -	\$ 182
Equity securities				
US	28,818	-	-	28,818
International	9,938	-	-	9,938
Commodities	7,707	-	-	7,707
Debt securities				
Bond funds	20,495	-	-	20,495
Sub-total	67,140	-	-	67,140
Investments measured at net asset value				64,334
Total investments	\$ 67,140	\$ -	\$ -	\$ 131,474
	2016			
	Level 1 Quoted Prices in Active Markets	Level 2 Other Significant Observable	Level 3 Significant Unobservable Inputs	Total
Cash equivalents	\$ 1,155	\$ -	\$ -	\$ 1,155
Equity securities				
US	31,057	-	-	31,057
International	8,328	-	-	8,328
Commodities	7,627	-	-	7,627
Debt securities				
Bond funds	20,700	-	-	20,700
Sub-total	68,867	-	-	68,867
Investments measured at net asset value				51,552
Total investments	\$ 68,867	\$ -	\$ -	\$ 120,419

Institute of International Education, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

(in thousands)

IIE's assets with a fair value estimate using net asset value per share as a basis at September 30, 2017 and 2016 are as follows:

	Fair Value Estimated Using Net Assets Value Per Share					
	Fair Value September 30, 2017	Fair Value September 30, 2016	Unfunded Commitment	Settlement Terms	Redemption Frequency	Redemption Notice Period
International equity funds	\$ 32,106	\$ 26,245	\$ -	Redemptions occur at NAV	Monthly	Less than 30 days
Domestic equity funds	20,076	17,361	-	Redemptions occur at NAV	Monthly	Less than 30 days
Bond funds	7,949	7,946	-	Redemptions occur at NAV	Daily	2 days in advance
Real asset funds	4,203	-	-	Redemptions occur at NAV	Daily	2 days in advance
	<u>\$ 64,334</u>	<u>\$ 51,552</u>				

All net realized and unrealized gains /losses are reflected in the statements of activities.

Investment return consisted of the following for the years ended September 30:

	2017	2016
Interest and dividends	\$ 1,943	\$ 1,888
Net realized gains	4,030	2,220
Net unrealized gains	9,970	8,106
	<u>15,943</u>	<u>12,214</u>
Less: Investment management fees	(250)	(244)
Total investment return	<u>\$ 15,693</u>	<u>\$ 11,970</u>

Institute of International Education, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

(in thousands)

4. Fixed Assets, Net

Fixed assets as of September 30 consist of the following:

	Estimated Useful Lives	Asset Value	
		2017	2016
Building	30 Years	\$ 18,975	\$ 18,975
Furniture	7 Years	1,019	1,019
Equipment	2–4 Years	3,971	3,639
Software development costs	3–7 Years	31,855	30,151
Leasehold improvements	3–25 Years	10,517	10,682
		<u>66,337</u>	<u>64,466</u>
Less: Accumulated depreciation		<u>(38,870)</u>	<u>(34,439)</u>
		27,467	30,027
Less: Unamortized deferred credit		<u>(3,333)</u>	<u>(3,571)</u>
Total fixed assets, net		<u>\$ 24,134</u>	<u>\$ 26,456</u>

In July of 2001, IIE exercised its right of first refusal and repurchased 10 of 12 available floors of its New York headquarters building at 809 United Nations Plaza. The purchase price was \$22,750, and the building is now a condominium. In September of 2001, IIE sold two of the repurchased floors for \$12,000. IIE's basis in the two sold floors was \$4,789 and resulted in a gain on sale of \$7,251. A portion of the deferred credit relating to IIE's sale and leaseback of the building in 1998 was assigned to the two floors sold and is being amortized annually. The remaining balance of the deferred credit has been netted with IIE's fixed assets and is being amortized over a 30-year period.

5. Bonds Payable, Net

Bonds payable as of September 30 consist of the following:

	2017	2016
Series 2014 bonds	\$ 10,750	\$ 11,300
Unamortized bond premium	595	637
Deferred financing costs, net	<u>(338)</u>	<u>(362)</u>
Total bonds payable, net	<u>\$ 11,007</u>	<u>\$ 11,575</u>

On November 1, 2001, the Institute issued \$17,345 in tax exempt term bonds (the "Series 2001 bonds") through the New York City Industrial Development Agency ("IDA") to provide funds for the acquisition, equipping and improvement of the New York City office (the "Facility"). On November 25, 2014, the Institute issued \$12,480 in tax exempt revenue refunding bonds

Institute of International Education, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

(in thousands)

(the “Series 2014 bonds”) through the Build NYC Resource Corporation (“Build NYC”) to refund the outstanding Series 2001 bonds.

Deferred financing costs represent direct costs incurred to obtain the bonds payable. In connection with the issuance of these bonds, the Institute incurred costs that are being amortized to interest expense on a straight-line basis over the remaining term of the bond (30 years), which approximates the effective interest method. Net deferred financing costs of \$338 and \$362 at September 30, 2017 and 2016, respectively, are included in as a reduction to the bonds payable.

The Series 2014 bonds are payable by Build NYC, through a third party trustee, solely from payments made by the Institute pursuant to a Loan Agreement between Build NYC and the Institute, evidenced by a Promissory Note in favor of Build NYC. Neither the Series 2014 bonds nor the obligations of the Institute under the Loan Agreement and the Promissory Note are secured by a mortgage of or any other interest in the Facility or any other property of the Institute. The obligations of the Institute under the Loan Agreement and the Promissory Note to pay amounts sufficient to pay principal or redemption price of, and interest on, the Series 2014 bonds are unsecured general obligations of the Institute. The Series 2014 bonds mature in various amounts, ranging from \$525 to \$960 per year, through 2031. The nominal interest rates attributable to the Series 2014 bonds range from 3.0% to 5.0%.

Estimated principal payments due and amortization of bond premium and deferred financing costs on the Series 2014 bonds, for the next five years, are as follows:

Fiscal years	Principal Payments	Bond Premium Amortization	Deferred Financing Amortization	Total
2018	\$ 580	\$ 43	\$ (24)	\$ 599
2019	605	43	(24)	624
2020	620	43	(24)	639
2021	655	43	(24)	674
2022	685	43	(24)	704
Thereafter	7,605	380	(218)	7,767
	<u>\$ 10,750</u>	<u>\$ 595</u>	<u>\$ (338)</u>	<u>\$ 11,007</u>

In accordance with the Agreement, IIE must comply with certain administrative requirements.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	2017	2016
International exchange of students and scholars	<u>\$ 64,233</u>	<u>\$ 59,808</u>
Total temporarily restricted net assets	<u>\$ 64,233</u>	<u>\$ 59,808</u>

Institute of International Education, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

(in thousands)

Temporarily restricted net assets were released from restrictions for the years ended September 30 for the following purposes:

	2017	2016
International exchange of students and scholars	\$ 9,499	\$ 9,636
Total net assets released from restrictions	<u>\$ 9,499</u>	<u>\$ 9,636</u>

7. Permanently Restricted Net Assets

Permanently restricted net assets available to support programs at September 30 are as follows:

	2017	2016
Beneficial interests in perpetual trusts held by third parties	\$ 3,170	\$ 3,066
Endowment funds, investment return restricted to international exchange of students and scholars	<u>3,527</u>	<u>3,527</u>
Total permanently restricted net assets	<u>\$ 6,697</u>	<u>\$ 6,593</u>

8. Endowment Net Assets

In managing its Endowment Assets, IIE adheres to the standard of prudence prescribed by the New York Prudent Management of Institutional Funds Act (“NYPMIFA”) and considers the following factors:

- The duration and preservation of the endowment fund;
- The purposes of IIE and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of IIE;
- Alternatives to expenditure of the endowment fund; and
- The investment policy of IIE.

IIE’s endowment consists of invested assets as directed by the Board of Trustees which are classified as permanently restricted net assets and term endowments, which can be included within the temporarily restricted and unrestricted net assets. IIE considers its term endowment to be that

Institute of International Education, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

(in thousands)

portion of temporarily restricted net assets, which are restricted by time and purpose, and its board designated funds.

The policy governing the investment of IIE's endowment includes two objectives: (1) provide a reasonable and prudent level of currently expendable income in accordance with the spending policy set by the Board of Trustees (currently 4% of the endowment's moving average fair value over the prior 36 months as of September 30th of the preceding fiscal year in which distribution is planned, unless specified by a donor); and (2) support IIE and its mission over the long term by maintaining future growth of the endowment. Under this policy, the endowment assets are invested in a manner that is intended to produce a return, net of inflation and investment management costs, of at least 5%. Actual returns in any given year may have varied from this amount.

To satisfy its long-term rate-of-return objectives, IIE relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). IIE targets a diversified asset allocation to achieve its long-term objective within prudent risk constraints.

In accordance with current New York State law, IIE is required to preserve 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, so long as there is no explicit donor stipulation to the contrary, IIE 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) realized and unrealized gains and losses to the permanent endowment when stipulated by the donor gift instrument. The remaining portion of the donor restricted endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by IIE in a manner consistent with the standard of prudence prescribed by law.

For financial reporting purposes, donor-restricted endowment fund appreciation, gains and income exceeding donor restrictions are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by IIE in a manner consistent with the standard of prudence prescribed by law. Upon appropriation, appreciation and earning are reclassified as unrestricted net assets.

For each donor-restricted endowment fund, IIE classified as temporarily restricted net assets the portion of the fund that is not designated as permanently restricted net assets until appropriated for expenditure by IIE. In initially applying the guidance to its donor-restricted endowment funds in existence upon NYPMIFA enactment, IIE determined that there were no accumulated amounts earned on donor restricted endowment funds in excess of appropriation. As a result, no reclassification to temporarily restricted net assets was required.

Institute of International Education, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

(in thousands)

At September 30, 2017, the endowment net asset composition by type of fund and purpose consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds				
Scholarships and professional development	\$ -	\$ 13,433	\$ 2,163	\$ 15,596
Scholar Rescue Fund	-	36,087	1,364	37,451
Fulbright Legacy Fund	-	7,726	-	7,726
Board designated funds				
Fulbright Legacy Fund	9,219	-	-	9,219
Scholar Rescue Fund	6,267	-	-	6,267
Andrew Heiskell Endowment	320	-	-	320
Total endowments	<u>\$ 15,806</u>	<u>\$ 57,246</u>	<u>\$ 3,527</u>	<u>\$ 76,579</u>

At September 30, 2016, the endowment net asset composition by type of fund and purpose consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds				
Scholarships and professional development	\$ -	\$ 14,850	\$ 2,163	\$ 17,013
Scholar Rescue Fund	-	32,797	1,364	34,161
Fulbright Legacy Fund	-	4,247	-	4,247
Board designated funds				
Fulbright Legacy Fund	8,455	-	-	8,455
Scholar Rescue Fund	5,634	-	-	5,634
Andrew Heiskell Endowment	291	-	-	291
Total endowments	<u>\$ 14,380</u>	<u>\$ 51,894</u>	<u>\$ 3,527</u>	<u>\$ 69,801</u>

Institute of International Education, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

(in thousands)

Changes in endowment net assets for the years ended September 30, 2017 and 2016 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2015	\$ 13,062	\$ 50,105	\$ 3,527	\$ 66,694
Investment return				
Investment income, net of fees	199	850	-	1,049
Realized gains	289	990	-	1,279
Unrealized gains	1,010	3,649	-	4,659
Total investment gains	1,498	5,489	-	6,987
Contributions	-	1,067	-	1,067
Appropriation of endowment assets used for expenditures	(180)	(4,767)	-	(4,947)
Endowment net assets at September 30, 2016	14,380	51,894	3,527	69,801
Investment return				
Investment income, net of fees	203	807	-	1,010
Realized gains	496	1,855	-	2,351
Unrealized gains	1,307	4,075	-	5,382
Total investment gains	2,006	6,737	-	8,743
Contributions	-	3,957	-	3,957
Appropriation of endowment assets used for expenditures	(580)	(5,342)	-	(5,922)
Endowment net assets at September 30, 2017	<u>\$ 15,806</u>	<u>\$ 57,246</u>	<u>\$ 3,527</u>	<u>\$ 76,579</u>

9. Sponsored Programs Revenue

Sponsored programs revenue for fiscal years 2017 and 2016 was derived from the following major sponsor categories:

	2017	2016
U.S. government agencies	\$ 240,370	\$ 239,936
Foundations and research organizations	74,293	69,644
Corporations	11,896	13,082
Foreign governments and international organizations	13,961	257,763
Total sponsored programs revenue	<u>\$ 340,520</u>	<u>\$ 580,425</u>

In fiscal year 2014, IIE began the Brazil Scientific Mobility Program, which was substantially completed in fiscal year 2016 and resulted in a decline in sponsored programs revenue from foreign governments and international organizations, and accompanying program services expenses, from 2016 to 2017.

Institute of International Education, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

(in thousands)

10. Commitments and Contingencies

Operating Leases

Rental expense was \$6,036 and \$5,457 for the years ended September 30, 2017 and 2016, respectively. IIE leases space for certain domestic and overseas offices on a non-cancelable, long-term basis. These agreements, expiring at various dates through 2022, permit IIE to sublease such space at its option.

Minimum future lease commitments are as follows at September 30, 2017:

Fiscal years	
2018	\$ 4,201
2019	3,290
2020	2,832
2021	2,539
2022	58
Thereafter	<u>279</u>
	<u>\$ 13,199</u>

From time to time, IIE is involved in litigation concerning its business affairs. Management believes that the resolution of all pending litigation will not have a material adverse effect on IIE's financial condition.

IIE engages in activities which are subject to governmental audit from time to time. The ultimate outcome of such audits could result in amounts due to government agencies, which expenses would be absorbed by IIE. In IIE's opinion, such amounts, if any, would not have a significant effect on the financial condition or changes in net assets of IIE.

11. Subsequent Events

IIE has performed an evaluation of subsequent events through January 10, 2019, which is the date the financial statements were issued. IIE has determined that all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles, are included in the financial statements.