

# **Institute of International Education, Inc.**

**Financial Statements  
September 30, 2018 and 2017**

# Institute of International Education, Inc.

## Index

September 30, 2018 and 2017

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## 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, 2018 and 2017, 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, 2018 and 2017, 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  
June 24, 2019

**Institute of International Education, Inc.**  
**Statements of Financial Position**  
**September 30, 2018 and 2017**

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 13,870	\$ 15,254
Accounts receivable on sponsored programs	57,560	56,239
Contributions receivable, net	4,756	1,011
Investments, at fair value	115,706	131,474
Prepaid expenses and other assets	11,306	9,226
Fixed assets, net	22,010	24,134
Beneficial interests in perpetual trusts held by third parties	3,195	3,170
Total assets	<u>\$ 228,403</u>	<u>\$ 240,508</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 40,684	\$ 43,634
Sponsored funds received in advance	24,389	30,486
Bonds payable, net	10,408	11,007
Total liabilities	<u>75,481</u>	<u>85,127</u>
Commitments and contingencies		
Net assets		
Unrestricted		
Board designated	16,551	15,806
Undesignated, available for general operations	62,861	68,645
Total unrestricted net assets	79,412	84,451
Temporarily restricted	66,788	64,233
Permanently restricted	6,722	6,697
Total net assets	<u>152,922</u>	<u>155,381</u>
Total liabilities and net assets	<u>\$ 228,403</u>	<u>\$ 240,508</u>

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

**Institute of International Education, Inc.**  
**Statements of Activities**  
**Years Ended September 30, 2018 and 2017**

<i>(in thousands)</i>	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues</b>								
Sponsored programs	\$ 333,515	\$ -	\$ -	\$ 333,515	\$ 340,520	\$ -	\$ -	\$ 340,520
Contributions	2,432	8,347	-	10,779	3,643	7,140	-	10,783
Net assets released from restrictions	9,795	(9,795)	-	-	9,499	(9,499)	-	-
Investment return	4,342	4,003	25	8,370	8,805	6,784	104	15,693
Publications and membership fees	538	-	-	538	1,137	-	-	1,137
Other revenues	1,241	-	-	1,241	2,183	-	-	2,183
Total revenues	\$ 351,863	\$ 2,555	\$ 25	\$ 354,443	\$ 365,787	\$ 4,425	\$ 104	\$ 370,316
<b>Expenses</b>								
Program services								
International exchange of students and scholars	\$ 263,932	\$ -	\$ -	\$ 263,932	\$ 266,475	\$ -	\$ -	\$ 266,475
Leadership development educational services	29,159	-	-	29,159	33,552	-	-	33,552
Higher education institutional development	15,579	-	-	15,579	13,572	-	-	13,572
Emergency student and scholar assistance	5,247	-	-	5,247	5,009	-	-	5,009
Research and publications	1,659	-	-	1,659	1,475	-	-	1,475
Total program services	315,576	-	-	315,576	320,083	-	-	320,083
Supporting services								
Management and general	39,550	-	-	39,550	38,316	-	-	38,316
Fund raising	1,776	-	-	1,776	2,221	-	-	2,221
Total supporting services	41,326	-	-	41,326	40,537	-	-	40,537
Total expenses	356,902	-	-	356,902	360,620	-	-	360,620
Change in net assets	(5,039)	2,555	25	(2,459)	5,167	4,425	104	9,696
<b>Net assets</b>								
Beginning of year	84,451	64,233	6,697	155,381	79,284	59,808	6,593	145,685
End of year	\$ 79,412	\$ 66,788	\$ 6,722	\$ 152,922	\$ 84,451	\$ 64,233	\$ 6,697	\$ 155,381

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

**Institute of International Education, Inc.**  
**Statement of Functional Expenses**  
**Year Ended September 30, 2018**

	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>										
<b>Grantee expenses</b>										
Grantee stipends and grants	\$ 119,904	\$ 11,417	\$ 102	\$ 1,179	\$ 363	\$ 132,965	\$ -	\$ -	\$ -	\$ 132,965
Tuition, books and fees	32,010	527	705	1,559	-	34,801	-	-	-	34,801
Enrichment programs	6,576	685	60	27	-	7,348	-	-	-	7,348
Grantee travel	14,659	1,463	1,752	59	-	17,933	-	-	-	17,933
Grantee health insurance	3,181	197	-	45	-	3,423	-	-	-	3,423
Other	3,105	(156)	(5)	11	-	2,955	-	-	-	2,955
	<u>179,435</u>	<u>14,133</u>	<u>2,614</u>	<u>2,880</u>	<u>363</u>	<u>199,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>199,425</u>
<b>Institute expenses</b>										
Employee salaries and benefits	27,241	5,271	5,851	1,469	813	40,645	24,518	1,148	25,666	66,311
Occupancy	5,064	863	1,134	220	135	7,416	5,122	160	5,282	12,698
Travel, receptions and benefits	4,953	662	1,880	191	70	7,756	1,034	155	1,189	8,945
Communication	899	127	305	29	59	1,419	1,356	66	1,422	2,841
Purchased services	42,592	7,807	2,909	361	196	53,865	6,918	232	7,150	61,015
Other	3,748	296	886	97	23	5,050	602	15	617	5,667
	<u>84,497</u>	<u>15,026</u>	<u>12,965</u>	<u>2,367</u>	<u>1,296</u>	<u>116,151</u>	<u>39,550</u>	<u>1,776</u>	<u>41,326</u>	<u>157,477</u>
	<u>\$ 263,932</u>	<u>\$ 29,159</u>	<u>\$ 15,579</u>	<u>\$ 5,247</u>	<u>\$ 1,659</u>	<u>\$ 315,576</u>	<u>\$ 39,550</u>	<u>\$ 1,776</u>	<u>\$ 41,326</u>	<u>\$ 356,902</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, 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>										
<b>Grantee expenses</b>										
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>
<b>Institute expenses</b>										
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.**  
**Statements of Cash Flows**  
**Years Ended September 30 2018 and 2017**

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (2,459)	\$ 9,696
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	4,357	4,431
Amortization of gain on sale of building	(238)	(238)
Amortization of bond issuance costs	24	24
Amortization of premium on bonds	(43)	(42)
Net realized gain on sales of investments	(8,877)	(4,030)
Net unrealized loss (gain) on investments	1,995	(9,970)
Changes in operating assets and liabilities:		
Accounts receivable on sponsored programs	(1,321)	15,622
Contributions receivable, net	(3,745)	659
Prepaid expenses and other assets	(2,080)	(897)
Accounts payable and accrued expenses	(2,950)	(7,696)
Sponsored funds received in advance	(6,097)	913
Net cash (used in) provided by operating activities	<u>(21,434)</u>	<u>8,472</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	(8,592)	(4,763)
Proceeds from sale of investments	31,217	7,604
Purchase of fixed assets	(1,995)	(1,871)
Net cash provided by investing activities	<u>20,630</u>	<u>970</u>
<b>Cash flows from financing activities</b>		
Payments made on bond obligations	(580)	(550)
Net cash used in financing activities	<u>(580)</u>	<u>(550)</u>
Net (decrease) increase in cash and cash equivalents	(1,384)	8,892
<b>Cash and cash equivalents</b>		
Beginning of year	15,254	6,362
End of year	<u>\$ 13,870</u>	<u>\$ 15,254</u>
<b>Supplemental information</b>		
Cash paid for interest	\$ 412	\$ 439
Cash paid for taxes	54	-

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

# Institute of International Education, Inc.

## Notes to Financial Statements

### September 30, 2018 and 2017

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(in thousands)

#### 1. Description of Organization

The financial statements include the accounts of all Institute of International Education, Inc.'s ("IIE" or 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.

##### **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, and 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.

#### 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 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.

**Institute of International Education, Inc.**  
**Notes to Financial Statements**  
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(in thousands)

- 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 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 when earned.

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 sponsor program revenues are recognized in excess of cash receipts, accounts receivable on sponsored programs, 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, 2018 and 2017, the allowance for doubtful accounts was \$878 and \$875, respectively.

**Contributions**

Contributions are recorded as unrestricted or temporarily restricted support depending upon the existence and/or nature of donor restrictions. Support that is restricted by donors is reported as an

**Institute of International Education, Inc.**  
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(in thousands)

increase in temporarily restricted net assets and then reclassified to unrestricted net assets when the restriction expires. Temporarily restricted contributions which are received and expended in the same period are classified within unrestricted activities. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. For contributions receivable as of September 30, 2018, \$3,572 is expected to be collected in one year or less and \$1,300 is expected to be collected between one year and five years. For contributions receivable as of September 30, 2017, \$1,001 was expected to be collected between one year and five years. At September 30, 2018 and 2017, the discount on contributions receivable was \$116 and \$0, respectively.

**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 2018 and 2017, changes in fair value of IIE's beneficial interests in the amount of \$25 and \$104, respectively, were recorded as permanently restricted contributions.

**Sponsored Funds Received in Advance**

Cash received prior to recognizing sponsored program 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 2018 and 2017 under the provisions of this defined contribution plan were \$3,233 and \$3,467, respectively.

The Institute has active 457(b) and 457(f) 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 \$2,404 and \$2,061 as of September 30, 2018 and 2017, 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

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(in thousands)

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.

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 2018 and 2017 were \$4,357 and \$4,431, 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, 2018 or 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 to and recovers these costs from 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.

**Institute of International Education, Inc.**  
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(in thousands)

**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 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 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. Entities will 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.

**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

**Institute of International Education, Inc.**  
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(in thousands)

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.

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(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:

	<b>2018</b>			
	<b>Level 1 Quoted Prices in Active Markets</b>	<b>Level 2 Other Significant Observable</b>	<b>Level 3 Significant Unobservable Inputs</b>	<b>Total</b>
Cash equivalents	\$ 183	\$ -	\$ -	183
Equity securities				
US	27,918	-	-	27,918
International	3,603	-	-	3,603
Commodities	6,582	-	-	6,582
Debt securities				
Bond funds	15,629	-	-	15,629
Sub-total	53,915	-	-	53,915
Investments measured at net asset value				61,791
Total investments	\$ 53,915	\$ -	\$ -	\$ 115,706

	<b>2017</b>			
	<b>Level 1 Quoted Prices in Active Markets</b>	<b>Level 2 Other Significant Observable</b>	<b>Level 3 Significant Unobservable Inputs</b>	<b>Total</b>
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

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IIE's assets with a fair value estimate using net asset value per share as a basis at September 30, 2018 and 2017 are as follows:

Fair Value Estimated Using Net Assets Value Per Share						
	Fair Value September 30, 2018	Fair Value September 30, 2017	Unfunded Commitment	Settlement Terms*	Redemption Frequency*	Redemption Notice Period
International equity funds	\$ 28,333	\$ 32,106	-	Redemptions occur at NAV	Monthly	Less than 30 days
Domestic equity funds	19,701	20,076	-	Redemptions occur at NAV	Monthly	Less than 30 days
Bond funds	9,230	7,949	-	Redemptions occur at NAV	Daily	2 days in advance
Real asset funds	4,527	4,203	-	Redemptions occur at NAV	Daily	2 days in advance
	<u>\$ 61,791</u>	<u>\$ 64,334</u>	<u>-</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:

	2018	2017
Interest and dividends	\$ 1,775	\$ 1,943
Net realized gain	8,877	4,030
Net unrealized gain (loss)	<u>(1,995)</u>	<u>9,970</u>
	8,657	15,943
Less: Investment management fees	<u>(287)</u>	<u>(250)</u>
Total investment return	<u>\$ 8,370</u>	<u>\$ 15,693</u>

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**4. Fixed Assets, Net**

Fixed assets as of September 30 consist of the following:

	Estimated Useful Lives	Asset Value	
		2018	2017
Building	30 Years	\$ 18,975	\$ 18,975
Furniture	7 Years	1,019	1,019
Equipment	2–4 Years	4,008	3,971
Software development costs	3–7 Years	33,813	31,855
Leasehold improvements	3–25 Years	10,517	10,517
		<u>68,332</u>	<u>66,337</u>
Less: Accumulated depreciation		<u>(43,227)</u>	<u>(38,870)</u>
		25,105	27,467
Less: Unamortized deferred credit		<u>(3,095)</u>	<u>(3,333)</u>
Total fixed assets, net		<u>\$ 22,010</u>	<u>\$ 24,134</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:

	2018	2017
Series 2014 bonds	\$ 10,170	\$ 10,750
Unamortized bond premium	552	595
Deferred financing costs, net	<u>(314)</u>	<u>(338)</u>
Total bonds payable, net	<u>\$ 10,408</u>	<u>\$ 11,007</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

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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 (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 \$314 and \$338 at September 30, 2018 and 2017, 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:

<b>Fiscal years</b>	<b>Principal Payments</b>	<b>Bond Premium Amortization</b>	<b>Deferred Financing Amortization</b>	<b>Total</b>
2019	\$ 605	\$ 43	\$ (24)	\$ 624
2020	620	43	(24)	639
2021	655	43	(24)	674
2022	685	43	(24)	704
2023	715	43	(24)	734
Thereafter	6,890	337	(194)	7,033
	<u>\$ 10,170</u>	<u>\$ 552</u>	<u>\$ (314)</u>	<u>\$ 10,408</u>

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

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**6. Temporarily Restricted Net Assets**

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

	<b>2018</b>	<b>2017</b>
International exchange of students and scholars	\$ <u>66,788</u>	\$ <u>64,233</u>
Total temporarily restricted net assets	\$ <u>66,788</u>	\$ <u>64,233</u>

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

	<b>2018</b>	<b>2017</b>
International exchange of students and scholars	\$ <u>9,795</u>	\$ <u>9,499</u>
Total net assets released from restrictions	\$ <u>9,795</u>	\$ <u>9,499</u>

**7. Permanently Restricted Net Assets**

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

	<b>2018</b>	<b>2017</b>
Beneficial interests in perpetual trusts held by third parties	\$ 3,195	\$ 3,170
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>6,722</u>	\$ <u>6,697</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;

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- 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 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.

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(in thousands)

At September 30, 2018, 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	\$ -	\$ 11,202	\$ 2,163	\$ 13,365
Scholar Rescue Fund	-	37,820	1,364	39,184
Fulbright Legacy Fund	-	9,323	-	9,323
Board designated funds				
Fulbright Legacy Fund	9,560	-	-	9,560
Scholar Rescue Fund	6,660	-	-	6,660
Andrew Heiskell Endowment	331	-	-	331
Total endowments	<u>\$ 16,551</u>	<u>\$ 58,345</u>	<u>\$ 3,527</u>	<u>\$ 78,423</u>

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>

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Changes in endowment net assets for the years ended September 30, 2018 and 2017 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets at September 30, 2016</b>	\$ 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)
<b>Endowment net assets at September 30, 2017</b>	15,806	57,246	3,527	76,579
Investment return				
Investment income, net of fees	190	774	-	964
Realized gains	1,193	4,238	-	5,431
Unrealized losses	(226)	(1,079)	-	(1,305)
Total investment gains	1,157	3,933	-	5,090
Contributions	-	1,798	-	1,798
Appropriation of endowment assets used for expenditures	(412)	(4,632)	-	(5,044)
<b>Endowment net assets at September 30, 2018</b>	\$ 16,551	\$ 58,345	\$ 3,527	\$ 78,423

**9. Sponsored Programs Revenue**

Sponsored programs revenue for fiscal years 2018 and 2017 was derived from the following major sponsor categories:

	2018	2017
U.S. government agencies	\$ 235,339	\$ 240,370
Foundations and research organizations	73,820	74,293
Corporations	7,286	11,896
Foreign governments and international organizations	17,070	13,961
Total sponsored programs revenue	\$ 333,515	\$ 340,520

**10. Commitments and Contingencies**

**Operating Leases**

Rental expense was \$5,772 and \$6,036 for the years ended September 30, 2018 and 2017, respectively. IIE leases space for certain domestic and overseas offices on a non-cancelable, long-term basis. These agreements, expiring at various dates through 2023, permit IIE to sublease such space at its option.

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Minimum future lease commitments are as follows at September 30, 2018:

<b>Fiscal years</b>		
2019	\$	3,515
2020		3,064
2021		2,687
2022		211
2023		219
Thereafter		<u>253</u>
	\$	<u>9,949</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 June 24, 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.