

Institute of International Education, Inc. and Affiliates

**Consolidated Financial Statements and
Supplemental Schedules
September 30, 2013 and 2012**

Institute of International Education, Inc. and Affiliates
Index
September 30, 2013 and 2012

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Institute of International Education, Inc. and Affiliates ("IIE"), which comprise the consolidated statements of financial position as of September 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Institute of International Education, Inc. and Affiliates at September 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplemental Schedules

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

Other Matters

As discussed in Note 1 to the financial statements, International Fellowships Fund, Inc. anticipates to make its final grant payments under the agreement with Ford Foundation by September 30, 2014.

A handwritten signature in black ink, which appears to read "PricewaterhouseCoopers LLP".

January 28, 2014

Institute of International Education, Inc. and Affiliates
Consolidated Statements of Financial Position
September 30, 2013 and 2012

| <i>(in thousands)</i> | 2013 | 2012 |
|--|-------------------|-------------------|
| Assets | | |
| Cash and cash equivalents | \$ 95,384 | \$ 38,090 |
| Reimbursable expenditures under contracts in progress | 39,372 | 43,581 |
| Contributions receivable, net | 1,688 | 4,319 |
| Investments, at fair value | 109,205 | 136,196 |
| Prepaid expenses and other assets | 4,833 | 4,029 |
| Fixed assets, net | 17,386 | 20,625 |
| Beneficial interests in perpetual trusts held by third parties | 3,131 | 3,043 |
| Total assets | <u>\$ 270,999</u> | <u>\$ 249,883</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Payable for investments purchased | \$ - | \$ 1 |
| Grants payable | 6,127 | 18,996 |
| Accounts payable and accrued expenses | 47,474 | 36,734 |
| Sponsored funds received in advance | 71,123 | 52,219 |
| Bonds payable, net | 13,069 | 13,498 |
| Total liabilities | <u>137,793</u> | <u>121,448</u> |
| Commitments and contingencies | | |
| Net assets | | |
| Unrestricted | | |
| Board designated | 11,592 | 10,582 |
| Undesignated, available for general operations | 41,406 | 28,988 |
| Total unrestricted net assets | 52,998 | 39,570 |
| Temporarily restricted | 73,551 | 82,296 |
| Permanently restricted | 6,657 | 6,569 |
| Total net assets | <u>133,206</u> | <u>128,435</u> |
| Total liabilities and net assets | <u>\$ 270,999</u> | <u>\$ 249,883</u> |

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

Institute of International Education, Inc. and Affiliates
Consolidated Statements of Activities
Years Ended September 30, 2013 and 2012

| <i>(in thousands)</i> | 2013 | | | | 2012 | | | |
|---|------------------|------------------------|------------------------|-------------------|------------------|------------------------|------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenues | | | | | | | | |
| Sponsored programs | \$ 412,552 | \$ - | \$ - | \$ 412,552 | \$ 339,501 | \$ - | \$ - | \$ 339,501 |
| Contributions | 508 | 9,117 | - | 9,625 | 740 | 8,220 | - | 8,960 |
| Net assets released from restrictions | 13,607 | (13,607) | - | - | 20,112 | (20,112) | - | - |
| Investment return | 5,457 | 4,745 | 88 | 10,290 | 6,417 | 7,891 | 248 | 14,556 |
| Publications and Membership fees | 730 | - | - | 730 | 400 | - | - | 400 |
| Special events | | | | | | | | |
| Contributions | 1,067 | - | - | 1,067 | 1,543 | - | - | 1,543 |
| Direct costs | (164) | - | - | (164) | (373) | - | - | (373) |
| Net revenues from special events | 903 | - | - | 903 | 1,170 | - | - | 1,170 |
| Other revenue | 1,020 | - | - | 1,020 | 345 | - | - | 345 |
| Total revenues | <u>434,777</u> | <u>255</u> | <u>88</u> | <u>435,120</u> | <u>368,685</u> | <u>(4,001)</u> | <u>248</u> | <u>364,932</u> |
| Expenses | | | | | | | | |
| Program services | | | | | | | | |
| International exchange of students and scholars | 321,482 | - | - | 321,482 | 259,138 | - | - | 259,138 |
| Leadership development educational services | 59,916 | - | - | 59,916 | 54,175 | - | - | 54,175 |
| Higher education institutional development | 11,325 | - | - | 11,325 | 10,040 | - | - | 10,040 |
| Emergency student and scholar assistance | 5,303 | - | - | 5,303 | 7,854 | - | - | 7,854 |
| Research and publications | 1,179 | - | - | 1,179 | 1,048 | - | - | 1,048 |
| International fellowships program | (3,406) | - | - | (3,406) | 4,684 | - | - | 4,684 |
| Return of sponsor funds | - | 9,000 | - | 9,000 | - | 20,000 | - | 20,000 |
| Total program services | <u>395,799</u> | <u>9,000</u> | <u>-</u> | <u>404,799</u> | <u>336,939</u> | <u>20,000</u> | <u>-</u> | <u>356,939</u> |
| Supporting services | | | | | | | | |
| Management and general | 24,972 | - | - | 24,972 | 26,999 | - | - | 26,999 |
| Fund raising | 578 | - | - | 578 | 796 | - | - | 796 |
| Total supporting services | <u>25,550</u> | <u>-</u> | <u>-</u> | <u>25,550</u> | <u>27,795</u> | <u>-</u> | <u>-</u> | <u>27,795</u> |
| Total expenses | <u>421,349</u> | <u>9,000</u> | <u>-</u> | <u>430,349</u> | <u>364,734</u> | <u>20,000</u> | <u>-</u> | <u>384,734</u> |
| Increase (decrease) in net assets | 13,428 | (8,745) | 88 | 4,771 | 3,951 | (24,001) | 248 | (19,802) |
| Net assets | | | | | | | | |
| Beginning of year | <u>39,570</u> | <u>82,296</u> | <u>6,569</u> | <u>128,435</u> | <u>35,619</u> | <u>106,297</u> | <u>6,321</u> | <u>148,237</u> |
| End of year | <u>\$ 52,998</u> | <u>\$ 73,551</u> | <u>\$ 6,657</u> | <u>\$ 133,206</u> | <u>\$ 39,570</u> | <u>\$ 82,296</u> | <u>\$ 6,569</u> | <u>\$ 128,435</u> |

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

Institute of International Education, Inc. and Affiliates
Consolidated Statements of Functional Expenses
Year Ended September 30, 2013

| | 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 | International Fellowships Program | Total Program Services | Management and General | Fund Raising | | Total Supporting Services |
| <i>(in thousands)</i> | | | | | | | | | | | |
| Grantee expenses | | | | | | | | | | | |
| Grantee stipends and grants | \$ 127,841 | \$ 38,314 | \$ 620 | \$ 191 | \$ 42 | \$ (3,406) | \$ 163,602 | \$ - | \$ - | \$ - | \$ 163,602 |
| Tuition, books and fees | 110,751 | 4,704 | 222 | 2,233 | - | - | 117,910 | - | - | - | 117,910 |
| Enrichment programs | 10,550 | 6,389 | 1,395 | 471 | 13 | - | 18,818 | - | - | - | 18,818 |
| Grantee travel | 14,056 | 2,332 | 827 | 348 | 6 | - | 17,569 | - | - | - | 17,569 |
| Grantee health insurance | 2,286 | 6 | 19 | 69 | - | - | 2,380 | - | - | - | 2,380 |
| Other | 13,062 | 625 | 532 | 76 | 5 | - | 14,300 | - | - | - | 14,300 |
| | <u>278,546</u> | <u>52,370</u> | <u>3,615</u> | <u>3,388</u> | <u>66</u> | <u>(3,406)</u> | <u>334,579</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>334,579</u> |
| Institute expenses | | | | | | | | | | | |
| Employee salaries and benefits | 28,576 | 5,140 | 2,966 | 1,366 | 634 | - | 38,682 | 16,362 | 371 | 16,733 | 55,415 |
| Occupancy | 4,456 | 752 | 568 | 202 | 87 | - | 6,065 | 4,948 | 52 | 5,000 | 11,065 |
| Travel, receptions and benefits | 1,486 | 380 | 287 | 77 | 77 | - | 2,307 | 753 | 13 | 766 | 3,073 |
| Communication | 1,184 | 128 | 245 | 93 | 108 | - | 1,758 | 1,015 | 33 | 1,048 | 2,806 |
| Outside Purchased services | 5,721 | 991 | 577 | 113 | 128 | - | 7,530 | 4,641 | 91 | 4,732 | 12,262 |
| Return of sponsor funds | - | - | - | - | - | 9,000 | 9,000 | - | - | - | 9,000 |
| Other | 1,513 | 155 | 3,067 | 64 | 79 | - | 4,878 | (2,747) | 18 | (2,729) | 2,149 |
| | <u>42,936</u> | <u>7,546</u> | <u>7,710</u> | <u>1,915</u> | <u>1,113</u> | <u>9,000</u> | <u>70,220</u> | <u>24,972</u> | <u>578</u> | <u>25,550</u> | <u>95,770</u> |
| | <u>\$ 321,482</u> | <u>\$ 59,916</u> | <u>\$ 11,325</u> | <u>\$ 5,303</u> | <u>\$ 1,179</u> | <u>\$ 5,594</u> | <u>\$ 404,799</u> | <u>\$ 24,972</u> | <u>\$ 578</u> | <u>\$ 25,550</u> | <u>\$ 430,349</u> |

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

Institute of International Education, Inc. and Affiliates
Consolidated Statements of Functional Expenses
Year Ended September 30, 2012

| | 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 | International Fellowships Program | Total Program Services | Management and General | Fund Raising | | Total Supporting Services |
| <i>(in thousands)</i> | | | | | | | | | | | |
| Grantee expenses | | | | | | | | | | | |
| Grantee stipends and grants | \$ 104,830 | \$ 35,405 | \$ 446 | \$ 242 | \$ 42 | \$ 4,684 | \$ 145,649 | \$ - | \$ - | \$ - | \$ 145,649 |
| Tuition, books and fees | 76,433 | 6,183 | 398 | 2,578 | - | - | 85,592 | - | - | - | 85,592 |
| Enrichment programs | 11,456 | 3,707 | 1,319 | 790 | 14 | - | 17,286 | - | - | - | 17,286 |
| Grantee travel | 14,714 | 2,270 | 695 | 485 | 9 | - | 18,173 | - | - | - | 18,173 |
| Grantee health insurance | 1,985 | 5 | 3 | 44 | - | - | 2,037 | - | - | - | 2,037 |
| Other | 6,017 | 637 | 1,245 | 97 | 8 | - | 8,004 | - | - | - | 8,004 |
| | <u>215,435</u> | <u>48,207</u> | <u>4,106</u> | <u>4,236</u> | <u>73</u> | <u>4,684</u> | <u>276,741</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>276,741</u> |
| Institute expenses | | | | | | | | | | | |
| Employee salaries and benefits | 26,523 | 4,078 | 1,743 | 2,645 | 562 | - | 35,551 | 14,230 | 551 | 14,781 | 50,332 |
| Occupancy | 4,184 | 477 | 558 | 438 | 78 | - | 5,735 | 4,720 | 80 | 4,800 | 10,535 |
| Travel, receptions and benefits | 1,158 | 291 | 217 | 149 | 47 | - | 1,862 | 597 | 21 | 618 | 2,480 |
| Communication | 1,353 | 140 | 296 | 80 | 81 | - | 1,950 | 934 | 43 | 977 | 2,927 |
| Outside Purchased services | 8,926 | 844 | 1,112 | 182 | 132 | - | 11,196 | 3,193 | 72 | 3,265 | 14,461 |
| Return of sponsor funds | - | - | - | - | - | 20,000 | 20,000 | - | - | - | 20,000 |
| Other | 1,559 | 138 | 2,008 | 124 | 75 | - | 3,904 | 3,325 | 29 | 3,354 | 7,258 |
| | <u>43,703</u> | <u>5,968</u> | <u>5,934</u> | <u>3,618</u> | <u>975</u> | <u>20,000</u> | <u>80,198</u> | <u>26,999</u> | <u>796</u> | <u>27,795</u> | <u>107,993</u> |
| | <u>\$ 259,138</u> | <u>\$ 54,175</u> | <u>\$ 10,040</u> | <u>\$ 7,854</u> | <u>\$ 1,048</u> | <u>\$ 24,684</u> | <u>\$ 356,939</u> | <u>\$ 26,999</u> | <u>\$ 796</u> | <u>\$ 27,795</u> | <u>\$ 384,734</u> |

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

Institute of International Education, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended September 30 2013 and 2012

| <i>(in thousands)</i> | 2013 | 2012 |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Increase (decrease) in net assets | \$ 4,771 | \$ (19,802) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | 3,681 | 3,723 |
| Amortization of gain on sale of building | (238) | (238) |
| Amortization of bond issuance costs | 16 | 16 |
| Amortization of discount on bonds | 11 | 11 |
| Net realized gains on sales of investments | (633) | (2,159) |
| Net unrealized gains on investments | (7,654) | (7,408) |
| Change in operating assets and liabilities | | |
| Reimbursable expenditures under contracts in progress | 4,209 | (17,689) |
| Contributions receivable, net | 2,631 | (2,677) |
| Prepaid expenses and other assets | (820) | (790) |
| Grants payable | (12,869) | (31,735) |
| Accounts payable and accrued expenses | 10,740 | 15,555 |
| Sponsored funds received in advance | 18,904 | 28,703 |
| Net cash provided by (used in) operating activities | <u>22,749</u> | <u>(34,490)</u> |
| Cash flows from investing activities | | |
| Purchase of investments | (8,309) | (4,907) |
| Proceeds from sale of investments | 43,498 | 60,507 |
| Purchase of fixed assets | (204) | (1,124) |
| Net cash provided by investing activities | <u>34,985</u> | <u>54,476</u> |
| Cash flows from financing activities | | |
| Payment of bonds payable | (440) | (420) |
| Net cash used in financing activities | <u>(440)</u> | <u>(420)</u> |
| Net increase in cash and cash equivalents | 57,294 | 19,566 |
| Cash and cash equivalents | | |
| Beginning of year | <u>38,090</u> | <u>18,524</u> |
| End of year | <u>\$ 95,384</u> | <u>\$ 38,090</u> |
| Supplemental information | | |
| Cash paid for interest | \$ 729 | \$ 751 |

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

Institute of International Education, Inc. and Affiliates

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(in thousands)

1. Description of Organization

The consolidated 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 inter-company transactions have been eliminated. Accordingly, the accompanying consolidated financial statements include the financial positions, statements of activities, functional expenses and cash flows of the Institute, the Indonesian International Education Foundation ("IIEF") and the International Fellowships Fund, Inc. (the "Fund"), (collectively, "IIE").

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, 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.

International Fellowships Fund, Inc.

In February 2001, the Institute created and incorporated in the State of Delaware the Fund. During fiscal 2001, the Ford Foundation provided the Fund with a grant of \$275.5 million to administer and support the activities of the International Fellowships Program ("IFP"). The grant stipulates that the Ford Foundation funds are to be spent over a ten-year and one-month period.

The Ford Foundation provided \$60 million of additional funding in increments of \$15 million during fiscal years 2006, 2007, 2009 and 2010, completing Ford's funding obligations to the Fund. In 2007, the length of the original grant and all subsequent grants to the Fund from the Ford Foundation were extended through September 30, 2014. Any unspent funds after this period revert to the Ford Foundation. IFP selected its final cohort of grantees in fiscal year 2010. Due to the time required for grantee placement and multi-year grant terms, the Fund anticipates making payments through fiscal year 2014. In fiscal year 2012 and 2013, the Fund returned \$20 million and \$9 million, respectively, of unspent funds to the Ford Foundation. Pursuant to the grant agreement, the Fund may not pledge, mortgage or otherwise encumber, in any way, the cash and investments without prior written consent of the Ford Foundation. The IFP provides educational opportunities for individuals from disadvantaged populations. The Board of Trustees of the Fund is

Institute of International Education, Inc. and Affiliates

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(in thousands)

comprised of four members of the Institute's Board of Trustees and three appointees of the Ford Foundation. The Fund is controlled by the Institute and exists for the benefit of the Institute.

The Institute, operating in an independent contractor capacity, provides certain administrative services and operating support to the Fund consistent with the objectives, policies and limitations described in the Ford Foundation grant agreement. The Institute provides the Fund with administrative services and office space consistent with the objectives, policies and limitations described in the service and grant agreements.

Pursuant to an executed Secondment Agreement between the Institute and the Fund, IIE provides certain staff to the Fund to provide operational and administrative support services to the Fund, consistent with the overall program objectives.

The amounts paid to the Institute under these agreements totaled \$2,297 and \$2,211 for the years ended September 30, 2013 and 2012, respectively.

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 stipulations 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.
- **Temporarily restricted net assets** – net assets that are subject to donor stipulations 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 stipulations 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.

Institute of International Education, Inc. and Affiliates

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(in thousands)

Support and Revenue

Revenues from sponsored programs are recognized as IIE incurs the related expenditures. Cash received prior to incurring the related expenditures is recorded as sponsored funds received in advance. To the extent that expenditures are made in excess of cash receipts, reimbursable expenditures on contracts in progress are recorded to the level of anticipated funding in a sponsored program.

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.

Contributions receivable at September 30, 2013 and 2012 were \$1,688 and \$4,318, respectively. These balances are due in less than one year and therefore have not been discounted.

Cash Equivalents

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

Reimbursable Expenditures Under Contracts in Progress

Reimbursable expenditures under contracts in progress represent receivables in which program expenses exceed cash receipts. These receivables are due from sponsors for expenses incurred for the performance of contractual obligations.

Fixed Assets

Fixed assets are capitalized at cost and depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements are amortized over the shorter of estimated useful lives or the term of the lease. Depreciation and amortization expenses on fixed assets for fiscal years 2013 and 2012 were \$3,697 and \$3,723, 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 2013 and 2012, distributions from these trusts in the amount of \$139 and \$115, respectively, were recorded as temporarily restricted contributions.

Sponsored Funds Received in Advance

Sponsored funds received in advance represent advance payments in which cash receipts exceed program expenses. These advance payments are received from sponsors for IIE's future expenses for the performance of contractual obligations.

Institute of International Education, Inc. and Affiliates

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(in thousands)

Retirement Benefits

Retirement benefits coverage is available for substantially all employees provided through individual contributory annuities with selected financial institutions. IIE's contributions for fiscal years 2013 and 2012 under the provisions of this defined contribution plan were \$2,819 and \$2,768, respectively.

Functional Allocation

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

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, the Institute evaluates its estimates, including those described below. The Institute bases its estimates on historical experience and on various other assumptions that the Institute believes are reasonable under the circumstances. Actual results could differ from those estimates.

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.

Institute of International Education, Inc. and Affiliates

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(in thousands)

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 or in connection with its annual financial review process.

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 estimates the allocation of these costs to a specific program or supporting activity, consistent with the guidelines contained in OMB Circular A-122, "Cost Principles for Nonprofit Organizations", that prescribes the cost accounting policies associated with the administration of Federal awards by nonprofit organizations.

Taxes

The Institute and the Fund are not-for-profit organizations exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. IIEF is a tax exempt organization under Indonesian law. The Fund is designated as a Type 1 supporting organization of the Institute. 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, the Institute pays payroll and use taxes in the normal course of business where required, and some activities of the Institute may be subject to sales and value added taxes in certain jurisdictions; the Institute pays or maintains appropriate provisions to account for such liabilities.

Reclassifications

Some prior year amounts have been reclassified for comparative purposes.

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 the Institute's assumptions (unobservable inputs). The hierarchy consists of three levels as noted below:

The following is a description of IIE's valuation methodologies for investments measured at fair value.

- 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.

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(in thousands)

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).

Effective October 1, 2009, IIE adopted the accounting concept under GAAP to utilize the "practical expedient." The practical expedient is an acceptable method under GAAP to determine the fair value of these investments at reported 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.

As of September 30, 2012, IIE invested in two fund of fund investment partnerships. The values of these funds are determined by the funds and their respective fund administrators and evaluated by management to substantiate that the values of these investments represent a reasonable approximation of fair value as of September 30, 2012. In 2013, IIE liquidated these investments.

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. and Affiliates
Notes to Consolidated Financial Statements
September 30, 2013 and 2012

(in thousands)

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

| | 2013 | | |
|-----------------------------|--------------------------------------|---|-------------------|
| | Level 1 Quoted Prices | Level 2 Other Significant Observable | Total |
| Cash equivalents | \$ 146 | \$ - | \$ 146 |
| Equity securities | | | |
| US | 43,436 | - | 43,436 |
| International | 8,058 | 21,637 | 29,695 |
| Commodities | 7,815 | - | 7,815 |
| Debt securities | | | |
| Commercial paper | - | 8 | 8 |
| Bond funds | 28,105 | - | 28,105 |
| Total investments | <u>\$ 87,560</u> | <u>\$ 21,645</u> | <u>\$ 109,205</u> |
| | | | |
| | 2012 | | |
| | Level 1 Quoted Prices | Level 2 Other Significant Observable | Total |
| Cash equivalents | \$ 47 | \$ - | \$ 47 |
| Short-term investment funds | 3,753 | | 3,753 |
| Equity securities | | | |
| US | 30,135 | - | 30,135 |
| International | 6,452 | 17,997 | 24,449 |
| Commodities | 9,670 | - | 9,670 |
| Debt securities | | | |
| Government bonds | 11,256 | - | 11,256 |
| Corporate bonds | 18,342 | - | 18,342 |
| Commercial paper | - | 8 | 8 |
| Bond funds | 25,969 | - | 25,969 |
| Mortgage-backed securities | | | |
| Government | - | 643 | 643 |
| Corporate | - | 215 | 215 |
| Limited partnerships | - | 11,709 | 11,709 |
| Total investments | <u>\$ 105,624</u> | <u>\$ 30,572</u> | <u>\$ 136,196</u> |

All net realized and unrealized gains /losses in the table above are reflected in the Statement of Activities. Net unrealized gains /losses relate to those financial instruments held by IIE at September 30, 2013.

Institute of International Education, Inc. and Affiliates
Notes to Consolidated Financial Statements
September 30, 2013 and 2012

(in thousands)

IIE's assets with a fair value estimate using net asset value per share as a basis at September 30, 2013 and 2012 are as follows:

| | Fair Value Estimated Using Net Assets Value Per Share | | | | | |
|---------------------------------|---|-------------------------------------|------------------------|--|--|-----------------------------|
| | Fair Value September 30, 2013 | Fair Value September 30, 2012 | Unfunded Commitment | Settlement Terms* | Redemption Frequency* | Redemption Notice Period |
| International equity securities | \$ 13,654 | \$ 10,524 | \$ - | Redemptions occur at NAV | Monthly, as of the first business day of the month | 6 days |
| Limited partnerships | - | 5,771 | - | Redeemed at the value as of the last business day of every calendar quarter | Daily | 65 days |
| Limited partnerships | - | 5,938 | - | balance upon estimated proceeds within 90 days after the end of the year in which notice of redemption was provided, and the balance upon completion of the annual audit for that year | Semi-annually | 90 days |
| | <u>\$ 13,654</u> | <u>\$ 22,233</u> | | | | |

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

| | 2013 | 2012 |
|----------------------------------|------------------|------------------|
| Interest and dividends | \$ 2,267 | \$ 5,309 |
| Net realized gains | 633 | 2,159 |
| Net unrealized gains | <u>7,653</u> | <u>7,408</u> |
| | 10,553 | 14,876 |
| Less: Investment management fees | <u>(263)</u> | <u>(320)</u> |
| Total investment return | <u>\$ 10,290</u> | <u>\$ 14,556</u> |

Institute of International Education, Inc. and Affiliates
Notes to Consolidated Financial Statements
September 30, 2013 and 2012

(in thousands)

4. Fixed Assets, Net

Fixed assets as of September 30 consist of the following:

| | Estimated Useful Lives | Asset Value | |
|-----------------------------------|------------------------------|------------------|------------------|
| | | 2013 | 2012 |
| Building | 30 Years | \$ 19,092 | \$ 19,092 |
| Furniture | 7 Years | 2,764 | 2,804 |
| Equipment | 2–4 Years | 5,925 | 6,228 |
| Software development costs | 3–7 Years | 17,645 | 17,451 |
| Leasehold improvements | 3–25 Years | 10,491 | 10,378 |
| | | <u>55,917</u> | <u>55,953</u> |
| Less: Accumulated depreciation | | <u>(34,245)</u> | <u>(30,804)</u> |
| | | 21,672 | 25,149 |
| Less: Unamortized deferred credit | | <u>(4,286)</u> | <u>(4,524)</u> |
| Total fixed assets, net | | <u>\$ 17,386</u> | <u>\$ 20,625</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 balance and is being amortized over a 30-year period.

5. Bonds Payable, Net

Bonds payable as of September 30 consist of the following:

| | 2013 | 2012 |
|---|------------------|------------------|
| Series 2001 bonds | \$ 13,275 | \$ 13,715 |
| Less: Unamortized discount on Series 2001 bonds | <u>(206)</u> | <u>(217)</u> |
| Total bonds payable, net | <u>\$ 13,069</u> | <u>\$ 13,498</u> |

On November 1, 2001, IIE 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").

In connection with the issuance of bonds, IIE incurred costs that are being amortized over the term of the bond (30 years). Total deferred financing costs of \$473, net of accumulated amortization of \$190 and \$174 at September 30, 2013 and 2012, respectively, are included in prepaid expenses and other assets.

Institute of International Education, Inc. and Affiliates
Notes to Consolidated Financial Statements
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(in thousands)

The Facility is owned by IIE and leased by IIE to the IDA and subleased by the IDA back to IIE pursuant to a lease agreement (the "Agreement"). The Series 2001 bonds are payable by the IDA through a third party trustee solely from the lease rentals payable by IIE pursuant to the Agreement, and are not collateralized by any mortgage lien or security interest in IIE's ownership interest in the Facility. The Series 2001 bonds are secured by a security interest in IIE's gross revenues and are callable. In addition, payment of the principal and interest on the Series 2001 bonds when due is insured. The Series 2001 bonds mature in various amounts, ranging from \$280 to \$1,100 per year, through 2031. The nominal interest rates attributable to the Series 2001 bonds range from 4% to 5.25%.

The fair value of IIE's bonds is estimated based on the quoted market prices for the same or similar issuance or based on IIE's current incremental borrowing rates for similar types of borrowing arrangements. The fair market value of the Series 2001 bonds is \$13,296 and \$13,756 at September 30, 2013 and 2012, respectively, and is classified as Level 2, as defined in Note 4.

Principal payments on the Series 2001 bonds for the next five years are due as follows:

| Fiscal years | |
|-----------------------------|------------------|
| 2014 | \$ 465 |
| 2015 | 485 |
| 2016 | 510 |
| 2017 | 535 |
| 2018 | 565 |
| Thereafter | <u>10,715</u> |
| Total bonds payable | 13,275 |
| Less: Unamortized discounts | <u>(206)</u> |
| Total bonds payable, net | <u>\$ 13,069</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:

| | 2013 | 2012 |
|---|------------------|------------------|
| International fellowships | \$ 11,484 | \$ 20,308 |
| International exchange of students and scholars | <u>62,067</u> | <u>61,988</u> |
| Total temporarily restricted net assets | <u>\$ 73,551</u> | <u>\$ 82,296</u> |

Institute of International Education, Inc. and Affiliates
Notes to Consolidated Financial Statements
September 30, 2013 and 2012

(in thousands)

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

| | 2013 | 2012 |
|---|------------------|------------------|
| International fellowships | \$ (82) | \$ 8,250 |
| International exchange of students and scholars | <u>13,689</u> | <u>11,862</u> |
| Total net assets released from restrictions | <u>\$ 13,607</u> | <u>\$ 20,112</u> |

7. Permanently Restricted Net Assets

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

| | 2013 | 2012 |
|--|-----------------|-----------------|
| Beneficial interests in perpetual trusts held by third parties | \$ 3,130 | \$ 3,042 |
| 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>\$ 6,657</u> | <u>\$ 6,569</u> |

8. Endowment Net Assets

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

Institute of International Education, Inc. and Affiliates

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(in thousands)

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 real 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, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 the portion of the fund that is not designated as permanently restricted net assets as temporarily 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. and Affiliates
Notes to Consolidated Financial Statements
September 30, 2013 and 2012

(in thousands)

At September 30, 2013, 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 | \$ - | \$ - | \$ 2,162 | \$ 2,162 |
| Scholar Rescue Fund | - | 28,164 | 1,365 | 29,529 |
| Fulbright Legacy Fund | - | 4,089 | - | 4,089 |
| International Fellowships Funds | - | 2,567 | - | 2,567 |
| Other donor restricted funds | - | 22,453 | - | 22,453 |
| Board designated funds | | | | |
| Fulbright Legacy Fund | 7,862 | - | - | 7,862 |
| Scholar Rescue Fund | 3,442 | - | - | 3,442 |
| Andrew Heiskell Endowment | 287 | - | - | 287 |
| Total endowments | <u>\$ 11,591</u> | <u>\$ 57,273</u> | <u>\$ 3,527</u> | <u>\$ 72,391</u> |

At September 30, 2012, 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 | \$ - | \$ - | \$ 2,162 | \$ 2,162 |
| Scholar Rescue Fund | - | 24,493 | 1,365 | 25,858 |
| Fulbright Legacy Fund | - | 3,782 | - | 3,782 |
| International Fellowships Funds | - | 12,346 | - | 12,346 |
| Other donor restricted funds | - | 21,833 | - | 21,833 |
| Board designated funds | | | | |
| Fulbright Legacy Fund | 7,142 | - | - | 7,142 |
| Scholar Rescue Fund | 3,176 | - | - | 3,176 |
| Andrew Heiskell Endowment | 264 | - | - | 264 |
| Total endowments | <u>\$ 10,582</u> | <u>\$ 62,454</u> | <u>\$ 3,527</u> | <u>\$ 76,563</u> |

Institute of International Education, Inc. and Affiliates
Notes to Consolidated Financial Statements
September 30, 2013 and 2012

(in thousands)

Changes in endowment net assets for the year ended September 30, 2013 and 2012 consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|------------------|---------------------------|---------------------------|------------------|
| Endowment net assets at September 30, 2011 | \$ 9,326 | \$ 89,709 | \$ 3,527 | \$ 102,562 |
| Investment return | | | | |
| Investment income, net of fees | 237 | 4,003 | - | 4,240 |
| Realized gains | 99 | 1,723 | - | 1,822 |
| Unrealized gains | 1,148 | 2,126 | - | 3,274 |
| Total investment gains | 1,484 | 7,852 | - | 9,336 |
| Contributions | - | 1,180 | - | 1,180 |
| Return of sponsor funds | - | (20,000) | - | (20,000) |
| Appropriation of endowment assets used for expenditures | (228) | (16,287) | - | (16,515) |
| Endowment net assets at September 30, 2012 | 10,582 | 62,454 | 3,527 | 76,563 |
| Investment return | | | | |
| Investment income, net of fees | 136 | 1,478 | - | 1,614 |
| Realized gains | 131 | 46 | - | 177 |
| Unrealized gains | 971 | 3,221 | - | 4,192 |
| Total investment gains | 1,238 | 4,745 | - | 5,983 |
| Contributions | - | 1,630 | - | 1,630 |
| Return of sponsor funds | - | (9,000) | - | (9,000) |
| Appropriation of endowment assets used for expenditures | (229) | (2,556) | - | (2,785) |
| Endowment net assets at September 30, 2013 | <u>\$ 11,591</u> | <u>\$ 57,273</u> | <u>\$ 3,527</u> | <u>\$ 72,391</u> |

9. Sponsored Program Revenue

Sponsored program revenue for fiscal years 2013 and 2012 was derived from the following major sponsor categories:

| | 2013 | 2012 |
|---|-------------------|-------------------|
| U.S. government agencies | \$ 239,446 | \$ 240,851 |
| Foundations and research organizations | 34,674 | 36,505 |
| Corporations | 15,499 | 15,690 |
| Foreign governments and international organizations | 122,933 | 46,455 |
| Total sponsored program revenue | <u>\$ 412,552</u> | <u>\$ 339,501</u> |

10. Commitments and Contingencies

Operating Leases

Rental expense was \$5,466 and \$5,432 for the years ended September 30, 2013 and 2012, respectively. IIE leases space for certain domestic and overseas offices on a noncancelable,

Institute of International Education, Inc. and Affiliates
Notes to Consolidated Financial Statements
September 30, 2013 and 2012

(in thousands)

long-term basis. These agreements, expiring at various dates through 2018, permit IIE to sublease such space at its option.

Minimum future lease commitments are as follows at September 30, 2013:

| Fiscal years | |
|---------------------|-----------|
| 2014 | \$ 3,234 |
| 2015 | 3,058 |
| 2016 | 2,835 |
| 2017 | 2,870 |
| 2018 | 2,924 |
| Thereafter | 7,129 |
| | <hr/> |
| | \$ 22,050 |

IIE, from time to time, 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 consolidated 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 28, 2014, 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.

Consolidating Financial Statements

Institute of International Education, Inc. and Affiliates
Consolidating Statements of Financial Position
September 30, 2013 and 2012

| (in thousands) | 2013 | | | | | 2012 | | | | |
|---|-------------------|-----------------|-----------------|---------------------|-------------------------|-------------------|-----------------|------------------|---------------------|-------------------------|
| | IIE | IIEF | IFF | Elimination Entries | Consolidated Statements | IIE | IIEF | IFF | Elimination Entries | Consolidated Statements |
| Assets | | | | | | | | | | |
| Cash and cash equivalents | \$ 88,517 | \$ 1,144 | \$ 5,723 | \$ - | \$ 95,384 | \$ 36,077 | \$ 1,331 | \$ 682 | \$ - | \$ 38,090 |
| Reimbursable expenditures under contracts in progress | 36,957 | 2,415 | - | - | 39,372 | 41,713 | 1,601 | - | 267 | 43,581 |
| Contributions receivable, net | 1,688 | - | - | - | 1,688 | 4,319 | - | - | - | 4,319 |
| Investments, at fair value | 109,205 | - | - | - | 109,205 | 101,987 | - | 34,209 | - | 136,196 |
| Prepaid expenses and other assets | 7,275 | 169 | - | (2,611) | 4,833 | 6,414 | 117 | 267 | (2,769) | 4,029 |
| Fixed assets, net | 17,352 | 34 | - | - | 17,386 | 20,600 | 25 | - | - | 20,625 |
| Beneficial interest in perpetual trusts held by third parties | 3,131 | - | - | - | 3,131 | 3,043 | - | - | - | 3,043 |
| Total assets | <u>\$ 264,125</u> | <u>\$ 3,762</u> | <u>\$ 5,723</u> | <u>\$ (2,611)</u> | <u>\$ 270,999</u> | <u>\$ 214,153</u> | <u>\$ 3,074</u> | <u>\$ 35,158</u> | <u>\$ (2,502)</u> | <u>\$ 249,883</u> |
| Liabilities and Net Assets | | | | | | | | | | |
| Payable for investments purchased | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1 | \$ - | \$ 1 |
| Grants payable | - | - | 3,021 | 3,106 | 6,127 | - | - | 22,803 | (3,807) | 18,996 |
| Accounts payable and accrued expenses | 47,150 | 2,800 | 135 | (2,611) | 47,474 | 36,071 | 2,649 | 8 | (1,994) | 36,734 |
| Sponsored funds received in advance | 82,645 | 501 | - | (12,023) | 71,123 | 56,198 | 175 | - | (4,154) | 52,219 |
| Bonds payable, net | 13,069 | - | - | - | 13,069 | 13,498 | - | - | - | 13,498 |
| Total liabilities | <u>142,864</u> | <u>3,301</u> | <u>3,156</u> | <u>(11,528)</u> | <u>137,793</u> | <u>105,767</u> | <u>2,824</u> | <u>22,812</u> | <u>(9,955)</u> | <u>121,448</u> |
| Commitments and contingencies | | | | | | | | | | |
| Net assets | | | | | | | | | | |
| Unrestricted | | | | | | | | | | |
| Board designated | 11,592 | - | - | - | 11,592 | 10,582 | - | - | - | 10,582 |
| Undesignated, available for general operations | 40,945 | 461 | - | - | 41,406 | 29,246 | 250 | - | (508) | 28,988 |
| Total unrestricted net assets | 52,537 | 461 | - | - | 52,998 | 39,828 | 250 | - | (508) | 39,570 |
| Temporarily restricted | 62,067 | - | 2,567 | 8,917 | 73,551 | 61,989 | - | 12,346 | 7,961 | 82,296 |
| Permanently restricted | 6,657 | - | - | - | 6,657 | 6,569 | - | - | - | 6,569 |
| Total net assets | <u>121,261</u> | <u>461</u> | <u>2,567</u> | <u>8,917</u> | <u>133,206</u> | <u>108,386</u> | <u>250</u> | <u>12,346</u> | <u>7,453</u> | <u>128,435</u> |
| Total liabilities and net assets | <u>\$ 264,125</u> | <u>\$ 3,762</u> | <u>\$ 5,723</u> | <u>\$ (2,611)</u> | <u>\$ 270,999</u> | <u>\$ 214,153</u> | <u>\$ 3,074</u> | <u>\$ 35,158</u> | <u>\$ (2,502)</u> | <u>\$ 249,883</u> |

Institute of International Education, Inc. and Affiliates
Consolidating Statement of Activities
Year Ended September 30, 2013

| (in thousands) | IIE | | | | IIEF | IFF | | | | Eliminations | | | Consolidated | | | |
|---|--------------|-------------|-------------|------------|--------------|--------------|-------------|----------|--------------|--------------|-------------|--------------|--------------|-------------|------------|------------|
| | Unrestricted | Temporarily | Permanently | Total | Unrestricted | Unrestricted | Temporarily | Total | Unrestricted | Temporarily | Total | Unrestricted | Temporarily | Permanently | Total | |
| | | Restricted | Restricted | | | | Restricted | | | Restricted | | | Restricted | Restricted | | Restricted |
| Revenues | | | | | | | | | | | | | | | | |
| Sponsored programs | \$ 423,243 | \$ - | \$ - | \$ 423,243 | \$ 8,229 | \$ - | \$ - | \$ - | \$ (18,920) | \$ - | \$ (18,920) | \$ 412,552 | \$ - | \$ - | \$ 412,552 | |
| Contributions | 508 | 9,117 | - | 9,625 | - | - | - | - | - | - | - | 508 | 9,117 | - | 9,625 | |
| Net assets released from restrictions | 13,689 | (13,689) | - | - | - | 874 | (874) | - | (956) | 956 | - | 13,607 | (13,607) | - | - | |
| Investment return | 5,457 | 4,650 | 88 | 10,195 | - | - | 95 | 95 | - | - | - | 5,457 | 4,745 | 88 | 10,290 | |
| Publications and Membership fees | 730 | - | - | 730 | - | - | - | - | - | - | - | 730 | - | - | 730 | |
| Special events | | | | | | | | | | | | | | | | |
| Contributions | 1,067 | - | - | 1,067 | - | - | - | - | - | - | - | 1,067 | - | - | 1,067 | |
| Direct costs | (164) | - | - | (164) | - | - | - | - | - | - | - | (164) | - | - | (164) | |
| Net revenues from special events | 903 | - | - | 903 | - | - | - | - | - | - | - | 903 | - | - | 903 | |
| Other revenue | 1,235 | - | - | 1,235 | - | - | - | - | (215) | - | (215) | 1,020 | - | - | 1,020 | |
| Total revenues | 445,765 | 78 | 88 | 445,931 | 8,229 | 874 | (779) | 95 | (20,091) | 956 | (19,135) | 434,777 | 255 | 88 | 435,120 | |
| Expenses | | | | | | | | | | | | | | | | |
| Program services | | | | | | | | | | | | | | | | |
| International exchange of students and scholars | 332,545 | - | - | 332,545 | 5,929 | - | - | - | (16,992) | - | (16,992) | 321,482 | - | - | 321,482 | |
| Leadership development educational services | 59,916 | - | - | 59,916 | - | - | - | - | - | - | - | 59,916 | - | - | 59,916 | |
| Higher education institutional development | 11,191 | - | - | 11,191 | 1,247 | - | - | - | (1,113) | - | (1,113) | 11,325 | - | - | 11,325 | |
| Emergency student and scholar assistance | 5,303 | - | - | 5,303 | - | - | - | - | - | - | - | 5,303 | - | - | 5,303 | |
| Research and publications | 1,179 | - | - | 1,179 | - | - | - | - | - | - | - | 1,179 | - | - | 1,179 | |
| International Fellowships Program | - | - | - | - | - | (1,635) | - | (1,635) | (1,771) | - | (1,771) | (3,406) | - | - | (3,406) | |
| Return of sponsor funds | - | - | - | - | - | - | 9,000 | 9,000 | - | - | - | - | 9,000 | - | 9,000 | |
| Total program services | 410,134 | - | - | 410,134 | 7,176 | (1,635) | 9,000 | 7,365 | (19,876) | - | (19,876) | 395,799 | 9,000 | - | 404,799 | |
| Supporting services | | | | | | | | | | | | | | | | |
| Management and general | 22,344 | - | - | 22,344 | 842 | 2,509 | - | 2,509 | (723) | - | (723) | 24,972 | - | - | 24,972 | |
| Fund raising | 578 | - | - | 578 | - | - | - | - | - | - | - | 578 | - | - | 578 | |
| Total supporting services | 22,922 | - | - | 22,922 | 842 | 2,509 | - | 2,509 | (723) | - | (723) | 25,550 | - | - | 25,550 | |
| Total expenses | 433,056 | - | - | 433,056 | 8,018 | 874 | 9,000 | 9,874 | (20,599) | - | (20,599) | 421,349 | 9,000 | - | 430,349 | |
| (Decrease) increase in net assets | 12,709 | 78 | 88 | 12,875 | 211 | - | (9,779) | (9,779) | 508 | 956 | 1,464 | 13,428 | (8,745) | 88 | 4,771 | |
| Net assets | | | | | | | | | | | | | | | | |
| Beginning of year | 39,828 | 61,989 | 6,569 | 108,386 | 250 | - | 12,346 | 12,346 | (508) | 7,961 | 7,453 | 39,570 | 82,296 | 6,569 | 128,435 | |
| End of year | \$ 52,537 | \$ 62,067 | \$ 6,657 | \$ 121,261 | \$ 461 | \$ - | \$ 2,567 | \$ 2,567 | \$ - | \$ 8,917 | \$ 8,917 | \$ 52,998 | \$ 73,551 | \$ 6,657 | \$ 133,206 | |

Institute of International Education, Inc. and Affiliates

Consolidating Statement of Activities

Year Ended September 30, 2012

| <i>(in thousands)</i> | IIE | | | | IIEF | IFF | | | Eliminations | | | Consolidated | | | |
|---|--------------|------------------------|------------------------|------------|--------------|--------------|------------------------|-----------|--------------|------------------------|-------------|--------------|------------------------|------------------------|------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenues | | | | | | | | | | | | | | | |
| Sponsored programs | \$ 368,780 | \$ - | \$ - | \$ 368,780 | \$ 8,309 | \$ - | \$ - | \$ - | \$ (37,588) | \$ - | \$ (37,588) | \$ 339,501 | \$ - | \$ - | \$ 339,501 |
| Contributions | 740 | 8,220 | - | 8,960 | - | - | - | - | - | - | - | 740 | 8,220 | - | 8,960 |
| Net assets released from restrictions | 11,862 | (11,862) | - | - | - | 12,312 | (12,312) | - | (4,062) | 4,062 | - | 20,112 | (20,112) | - | - |
| Investment return | 6,417 | 6,493 | 248 | 13,158 | - | - | 1,398 | 1,398 | - | - | - | 6,417 | 7,891 | 248 | 14,556 |
| Publications and Membership fees | 400 | - | - | 400 | - | - | - | - | - | - | - | 400 | - | - | 400 |
| Special events | | | | | | | | | | | | | | | |
| Contributions | 1,543 | - | - | 1,543 | - | - | - | - | - | - | - | 1,543 | - | - | 1,543 |
| Direct costs | (373) | - | - | (373) | - | - | - | - | - | - | - | (373) | - | - | (373) |
| Net revenues from special events | 1,170 | - | - | 1,170 | - | - | - | - | - | - | - | 1,170 | - | - | 1,170 |
| Other revenue | 1,041 | - | - | 1,041 | 9 | - | - | - | (705) | - | (705) | 345 | - | - | 345 |
| Total revenues | 390,410 | 2,851 | 248 | 393,509 | 8,318 | 12,312 | (10,914) | 1,398 | (42,355) | 4,062 | (38,293) | 368,685 | (4,001) | 248 | 364,932 |
| Expenses | | | | | | | | | | | | | | | |
| Program services | | | | | | | | | | | | | | | |
| International exchange of students and scholars | 286,006 | - | - | 286,006 | 6,499 | - | - | - | (33,367) | - | (33,367) | 259,138 | - | - | 259,138 |
| Leadership development educational services | 54,175 | - | - | 54,175 | - | - | - | - | - | - | - | 54,175 | - | - | 54,175 |
| Higher education institutional development | 11,561 | - | - | 11,561 | 1,476 | - | - | - | (2,997) | - | (2,997) | 10,040 | - | - | 10,040 |
| Emergency student and scholar assistance | 7,854 | - | - | 7,854 | - | - | - | - | - | - | - | 7,854 | - | - | 7,854 |
| Research and publications | 1,048 | - | - | 1,048 | - | - | - | - | - | - | - | 1,048 | - | - | 1,048 |
| International Fellowships Program | - | - | - | - | - | 9,970 | - | 9,970 | (5,286) | - | (5,286) | 4,684 | - | - | 4,684 |
| Return of sponsor funds | - | - | - | - | - | - | 20,000 | 20,000 | - | - | - | - | 20,000 | - | 20,000 |
| Total program services | 360,644 | - | - | 360,644 | 7,975 | 9,970 | 20,000 | 29,970 | (41,650) | - | (41,650) | 336,939 | 20,000 | - | 356,939 |
| Supporting services | | | | | | | | | | | | | | | |
| Management and general | 24,761 | - | - | 24,761 | 19 | 2,342 | - | 2,342 | (123) | - | (123) | 26,999 | - | - | 26,999 |
| Fund raising | 796 | - | - | 796 | - | - | - | - | - | - | - | 796 | - | - | 796 |
| Total supporting services | 25,557 | - | - | 25,557 | 19 | 2,342 | - | 2,342 | (123) | - | (123) | 27,795 | - | - | 27,795 |
| Total expenses | 386,201 | - | - | 386,201 | 7,994 | 12,312 | 20,000 | 32,312 | (41,773) | - | (41,773) | 364,734 | 20,000 | - | 384,734 |
| (Decrease) increase in net assets | 4,209 | 2,851 | 248 | 7,308 | 324 | - | (30,914) | (30,914) | (582) | 4,062 | 3,480 | 3,951 | (24,001) | 248 | (19,802) |
| Net assets | | | | | | | | | | | | | | | |
| Beginning of year | 35,619 | 59,138 | 6,321 | 101,078 | (74) | - | 43,260 | 43,260 | 74 | 3,899 | 3,973 | 35,619 | 106,297 | 6,321 | 148,237 |
| End of year | \$ 39,828 | \$ 61,989 | \$ 6,569 | \$ 108,386 | \$ 250 | \$ - | \$ 12,346 | \$ 12,346 | \$ (508) | \$ 7,961 | \$ 7,453 | \$ 39,570 | \$ 82,296 | \$ 6,569 | \$ 128,435 |