Financial Statements

Year Ended September 30, 2019

EastWest INSTITUTE

BDO

Institute for EastWest Studies
d/b/a EastWest Institute

Consolidating Financial Statements
Year Ended September 30, 2019

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Contents

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Independent Auditor's Report

Board of Directors
Institute for EastWest Studies
d/b/a EastWest Institute
New York, New York

We have audited the accompanying consolidating financial statements of the Institute for EastWest Studies d/b/a EastWest Institute (EWI or the Institute), which comprise the consolidating statement of financial position as of September 30, 2019, the related consolidating statements of activities, functional expenses and cash flows for the year ended September 30, 2019, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidating financial statements based on our audit. We conducted our audit 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 consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidating financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidating 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 consolidating financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of September 30, 2019, and the change of its net assets and its cash flows for the year ended September 30, 2019, in accordance with accounting principles generally accepted in the United States of America.

BDO USA LLP

January 23, 2020

Institute for EastWest Studies
d/b/a EastWest Institute

Consolidating Statement of Financial Position

September 30, 2019

	EWI	EWI UK	Total
Assets			
Cash and cash equivalents (Note 3)	$ 952,420	$ -	$ 952,420
Investments, at fair value (Notes 3, 4 and 5)	8,992,650	-	8,992,650
Contributions receivable, net, current portion (Notes 3 and 6)	1,483,809	-	1,483,809
Prepaid expenses and other assets	223,298	-	223,298
Total Current Assets	11,652,177	-	11,652,177
Contributions Receivable, net of current portion (Notes 3 and 6)	49,198	-	49,198
Fixed Assets, Net (Notes 3 and 7)	483,245	-	483,245
Total Assets	$ 12,184,620	$ -	$ 12,184,620
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued expenses	$ 407,362	$ -	$ 407,362
Deferred revenue (Note 3)	218,500	-	218,500
Total Current Liabilities	625,862	-	625,862
Deferred Rent (Note 3)	373,127	-	373,127
Total Liabilities	998,989	-	998,989
Commitments and Contingencies (Notes 3, 4, 8, 9 and 10)			
Net Assets (Notes 3, 7, 8 and 13)			
Without donor restrictions	3,228,242	-	3,228,242
With donor restrictions	7,957,389	-	7,957,389
Total Net Assets	11,185,631	-	11,185,631
	$ 12,184,620	$ -	$ 12,184,620

See accompanying notes to financial statements.

Institute for EastWest Studies
d/b/a EastWest Institute

Consolidating Statement of Activities

Year ended September 30, 2019

	EWI		EWI UK	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	Total
Public Support and Revenue				
Special event revenue	$ 886,300	$ -	$ -	$ 886,300
Cost of direct benefits to donors	(93,442)	-	-	(93,442)
Net Revenue from Special Events	792,858	-	-	792,858
Contributions	1,768,897	1,918,955	-	3,687,852
Government and private grants	-	601,962	-	601,962
Interest and dividends, net	52,919	88,309	-	141,228
Realized and unrealized gain, net	33,926	62,871	-	96,797
In-kind contributions (Note 12)	260,501	-	-	260,501
Other income (Note 3)	300,468	-	-	300,468
Net assets released from restrictions (Note 8)	3,576,768	(3,576,768)	-	-
Total Public Support and Revenue	6,786,337	(904,671)	-	5,881,666
Operating Expenses				
Program services:				
Cyber security	1,198,357	-	-	1,198,357
Regional security	1,356,377	-	-	1,356,377
Asia Pacific	649,660	-	-	649,660
Russia and U.S.	414,540	-	-	414,540
Economic Security	318,808	-	-	318,808
Balkans initiative	83,911	-	-	83,911
Networking and communication	1,453,762	-	-	1,453,762
Total Program Services	5,475,415	-	-	5,475,415
Supporting services:				
Management and general	1,569,811	-	-	1,569,811
Fundraising	777,338	-	-	777,338
Total Supporting Services	2,347,149	-	-	2,347,149
Total Expenses	7,822,564	-	-	7,822,564
Change in Net Assets from Operations	(1,036,227)	(904,671)	-	(1,940,898)
Transfer of Net Assets	40,348	-	(40,348)	-
Foreign Translation Loss (Note 3)	(28,281)	-	-	(28,281)
Change in Net Assets	(1,024,160)	(904,671)	(40,348)	(1,969,179)
Net Assets, beginning of year	4,252,402	8,862,060	40,348	13,154,810
Net Assets, end of year	$ 3,228,242	$ 7,957,389	$ -	$ 11,185,631

See accompanying notes to financial statements.

Institute for EastWest Studies
d/b/a EastWest Institute

Consolidating Statement of Functional Expenses

Year ended September 30, 2019

	Cyber Security	Regional Security	Asia Pacific	Russia and U.S.	Economic Security	Balkans Initiative	Networking and Communications	Management and General	Fundraising	Total
Salaries, payroll taxes and fringe benefits	$ 794,952	$ 553,899	$ 406,198	$ 222,024	$ 254,352	$ 3,274	$ 883,393	$ 1,034,010	$ 620,946	$ 4,773,048
Other staff-related costs	5,310	1,421	1,361	1,330	146	38	53,024	18,745	4,554	85,929
Outside professional services	67,653	60,283	28,989	27,051	12,156	63,314	167,965	132,425	34,747	594,583
Travel/Conference costs	117,022	509,320	51,353	96,572	200	3,099	125,193	73,870	12,038	988,667
Equipment costs	5,089	6,432	3,478	1,317	1,222	137	28,191	69,366	10,237	125,469
Depreciation expense	20,952	23,716	10,484	7,248	5,574	1,467	21,576	23,298	11,536	125,851
Insurance costs	2,342	2,651	1,172	810	623	164	28,874	2,656	1,315	40,607
Occupancy costs	154,073	172,687	86,757	52,777	40,589	10,683	125,224	135,220	66,958	844,968
Office costs	22,058	19,565	8,449	4,515	3,273	1,317	18,667	57,441	5,914	141,199
Bad debts expense	-	-	50,000	-	-	-	-	-	-	50,000
Other expenses	8,906	6,403	1,419	896	673	418	1,655	22,780	9,093	52,243
Total	$ 1,198,357	$ 1,356,377	$ 649,660	$ 414,540	$ 318,808	$ 83,911	$ 1,453,762	$ 1,569,811	$ 777,338	$ 7,822,564

See accompanying notes to financial statements.

Institute for EastWest Studies
d/b/a EastWest Institute

Consolidating Statement of Cash Flows

Year ended September 30, 2019		
Cash Flows from Operating Activities		
Change in net assets	$	(1,969,179)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization		125,851
Bad debts expense		50,000
Realized gains on investments		(434,390)
Unrealized losses on investments		337,593
Change in present value discount of contributions receivable		(1,917)
(Increase) decrease in:		
Contributions receivable		963,876
Prepaid expenses and other assets		(39,000)
Increase (decrease) in:		
Accounts payable and accrued expenses		191,143
Deferred rent		75,287
Deferred revenue		(510,300)
Net Cash Used in Operating Activities		(1,211,036)
Cash Flows from Investing Activities		
Purchases of fixed assets		(20,878)
Purchases of investments		(2,208,320)
Proceeds from sales of investments		2,992,607
Net Cash Provided by Investing Activities		763,409
Net Decrease in Cash and Cash Equivalents		(447,627)
Cash and Cash Equivalents, beginning of year		1,400,047
Cash and Cash Equivalents, end of year	$	952,420

See accompanying notes to financial statements.

1. Description of the Organization

Founded in 1981, the Institute for EastWest Studies d/b/a EastWest Institute (EWI) is an international, nonpartisan, entrepreneurial organization with its headquarters in New York, and offices in Brussels, Moscow, and San Francisco. EWI works to make the world a safer place by addressing the seemingly intractable problems that threaten regional and global stability. Its directors, professional staff and alumni constitute the core of a worldwide network of women and men from diverse regional and professional backgrounds.

EWI brings conflicting parties to the negotiating table, often for the first time, enabling dialogue and trust-building. It generates and tests new ideas, reframes issues and creates sustainable solutions. Its track record of mentoring, partnering and networking has made it an institution of choice for state and non-state actors seeking to cooperate, prevent conflict and manage regional and global challenges.

EWI is a non-profit organization. Its fierce independence is ensured by the diversity of its supporters. They include individuals, foundations, institutions and businesses from around the world. It accepts limited project funding from some governments.

In June 2014 the EastWest Institute UK (EWI UK) was organized for the purpose of raising funds on behalf of EWI. EWI UK is a separate legal entity whose sole member is EWI. EWI UK was subsequently dissolved in November 2018. The Board decided to dissolve the entity since there are not sufficient contributions received in the UK to allow EWI to cover the costs of having a separate office in that country. The Board approved the dissolution in October 2018.

2. Principles of Consolidation

The consolidating financial statements include all accounts of EWI and EWI UK (collectively referred to as the Institute).

3. Summary of Significant Accounting Policies

Basis of Presentation

The consolidating financial statements of the Institute have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). In the consolidating statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

Financial Statement Presentation

The classification of a not-for-profit organization's net assets and its support, revenue and expenses are based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the two classes of net assets—with donor restriction and without donor restriction—be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Without Donor Restrictions - Net assets without donor restrictions are not subject to donor-imposed stipulations and are, therefore, available for the general operations of the Institute. These assets are used to account for all resources over which the Board of Directors has discretionary control.

From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion. These amounts are identified as without donor restriction Board-designated net assets and are expected to achieve long-term appreciation with a portion of income used yearly, as approved by the Board. The balance at September 30, 2019 of $6,579,207 is included in net assets without donor restrictions on the consolidating statement of financial position.

With Donor Restrictions – Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. The Institute reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires—that is, when a stipulated time restriction ends, or purpose restriction is accomplished—the net assets are reclassified as net assets without donor restriction and reported in the consolidating statement of activities as net assets released from restrictions.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature), while permitting the Institute to expend the income generated by the assets, in accordance with the provisions of additional donor-imposed stipulations or a Board-approved spending policy. At September 30, 2019, the Institute had contributions with donor restrictions (perpetual in nature) in the amount of $5,577,823. See Note 13.

Cash and Cash Equivalents

The Institute considers all highly liquid debt instruments with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents are recorded at cost, which approximates fair market value.

Fair Value Measurements

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated, or unobservable. U.S. GAAP established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The standard requires that assets and liabilities be classified in their entirety based on the level of input that is significant to the fair value measurement. Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability and may affect the valuation of the asset or liability and their placement within the fair value hierarchy. The Institute classifies fair value balances based on the fair value hierarchy defined by U.S. GAAP, as follows:

Level 1 - Valuations are based on quoted market prices in active markets for identical assets or liabilities at the measurement date.

Level 2 - Valuations are based on: (a) quoted prices for similar assets or liabilities in active markets, (b) quoted prices for identical or similar assets or liabilities in inactive markets, (c) inputs other than quoted prices that are observable for the asset or liability, and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Investment income is recognized when earned and consists of interest, dividends, and realized and unrealized gains and losses. Dividends are recorded on the ex-dividend date. Purchases and sales are recorded on a trade-date basis.

Contributions Receivable

The Institute reports unconditional promises to give as contributions when pledges are made. If contributions receivable are to be paid to the Institute over a period of years, they are recorded at the present value of their estimated future cash flows using the effective discount rate. See Note 6.

Contributions

All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as with donor restrictions. When a donor restriction expires—that is, when a stipulated time restriction ends, or purpose restriction is accomplished—with donor restrictions net assets are reclassified to without donor restrictions net assets and reported in the consolidating statement of activities as net assets released from restrictions.

In-kind contributions are reported in the consolidating financial statements for voluntary donations of services or goods if those services or goods create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would typically be purchased if not provided by donation.

Donated securities are reported at fair value on the date they are received. The gifts are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires—that is, when a stipulated time restriction ends or the purpose for the restriction is accomplished—net assets are reclassified and reported in the consolidating statement of activities as net assets released from restrictions.

Provision for Doubtful Accounts

The Institute provides an allowance for doubtful accounts, when necessary, for accounts that are specifically identified by management as to their uncertainty in regard to collectability. As of September 30, 2019, the allowance for doubtful accounts was $0.

Deferred Rent

Rent expense is recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the respective lease, is reflected as deferred rent in the consolidating statement of financial position.

Contract Revenue and Deferred Revenue

Revenues derived from government and other contracts are treated as exchange transactions. Revenues are recognized as the Institute incurs the related expenses, up to the maximum award received. All receipts not expended are classified as deferred revenue, until such time as they are utilized for their specific purpose.

Other Income

Other income is derived from administrative fees for the Institute's 20-20 Investment Association, a non-profit association of leading global financial firms focused on evaluating investment opportunities in emerging and frontier markets. Revenues are recognized for the period to which the administrative year relates. For the year ended September 30, 2019, other income was $300,468.

Fixed Assets

Fixed assets are stated at cost. Expenditures for additions, renewals and betterments are capitalized for amounts greater than $1,000, while expenditures for maintenance and repairs are charged to expense as incurred. Leasehold improvements are amortized over five years or the respective lease term, whichever is shorter. Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the assets and is reported for financial statement purposes, as follows:

Furniture and fixtures	5 years
Computers and equipment	3 years

Impairment of Long-Lived Assets

The Institute reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. As of September 30, 2019, management believes no impairment of long-lived assets has occurred.

Endowment Funds

The Institute's endowment funds are classified as with donor restrictions net assets. The Institute follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as they relate to their endowment funds, effective upon New York State's enactment of the legislation in September 2010.

The following applies to the endowment funds:

Interpretation of Relevant Law

The Institute has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the endowment funds, absent explicit donor stipulations to the contrary. As a result of the interpretation, the Institute classifies as with donor restrictions net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowments and (c) accumulation of the permanent endowment income made in accordance with the directions of applicable donor instructions.

Investment and Spending Policies

The Institute's current investment and spending policies for endowment assets attempt to provide sufficient income to meet various program and operational expenses, and to extend the pursuit of the Institute's mission in perpetuity. The minimum targeted rate of return on the Institute's investment assets is 6% plus the average rate of U.S. inflation over the previous three calendar years.

Under this policy, the investment performance of the Institute's portfolio will be measured relative to the following benchmarks:

- the Barclays Capital Intermediate Government/Corporate Bond Index as a benchmark for the Institute's fixed income investments
- the 90-day U.S. Treasury Bill and the Consumer Price Index as a benchmark for the Institute's cash and short-term investment assets
- the Standard & Poor's 500 Composite Index, and the Morgan Stanley Capital International (MSCI) Europe, Australia and Far East (EAFE) Index and MSCI Emerging Markets as a benchmark for the Institute's equity investments.

To satisfy its long-term rate-of-return objectives, the Institute 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). The Institute targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

In 2019, the Institute's Board of Directors approved to appropriate an annual distribution of up to 5% of the net value of the Institute's endowment using a five-year running average of the endowment to cover operating costs. In establishing this policy, the Institute considered the long-term expected return on its endowment. Accordingly, over the long term, the Institute expects the current spending policy to allow its endowment to grow annually.

Income Taxes

The Institute was incorporated in the State of New York and is exempt from federal, state and local income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), and therefore has made no provision for income taxes in the accompanying consolidating financial statements. In addition, the Institute has been determined by the Internal Revenue Service (IRS) not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for the year ended September 30, 2019.

Under U.S. GAAP, an organization must recognize the financial statement effects of tax positions taken for tax return purposes when it is more likely than not that the position will not be sustained. The Institute does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any liability for uncertain tax benefits. The Institute has filed IRS Form 990 tax returns, as required, and all other applicable returns in jurisdictions when it is required. For the year ended September 30, 2019, there were no interest or penalties recorded or included in the consolidating financial statements.

Use of Estimates

The preparation of consolidating financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that potentially subject the Institute to a concentration of credit risk are cash accounts with major financial institutions in excess of Federal Deposit Insurance Corporation insurance limits. These financial institutions have strong credit ratings and management believes that credit risk related to these accounts is minimal.

Foreign Currency Translation

All elements of the consolidating financial statements reflecting the Institute's operations in Brussels and Moscow are translated into U.S. dollars using applicable exchange rates. For assets and liabilities, this is the rate in effect at the consolidating statement of financial position date. For revenue and expense items, translation is performed using an average based on monthly currency fluctuations.

Foreign currency is translated in accordance with U.S. GAAP, which requires that the local currency used in the Institute's foreign operations is considered to be the functional currency of these operations. Translation of the consolidating financial statements of these operations resulted in a translation loss, as follows:

September 30, 2019		
Cumulative Translation Gain Adjustment, as of September 30, 2018	$	37,331
Translation adjustment loss		(28,281)
Cumulative Translation Gain Adjustment, as of September 30, 2019	$	9,050

The cumulative translation gain is included in without donor restrictions net assets.

Functional Allocation Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Other costs, including equipment costs, rent expense and office costs from its offices in New York, Brussels and Moscow are allocated to the various programs and supporting services based on a ratio of program and supporting services expense to total expenses incurred by each office prior to allocating these expenses. The Institute also allocates expenses incurred by the President's office based on the time charged to the various programs.

Accounting Pronouncements Issued but Not Yet Adopted

Revenue from Contracts with Customers (Topic 606)

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers (Topic 606),” which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14, which deferred the effective date for the Institute until annual periods beginning after December 15, 2018. Earlier adoption is permitted, subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its consolidating financial statements.

Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its ROU underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Institute’s fiscal years beginning after December 15, 2020, with early adoption permitted. Management is currently evaluating the impact of this ASU on its consolidating financial statements.

4. Liquidity and Availability of Resources

The Institute’s financial assets available within one year of the consolidating statement of financial position date for general expenditures are as follows:

September 30, 2019		
Total Current Assets	$	11,652,177
Less: amounts unavailable for general expenditures within one year, due to:		
Prepaid expenses and other current assets		(223,298)
Restricted by donor with time or purpose restrictions		(7,957,389)
Total Financial Assets Available to Management for General Expenditure Within One Year	$	3,471,490

Liquidity Management

As a part of the Institute's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

On October 9, 2019 the Institute entered into a $1 million line of credit with a financial institution to provide additional liquidity. The line bears a variable interest rate and expires on October 9, 2020.

5. Fair Value Measurements

The Institute's Level 1 holdings within the hierarchy used in measuring fair value consist of equity securities and U.S. treasury notes that are carried at their market value, which is determined by quoted market prices. Each of the above investments can be liquidated daily. The mutual funds are valued on a daily basis at the close of business day. Each mutual fund's net asset value is the value of a single share, which is actively traded on national securities exchanges.

The Institute also has investments in fixed-income securities, which include corporate bonds, foreign bonds and U.S. Treasury securities. The investment managers priced these investments using nationally recognized pricing services. Since fixed-income securities, other than U.S. Treasury securities, may not trade on a daily basis, the pricing services prepare estimates of fair value measurements for these securities using its proprietary pricing applications, which include available relevant market information, benchmark curves, benchmarking of similar securities, sector grouping and matrix pricing. These investments are classified as Level 2.

Set forth below are tables of assets measured at fair value:

September 30, 2019

	Fair Value Measurement at Reporting Date Using			
	Level 1	Level 2	Level 3	Balance
U.S. equities	$ 2,203,737	$ -	$ -	$ 2,203,737
Publicly traded mutual funds	5,307,695	-	-	5,307,695
U.S. Treasury notes	498,291	-	-	498,291
Nongovernment obligations	-	540,225	-	540,225
Obligations of U.S. government corporations and agencies	442,702	-	-	442,702
Total Assets, at fair value	$ 8,452,425	$ 540,225	$ -	$ 8,992,650

There were no transfers between levels during the year ended September 30, 2019.

6. Contributions Receivable, Net

The net present value of contributions receivable was calculated using a discount rate equal to the risk-free interest rate, which is the U.S. Treasury note interest rate in effect at the time contributions were made, and equal in duration to the length of time over which the contributions are expected to be paid.

The following represents future payments due:

Amounts due in:		
2020	$	1,483,809
2021		50,000
		1,533,809
Net present value discount ranging from 1.63% to 1.75%		(802)
Net Present Value	$	1,533,007

7. Fixed Assets, Net

Fixed assets, net, consist of the following:

September 30, 2019		
Furniture and fixtures	$	196,279
Computers and equipment		319,440
Leasehold improvements		651,650
		1,167,369
Less: accumulated depreciation and amortization		(684,124)
	$	483,245

Depreciation and amortization expense for the year ended September 30, 2019 was $125,851 and is included in supporting and program services in the consolidating statement of activities.

8. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

September 30, 2019		
Subject to expenditure for specified purpose:		
Balkans Initiative	$	50,667
Russia		58,000
China		289,050
Pakistan		58,480
Regional security		156,677
Hurford Rapid Response Fund		371,896
Subject to the passage of time		350,000
Subject to the Institute's endowment spending policy and appropriation:		
Endowment income		1,044,796
Perpetual in nature		5,577,823
	$	7,957,389

Net assets were released for the following purposes:

September 30, 2019		
Expiration of time restrictions	$	(1,000,000)
Satisfaction of purpose restrictions:		
Balkans Initiative		(74,917)
Cyber security		(657,740)
Russia		(219,592)
China		(347,440)
Pakistan		(110,000)
Regional security		(837,645)
Board and Committee		(6,384)
Restricted-purpose spending-rate distributions and appropriations:		
Board-approved distribution to cover operating costs		(323,050)
	$	(3,576,768)

9. Commitments

The Institute leases office space under arrangements expiring at various dates through April 30, 2027. The Institute also rents certain equipment under operating lease agreements expiring at various dates through October 2021.

Future minimum annual lease payments are as follows:

September 30,		Occupancy Leases		Equipment Leases
2020	$	708,112	$	7,920
2021		686,316		6,600
2022		700,876		-
2023		765,875		-
2024		782,424		-
Thereafter		2,407,452		-
	$	6,051,055	$	14,520

Total occupancy costs of $844,968 includes rent expense for facilities for the year ended September 30, 2019 of $800,236, as well as costs for other space rentals, office supplies and postage.

As of September 30, 2019, the Institute has an unsecured letter of credit (LOC) with a bank in the amount of 47,600 Euros. The LOC is used as a rental guaranty for the Institute's Brussels office lease. There were no outstanding borrowings as of September 30, 2019.

In 2017, the Institute established an unsecured LOC with a bank in the amount of $270,405. The LOC is automatically renewed on an annual basis until March 31, 2027, unless 60 days' written notice is given. The LOC is used as a rental guaranty for the Institute's New York office lease. There were no outstanding borrowings as of September 30, 2019.

10. Contingencies

The Institute enters into contracts under which certain governments provide funding for various activities carried on by the Institute in the United States and in other countries. The expenditure of these funds by the Institute is subject to audit by these governments. Management expects that no material adjustments would result if there were any such audits.

11. Retirement Plan

The Institute has a defined contribution retirement plan (the Plan) under Section 403(b) of the Code. Participating employees make pretax contributions of up to the maximum allowable IRS limitation. The Institute contributes up to 6% of the employee's annual salary. All employees who are at least 21 years of age are eligible to participate in the Plan. Upon participation in the Plan, employees are 100% vested in the Institute's contributions. Contribution expense was $135,038 for 2019.

12. In-Kind Contributions

During the year ended September 30, 2019, the Institute received donated airline tickets and donated legal fees. The estimated fair value of these in-kind contributions was recorded as revenue and corresponding expenses on the consolidating statement of activities. For the year ended September 30, 2019, the Institute received $260,501 of in-kind contributions.

13. Endowment Fund

The Institute maintains a donor-restricted endowment fund (the Endowment Fund) consisting of approximately 20 individual funds that has been established for various purposes and has been classified as with donor restrictions, net assets.

All assets included in the Institute's Endowment Fund are as follows:

Year ended September 30, 2019		
Cash	$	101,013
Fixed income		962,792
Equity securities		3,822,332
Mutual funds		1,736,482
Total	$	6,622,619

The following table provides a reconciliation of beginning and ending balances:

September 30, 2019

	Subject to the Institute's Endowment Spending Policy and Appropriation	Perpetual in Nature	Total
Endowment Balance, September 30, 2018	$ 1,216,666	$ 5,577,823	$ 6,794,489
Realized and unrealized losses on investments	62,871	-	62,871
Dividend and interest	127,609	-	127,609
Investment fee	(39,300)	-	(39,300)
Release of restriction	(323,050)	-	(323,050)
Endowment Balance, September 30, 2019	$ 1,044,796	$ 5,577,823	$ 6,622,619

14. Subsequent Events

Management has performed subsequent events procedures through January 23, 2020, which is the date that the financial statements were available to be issued. On October 9, 2019 the Institute entered into a $1 million line of credit, $250,000 of which was borrowed and repaid in November 2019. There were no other subsequent events requiring adjustments to the financial statements or disclosures as stated herein.