

INTERNATIONAL PEACE INSTITUTE, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2016 AND 2015

INTERNATIONAL PEACE INSTITUTE, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
International Peace Institute, Inc.

We have audited the accompanying financial statements of International Peace Institute, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Peace Institute, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lotz + Carr, LLP

New York, New York
May 27, 2017

INTERNATIONAL PEACE INSTITUTE, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents (Notes 1b and 11a)	\$ 3,089,642	\$ 1,429,138
Unconditional promises to give (Notes 1c and 3)		
Unrestricted	892,933	2,532,449
Restricted to future programs and periods	4,745,371	6,484,652
Accounts and other receivables	8,213	17,557
Prepaid expenses and other current assets	126,586	136,949
Investments (Notes 1d and 4)	1,852,600	1,701,565
Property and equipment, at cost, net of accumulated depreciation and amortization (Notes 1e and 6)	2,830,171	3,227,047
Security deposits	138,428	130,441
	<u> </u>	<u> </u>
Total Assets	<u><u>\$13,683,944</u></u>	<u><u>\$15,659,798</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 581,247	\$ 670,762
	<u> </u>	<u> </u>
Commitments (Note 8)		
Net Assets		
Unrestricted	6,857,558	7,101,025
Temporarily restricted (Note 2a)	5,387,472	7,030,344
Permanently restricted (Notes 2b and 5)	857,667	857,667
Total Net Assets	<u>13,102,697</u>	<u>14,989,036</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u><u>\$13,683,944</u></u>	<u><u>\$15,659,798</u></u>

See notes to financial statements.

INTERNATIONAL PEACE INSTITUTE, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Changes in Unrestricted Net Assets		
Revenue, Gains and Support		
Contributions (Note 11b)	\$ 8,180,395	\$ 6,244,680
Donated services and materials (Note 9)	489,464	233,908
Investment income (loss) (Note 4)	152,788	(7,467)
Loss on foreign currency exchange	(12,776)	(79,184)
Miscellaneous income	5,676	19,955
	<u>8,815,547</u>	<u>6,411,892</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	1,884,127	3,650,098
	<u>1,884,127</u>	<u>3,650,098</u>
Total Revenue, Gains and Support	<u>10,699,674</u>	<u>10,061,990</u>
Expenses		
Program Services	<u>9,179,935</u>	<u>9,788,200</u>
Supporting Services		
General and administrative	794,156	887,218
Fundraising	969,050	724,685
Total Supporting Services	<u>1,763,206</u>	<u>1,611,903</u>
Total Expenses	<u>10,943,141</u>	<u>11,400,103</u>
Decrease in Unrestricted Net Assets	<u>(243,467)</u>	<u>(1,338,113)</u>
Changes in Temporarily Restricted Net Assets		
Contributions (Note 11b)	266,804	4,098,166
Net assets released from restrictions	(1,884,127)	(3,650,098)
Reduction for unexpended project funding	(25,549)	-
	<u>(1,642,872)</u>	<u>448,068</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(1,642,872)</u>	<u>448,068</u>
Decrease in net assets	(1,886,339)	(890,045)
Net assets, beginning of year	<u>14,989,036</u>	<u>15,879,081</u>
Net Assets, End of Year	<u><u>\$13,102,697</u></u>	<u><u>\$14,989,036</u></u>

See notes to financial statements.

INTERNATIONAL PEACE INSTITUTE, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Decrease in net assets	\$ (1,886,339)	\$ (890,045)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Bad debt expense	12,365	21,665
Depreciation and amortization	585,963	589,740
Realized and unrealized (gain) loss on investments	(98,751)	63,729
(Increase) decrease in:		
Unconditional promises to give	3,366,432	(969,721)
Accounts and other receivables	9,344	26,044
Prepaid expenses and other current assets	10,363	(62,453)
Security deposits	(7,987)	2,036
Increase (decrease) in accounts payable and accrued liabilities	(89,515)	184,743
Net Cash Provided (Used) By Operating Activities	<u>1,901,875</u>	<u>(1,034,262)</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(189,087)	(449,326)
Purchase of investments	(970,541)	-
Sale of investments	918,257	1,337,509
Net Cash Provided (Used) By Investing Activities	<u>(241,371)</u>	<u>888,183</u>
Net increase (decrease) in cash and cash equivalents	1,660,504	(146,079)
Cash and cash equivalents, beginning of year	<u>1,429,138</u>	<u>1,575,217</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,089,642</u>	<u>\$ 1,429,138</u>

See notes to financial statements.

INTERNATIONAL PEACE INSTITUTE, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016 AND 2015****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

International Peace Institute, Inc. (the "Organization") is an independent, international institution dedicated to the prevention and settlement of global conflicts and crises. The Organization provides policy-makers in the UN, multilateral organizations, governments and academia with empirical research and a set of meetings and networks to introduce, debate and implement ideas, proposals and partnerships around critical issues across the security-development spectrum.

b - Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents, except for cash managed by the Organization's investment managers as part of their long-term investment strategies.

c - Unconditional Promises to Give and Contributions

Contributions are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible promises to give. The allowance, if necessary, is based on prior years' experience and management's analysis of specific promises made.

d - Investments

The Organization reflects investments at fair value in the statement of financial position. Interest, dividends, gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income restricted by the donor is reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the income is recognized.

The value of the Organization's cash and cash equivalents and certificates of deposit are based on quoted market prices in active markets and are, therefore, classified within Level 1 of the fair value hierarchy.

The value of the Organization's corporate bonds and notes are based on quoted secondary market prices or alternative pricing sources supported by observable inputs and are, therefore, classified within Level 2 of the fair value hierarchy.

INTERNATIONAL PEACE INSTITUTE, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016 AND 2015****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****d - Investments (continued)**

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-based measurement. Generally accepted accounting principles establish a framework for measuring fair value which maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset developed based on the best information available in the circumstances. Fair value measurements are categorized into three levels as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 Inputs that are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

e - Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated lives of the asset or term of the lease, whichever is shorter.

f - Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

g - Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

INTERNATIONAL PEACE INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 1 - Organization and Summary of Significant Accounting Policies (continued)h - Subsequent Events

The Organization has evaluated subsequent events through May 27, 2017, the date that the financial statements are considered available to be issued.

i - Tax Status

International Peace Institute, Inc. is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

Note 2 - Restrictions on Assetsa - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for future periods and program activities.

b - Permanently Restricted Net Assets

Permanently restricted net assets represent amounts specified by donors to be maintained as an endowment with the earnings used for operating purposes.

Note 3 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	2016			2015
	Unrestricted	Future Programs and Periods	Total	Total
Due in less than one year	\$ 892,933	\$1,391,490	\$2,284,423	\$4,508,895
Due in one to five years	-	3,657,981	3,657,981	4,904,030
	892,933	5,049,471	5,942,404	9,412,925
Less: Discount to present value	-	(304,100)	(304,100)	(395,824)
Total, 2016	<u>\$ 892,933</u>	<u>\$4,745,371</u>	<u>\$5,638,304</u>	
Total, 2015		<u>\$6,484,652</u>		<u>\$9,017,101</u>

Uncollectible promises are expected to be insignificant. Unconditional promises to give due after one year are discounted to present value using a discount rate of 3%.

INTERNATIONAL PEACE INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 4 - Investments

Investments at December 31 consist of the following:

	<u>2016</u>		<u>2015</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash and cash equivalents	\$ 876,678	\$ 876,678	\$ 6,137	\$ 6,137
Corporate bonds and notes	975,922	970,302	1,454,516	1,550,925
Certificates of deposit	-	-	240,912	240,000
Total	<u>\$1,852,600</u>	<u>\$1,846,980</u>	<u>\$1,701,565</u>	<u>\$1,797,062</u>

The cash and cash equivalents and certificates of deposit are classified within Level 1, and the corporate bonds and notes are classified within Level 2 of the fair value hierarchy used to measure their respective fair values.

Investment income (loss) consisted of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 54,037	\$56,262
Realized and unrealized gain (loss) on investments	<u>98,751</u>	<u>(63,729)</u>
Investment Income (Loss)	<u>\$152,788</u>	<u>\$(7,467)</u>

Note 5 - Endowment Fund

The Organization's endowment consists of one donor-restricted fund established for operating purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Consistent with Minnesota General Law and the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), the Organization 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) accumulations to the permanent endowment made in accordance with the direction of any applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

INTERNATIONAL PEACE INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 5 - Endowment Fund (continued)

As of December 31, 2016 and 2015, the Organization's endowment fund composition, by type of fund and net asset classification, are summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds, 2016	\$ -	\$ -	\$857,667	\$857,667
Donor-restricted endowment funds, 2015	\$ -	\$ -	\$857,667	\$857,667

Changes in the Organization's endowment fund for the years ended December 31, 2016 and 2015 are summarized as follows:

	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment fund, beginning of year	\$ -	\$ -	\$857,667	\$857,667
Investment income	22,466	-	-	22,466
Appropriation of endowment assets for expenditure	(22,466)	-	-	(22,466)
Endowment Fund, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$857,667</u>	<u>\$857,667</u>
	<u>2015</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment fund, beginning of year	\$ -	\$ -	\$857,667	\$857,667
Investment income	19,540	-	-	19,540
Appropriation of endowment assets for expenditure	(19,540)	-	-	(19,540)
Endowment Fund, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$857,667</u>	<u>\$857,667</u>

Investment of the endowment is governed by the Organization's investment policy for all invested funds. The primary objectives of this policy are the preservation of principal and purchasing power of financial assets and sufficient liquidity to meet anticipated and reasonable unanticipated operating needs. A secondary objective is the enhancement of purchasing power through investment returns, subject to prudent diversification of asset classes and individual investments, including no more than 50% of the portfolio invested in equities.

INTERNATIONAL PEACE INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 5 - Endowment Fund (continued)

The endowment is maintained in a dedicated account, and observes a spending policy whereby the endowment's earnings are transferred periodically, but at least annually, to the Organization's operating account for use as unrestricted funds to support general operations or otherwise as needed.

Note 6 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2016</u>	<u>2015</u>
Leasehold improvements	Life of lease	\$ 6,643,126	\$ 6,631,226
Apartment	39 years	1,871,826	1,871,826
Furniture and fixtures	7 years	1,319,888	1,314,189
Computers and equipment	3-5 years	1,357,836	1,203,960
Website	3 years	270,783	253,171
Automobiles	5 years	63,356	63,356
Leasing commissions	5 years	<u>26,099</u>	<u>26,099</u>
		11,552,914	11,363,827
Less: Accumulated depreciation and amortization		(9,122,743)	(8,536,780)
Land		<u>400,000</u>	<u>400,000</u>
		<u>\$ 2,830,171</u>	<u>\$ 3,227,047</u>

Depreciation and amortization expense for the years ended December 31, 2016 and 2015 was \$585,963 and \$589,740, respectively.

On February 14, 2017, the Organization sold the apartment for \$2,425,000.

Note 7 - Loan Payable

The Organization has a revolving line of credit with JPMorgan Chase Bank that provides for borrowings up to \$500,000 through the maturity date of December 9, 2017. Borrowings on the line of credit bear interest at 7.125% plus the LIBOR rate. As of December 31, 2016, the Organization had no borrowings outstanding.

INTERNATIONAL PEACE INSTITUTE, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016 AND 2015****Note 8 - Commitments**

- a - The Organization occupies office and meeting space under leases that expire April 30, 2018 and provide for rent to be a portion of the estimated building costs for the year. The monthly rent for 2017 under these leases has been set at \$40,225.

The Organization entered into a lease for additional office space in Vienna that provides for monthly rent and operating costs of \$8,792 and expires in June 30, 2025.

The Organization entered into a lease for additional office space in Vienna that provides for monthly rent and operating costs of \$3,655 and extends for an indefinite term.

The Organization entered into a lease for additional office space in Bahrain that provides for monthly rent and operating costs of \$12,263 and expires October 31, 2019.

Rent expense for the years ended December 31, 2016 and 2015 was \$737,440 and \$740,763, respectively.

- b - The Organization sponsors a tax-deferred annuity program, whereby, the Organization contributes a percentage of an eligible employee's salary, not to exceed statutory amounts. During 2016 and 2015, the contributions under this plan were \$279,364 and \$308,617, respectively.

Note 9 - Donated Services and Materials

During 2016 and 2015, the Organization received donated professional services and services in connection with seminars and workshops, including personnel costs, the use of conference facilities, participants' accommodations, reception costs, transportation and legal fees. The aggregate value of these services was determined to be \$489,464 (2016) and \$233,908 (2015) and is included in the statement of activities.

Note 10 - Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

INTERNATIONAL PEACE INSTITUTE, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016 AND 2015****Note 11 - Concentrations**

- a - The Organization maintained its cash balances in financial institutions located in New York, New York. The cash balances, at times, exceeded federally insured limits. The Organization also maintains bank accounts in Vienna and Bahrain. There is no loss insurance on these accounts.
- b - During the year ended December 31, 2016, the Organization received 62% of its total contributions from one foreign government. During the year ended December 31, 2015, the Organization received 62% of its total contributions from one foundation and three foreign governments.

SUPPLEMENTARY INFORMATION



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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Directors of
International Peace Institute, Inc.

We have audited the financial statements of International Peace Institute, Inc. as of and for the years ended December 31, 2016 and 2015, and our report thereon dated May 27, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended December 31, 2016 with comparative totals for 2015 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lutz + Carr, LLP

New York, New York
May 27, 2017

INTERNATIONAL PEACE INSTITUTE, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016 WITH COMPARATIVE TOTALS FOR 2015

	Program Services	Supporting Services			2016	2015
		General and Administrative	Fundraising	Total	Total Expenses	Total Expenses
Salaries	\$3,367,225	\$ 376,661	\$ 521,388	\$ 898,049	\$ 4,265,274	\$ 4,800,126
Payroll taxes	276,721	44,881	42,425	87,306	364,027	403,378
Employee benefits	656,194	50,366	80,208	130,574	786,768	806,609
Insurance	24,963	2,323	2,986	5,309	30,272	61,013
Office expense	245,953	25,898	22,011	47,909	293,862	191,548
Rent	638,295	51,785	47,360	99,145	737,440	740,763
Stationery and supplies	138,249	14,093	13,948	28,041	166,290	167,293
Printing and duplicating	206,310	14,655	10,203	24,858	231,168	194,667
Legal and audit fees	184,168	29,039	19,122	48,161	232,329	97,538
Travel, meals and lodging	1,609,776	76,223	81,011	157,234	1,767,010	1,903,010
Periodicals and subscriptions	26,935	1,515	2,709	4,224	31,159	37,837
Telephone and internet expenses	127,378	19,437	15,372	34,809	162,187	268,350
Donated services and materials (Note 9)	482,699	-	6,765	6,765	489,464	233,908
Freight	13,934	1,614	1,288	2,902	16,836	26,357
Honoraria/consulting/outside services	676,618	22,691	47,955	70,646	747,264	835,776
Miscellaneous	24,784	9,709	1,335	11,044	35,828	42,190
Total expenses before depreciation and amortization	8,700,202	740,890	916,086	1,656,976	10,357,178	10,810,363
Depreciation and amortization	479,733	53,266	52,964	106,230	585,963	589,740
Total Expenses, 2016	<u>\$9,179,935</u>	<u>\$ 794,156</u>	<u>\$ 969,050</u>	<u>\$1,763,206</u>	<u>\$10,943,141</u>	
Total Expenses, 2015	<u>\$9,788,200</u>	<u>\$ 887,218</u>	<u>\$ 724,685</u>	<u>\$1,611,903</u>		<u>\$11,400,103</u>

See independent auditors' report on supplementary information.