

# **Institute of the Americas**

## **Financial Statements**

Years Ended December 31, 2007 and 2006

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## **Independent Auditors' Report**

To the Audit Committee  
**Institute of the Americas**  
La Jolla, California

We have audited the accompanying statement of financial position of **Institute of the Americas** ("the Institute") as of December 31, 2007 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Institute's 2006 financial statements and, in our report dated March 21, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

**Institute of the Americas** recognizes membership revenue when billed or received. In our opinion, U.S. generally accepted accounting principles require that **Institute of the Americas** recognize membership revenue ratably over the period of membership. The effects on the financial statements of that departure from those accounting principles are not reasonably determinable.

In our opinion, except for the effects of recognizing membership revenue when billed, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the **Institute of the Americas** as of December 31, 2007 and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

*Mayer Hoffman McCann P.C.*

March 10, 2008

# Institute of the Americas

## Statements of Financial Position

*With Summarized Financial Information for 2006*

<i>December 31,</i>	Total Unrestricted Funds	Total Temporarily Restricted	Total Permanently Restricted	<b>Total 2007</b>	Total 2006
<b>Assets</b>					
Cash (Notes 1 and 11)	\$ 259,063	\$ -	\$ -	\$ <b>259,063</b>	\$ 176,386
Board designated cash (Notes 1 and 11)	2,605	-	-	<b>2,605</b>	39,971
Receivables	195,832	-	-	<b>195,832</b>	186,988
Investments (Notes 1, 2, and 11)	2,262,541	-	-	<b>2,262,541</b>	2,128,454
Fixed assets - net (Notes 1, 4, and 5)	2,052,948	3,585,116	-	<b>5,638,064</b>	5,799,421
Restricted investments (Notes 1, 2, 3, and 11)	-	-	4,170,290	<b>4,170,290</b>	4,170,290
<b>Total assets</b>	<b>\$ 4,772,989</b>	<b>\$ 3,585,116</b>	<b>\$ 4,170,290</b>	<b>\$ 12,528,395</b>	<b>\$ 12,501,510</b>
<b>Liabilities, Deferred Revenue, and Net Assets</b>					
Line of credit (Note 6)	\$ 960,180	\$ -	\$ -	\$ <b>960,180</b>	\$ 1,126,453
Accounts payable and accrued liabilities	223,060	-	-	<b>223,060</b>	203,867
Deferred revenue	53,893	-	-	<b>53,893</b>	78,219
Commitments and contingencies (Notes 10 and 11)					
<b>Net assets</b>	<b>3,535,856</b>	<b>3,585,116</b>	<b>4,170,290</b>	<b>11,291,262</b>	<b>11,092,971</b>
<b>Total liabilities, deferred revenue, and net assets</b>	<b>\$ 4,772,989</b>	<b>\$ 3,585,116</b>	<b>\$ 4,170,290</b>	<b>\$ 12,528,395</b>	<b>\$ 12,501,510</b>

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

# Institute of the Americas

## Statements of Activities

*With Summarized Financial Information for 2006*

<i>Years Ended December 31,</i>	Total Unrestricted Funds	Total Temporarily Restricted	Total Permanently Restricted	<b>Total 2007</b>	Total 2006
<b>Revenues, Gains, and Other Support (Note 1)</b>					
Sponsorship and registration fees (Note 7)	\$ 1,525,130	\$ -	\$ -	<b>\$ 1,525,130</b>	\$ 1,465,287
Net realized and unrealized gain on sale of securities	284,198	-	-	<b>284,198</b>	454,034
Agency and foundation grants (Notes 7 and 10)	343,895	-	-	<b>343,895</b>	406,624
Interest and dividends	167,296	-	-	<b>167,296</b>	192,399
Other income	209,470	-	-	<b>209,470</b>	190,615
Contributions (Note 13)	16,000	-	-	<b>16,000</b>	132,400
Membership dues (Note 7)	30,550	-	-	<b>30,550</b>	21,875
Net assets released from restrictions (Note 8)	91,496	(91,496)	-	-	-
<b>Total revenues, gains, and other support</b>	<b>2,668,035</b>	<b>(91,496)</b>	<b>-</b>	<b>2,576,539</b>	<b>2,863,234</b>
<b>Expenses</b>					
Program services (Note 7)	1,164,708	-	-	<b>1,164,708</b>	1,058,092
General and administrative	888,827	-	-	<b>888,827</b>	822,997
Development	57,841	-	-	<b>57,841</b>	262,570
Depreciation and amortization (Notes 1, 4, 5, and 8)	170,955	-	-	<b>170,955</b>	167,378
Publications	59,639	-	-	<b>59,639</b>	63,909
Fundraising	36,278	-	-	<b>36,278</b>	47,685
<b>Total expenses</b>	<b>2,378,248</b>	<b>-</b>	<b>-</b>	<b>2,378,248</b>	<b>2,422,631</b>
Excess (deficit) of revenues, gains, and other support over expenses	289,787	(91,496)	-	<b>198,291</b>	440,603
Net assets at beginning of year	3,246,069	3,676,612	4,170,290	<b>11,092,971</b>	10,652,368
Net assets at end of year	\$ 3,535,856	\$ 3,585,116	\$ 4,170,290	<b>\$ 11,291,262</b>	\$ 11,092,971

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

# Institute of the Americas

## Statements of Cash Flows

<i>Years Ended December 31,</i>	<b>2007</b>	<b>2006</b>
<b>Cash Flows From Operating Activities</b>		
Increase in net assets	\$ 198,291	\$ 440,603
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized gain on sale of securities	(284,198)	(454,034)
Depreciation and amortization	170,955	167,378
Increase (decrease) in cash resulting from changes in:		
Receivables	(8,844)	(111,834)
Accounts payable and accrued liabilities	19,193	20,514
Deferred revenue	(24,326)	(15,712)
Net cash provided by operating activities	<b>71,071</b>	46,915
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales of investments	7,874,889	5,624,850
Purchases of investments	(7,687,413)	(5,425,583)
Purchases of fixed assets	(9,597)	(13,479)
Net cash provided by investing activities	<b>177,879</b>	185,788
<b>Cash Flows From Financing Activities</b>		
Net decrease in line of credit	(166,273)	(213,547)
<b>Net Increase in Cash</b>	<b>82,677</b>	19,156
<b>Cash at Beginning of Year</b>	<b>176,386</b>	157,230
<b>Cash at End of Year</b>	<b>\$ 259,063</b>	\$ 176,386
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for:		
Interest	\$ 69,876	\$ 77,606

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

1. **Summary of Significant Accounting Policies**

A summary of the Institute's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

*Nature of activities*

The **Institute of the Americas** ("the Institute") is a California non-profit public benefit corporation organized for charitable purposes and exempt from taxation under the Internal Revenue Code. The purpose of the Institute is to carry out programs to improve relations and promote understanding between the United States and the countries of Latin America, Canada, and the Caribbean, as well as the Pacific Rim, including, but not limited to, political, social, and economic aspects of such relations.

The Institute accomplishes its program objectives primarily through conferences, meetings, and events held in the United States and South America.

*Use of estimates*

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

*Income taxes*

The Institute is generally exempt from income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code and comparable statutes of the state of California.

*Cash*

The Institute's management has defined "cash" to include only bank accounts including funds on deposit that are available for general use. Board designated cash is separately stated and treated as an investment for presentation in the statements of cash flow. Money market accounts are defined as investments.

As of December 31, 2007 and 2006, board designated cash included a cash management account held by an investment custodian of approximately \$2,600 and \$40,000, respectively, restricted to debt service payments on the Institute's line of credit (see Note 6).

*Receivables*

The Institute has historically collected all of its membership dues and sponsorship receivables. Based on the information available, management believes that no allowance is needed as of December 31, 2007 and 2006.

*Investments* The Institute holds investments in exchange traded funds, fixed income, debt, and equity securities with readily determinable fair values. There are no donor- imposed restrictions on the related gains, losses, and investment income.

Investments are accounted for at fair value. The related gains, losses, and income are reported as increases or decreases in unrestricted net assets.

The assets allocable to permanently restricted net assets were included in investments as of December 31, 2007 and 2006.

*Fixed assets* Assets donated for use by the Institute in carrying out its exempt purpose and assets purchased with contributions restricted to the purchase of assets are considered temporarily restricted for the useful life of the asset. Restrictions are satisfied by the expiration of the asset's usefulness through depreciation.

The Institute's policy is to capitalize assets with a useful life of greater than one year and a value of \$1,000 or more. The basis for valuation of purchased fixed assets is cost and estimated fair value on the date of contribution for contributed fixed assets.

Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets or, in the case of leasehold improvements, over the lesser of the useful life of the related asset or the lease term.

*Change in estimate* During 2003 the Institute's management revised its estimate of the useful lives of the leasehold interest structures known as Phase I and Phase II (see Note 5). Previously, the structures were amortized over a 30-year estimated useful life. Management believes that the period of the leasehold interest is a better estimate of the useful lives of the structures.

As a result of the change, the Institute's excess (deficit) of revenues, gains, and other support over expenses will be positively impacted by approximately \$64,000 annually during the years ending December 31, 2006 through 2033 and negatively impacted by approximately \$53,000 annually during the years ending December 31, 2034 through December 31, 2044.

### **Basis of Presentation**

#### *Net assets*

The Institute's net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Institute are classified and reported as follows:

*Unrestricted Net Assets* – All net assets that are not subject to donor-imposed restrictions are reported as unrestricted net assets.

*Temporarily Restricted Net Assets* – Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met and funds for which the ultimate purpose of the proceeds is not permanently restricted.

*Permanently Restricted Net Assets* – Permanently restricted net assets include gifts that require by donor-imposed restrictions that the corpus be invested permanently and only the investment income be made available for the Institute's operations.

#### *Revenue recognition*

Unconditional promises to give are recognized upon receipt of the promise at their estimated fair value. Conditional promises to give are recognized upon determination that there is only a remote possibility that the donor conditions will not be met.

Contributions for which donor imposed restrictions are satisfied in the same period as the contribution is received are reported as increases in unrestricted net assets.

Event fees are recognized when the event occurs.

Membership dues are recognized when billed or received. Membership dues include Friend of the Americas memberships between \$250 and \$1,000. Sponsorship and registration fees revenue in the Statements of Activities included approximately \$592,500 and \$660,000 of steering membership revenue for 2007 and 2006, respectively. Income from agency and foundation grants is recognized as the program services funded by the grants are delivered.

Rental income is recognized on a straight-line basis over the life of the lease agreement (see Note 12).

# Institute of the Americas

## Notes to Financial Statements

*Reclassifications* Certain amounts in the 2006 financial statements have been reclassified to conform with the 2007 classifications. These reclassifications have no effect on the reported change in net assets.

*Summarized information* The financial statements include certain prior year summarized financial information in total, but not net asset classification, and are presented to provide a basis for comparison to financial information for 2007. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Institute's financial statements for 2006, from which the summarized information was derived.

**2. Investments with** Investments at quoted market value consisted of the following:

<b>Investment Management Company</b>	<i>December 31,</i>	<b>2007</b>	2006
	Exchange traded funds	<b>\$5,883,178</b>	\$ -
	Debt instruments	<b>488,000</b>	251,325
	Cash and money market accounts	<b>61,653</b>	283,163
	Equities	-	3,988,803
	Government securities	-	1,775,453
	Total investments held and mutual funds held by management company	<b>6,432,831</b>	6,298,744
	Permanently restricted investments (Note 4)	<b>(4,170,290)</b>	(4,170,290)
	Total unrestricted investments	<b>\$2,262,541</b>	\$2,128,454

In May 2007 the Institute liquidated the investment portfolio and reinvested the majority of the portfolio in Exchange Traded Funds.

**3. Restricted Investments** In 1993 the Institute entered into an agreement with The Gildred Foundation whereby the Gildred Foundation established an endowment of approximately \$4.1 million for the Institute. The endowment is restricted for the lease period described in Note 5. Income from the endowment is available for the use of the Institute at the discretion of the Institute's Board of Directors.

**4. Fixed Assets** Fixed assets consisted of the following:

<i>December 31,</i>	<b>2007</b>	2006
Leasehold interest (Note 5)	<b>\$ 5,975,233</b>	\$ 5,975,233
Residential real estate	<b>1,495,451</b>	1,495,451
Equipment	<b>401,683</b>	417,101
Furniture and fixtures	<b>270,152</b>	275,030
Leasehold improvements	<b>84,856</b>	84,856
	<b>8,227,375</b>	8,247,671
Less accumulated depreciation and amortization	<b>(2,589,311)</b>	(2,448,250)
	<b>\$ 5,638,064</b>	\$ 5,799,421

Depreciation and amortization expense was approximately \$171,000 and \$167,000 for 2007 and 2006, respectively.

**5. Leasehold Interest**

Pursuant to an agreement entered into in 1983 as amended in 1993 and 2002, with the Regents of the University of California, a California constitutional corporation, and The Gildred Foundation, the Institute constructed the structures referred to in the agreement as Phases I, II and III on land owned by the University of California, San Diego (“UCSD”) and conveyed to UCSD. In exchange for the structures, the Institute received, subject to the terms of the agreement, a leasehold interest, including facilities maintenance, until August 2044 for the portion of the structures known as Phase I and Phase II (see Note 1) and until April 2052 for Phase III. Phase III of the leasehold interest is sublet to UCSD (see Note 12).

The structures are amortized over the term of the leasehold interest, the estimated useful life of the assets (see Note 1). The leasehold interest of approximately \$6 million is included in fixed assets (see Note 4). Amortization expense of the leasehold interest was approximately \$91,000 in both 2007 and 2006 and was included in depreciation and amortization expense.

- 6. Line of Credit** In March 2004 the Institute entered into a loan agreement with a bank for a line of credit in the amount of \$1,500,000. The loan agreement includes provision for monthly payment of interest at the three-month LIBOR rate (4.63% as of December 31, 2007) plus 1.0%. The line of credit matures in March 2009, and is secured by investments held in the endowment portfolio (see Note 2).

In January 2005 the loan agreement was altered to a new lending platform offered by the Institute's financial institution to increase the maximum balance on the line of \$1,500,000 to fluctuate with the fair market value of the investments held in the endowment portfolio (see Note 2). The borrowing limit was at approximately \$2,900,000 and \$3,600,000 at December 31, 2007 and 2006, respectively. At December 31, 2007 and 2006, the outstanding balance on the line was \$960,180 and \$1,126,453, respectively.

Interest expense related to the lines was approximately \$68,000 and \$77,000 for 2007 and 2006, respectively.

- 7. Program Revenues and Expenses** Following is a breakdown of grants, sponsorship, and registration fees revenues and expenses by program categories. Variances between program revenue and the revenue included in the Statements of Activities were composed primarily of general operations grants and non-program specific event revenue.

<i>Years Ended December 31,</i>	<b>2007</b>	2006
Revenues:		
Energy	<b>\$1,055,995</b>	\$ 827,151
Journalism/Training	<b>347,600</b>	348,167
ICT	<b>154,010</b>	196,782
Project Mexico	<b>128,928</b>	354,811
CEPAS/Community	<b>109,210</b>	-
	<b>\$1,795,743</b>	\$1,726,911

# Institute of the Americas

## Notes to Financial Statements

7. Program Revenue and Expenses, Cont'd	<i>Years Ended December 31,</i>	<b>2007</b>	2006
	Expenses:		
	Energy	\$ 398,427	\$ 411,808
	Journalism/Training	285,848	250,731
	ICT	217,099	206,366
	Project Mexico	122,827	157,264
	CEPAS/Community	111,571	-
	General programs	28,936	31,923
		<b>\$1,164,708</b>	<b>\$ 1,058,092</b>

8. **Net Assets Released from Restrictions** Net assets were released from donor restrictions during 2007 and 2006 by incurring expenses satisfying the restricted purposes as follows:

	<i>Years Ended December 31,</i>	<b>2007</b>	2006
Depreciation and amortization expense		\$ 91,496	\$ 91,496
Capital Campaign 2000		-	354,000
Project Mexico Program		-	31,651
		<b>\$ 91,496</b>	<b>\$ 477,147</b>

9. **Employee Benefit Plans**

*SEP Plan*

The Institute has a Simplified Employee Pension Plan (“the Plan”). All personnel who have completed at least one year of service and have attained the age of 21 are eligible to participate in the Plan. The Institute contributes, at its discretion, an amount equal to 5% of each employee’s base salary to the Plan. Contributions made by the Institute were approximately \$45,000 and \$42,000 in 2007 and 2006, respectively.

*TDA Plan*

The Institute maintains a tax deferred annuity plan that is available to all of its employees. The employees fund contributions to the plan.

10. **Commitments and Contingencies**

*Operating leases*

The Institute leases certain office equipment under non cancelable operating leases. Additionally, the Institute leases a car for use by the President of the Institute as well as use by the Institute itself.

# Institute of the Americas

## Notes to Financial Statements

*Operating leases, cont'd* Future minimum payments under non cancelable operating leases as of December 31, 2007 are as follows:

<i>Years ending December 31,</i>	
2008	\$ 17,381
2009	17,381
2010	17,125
2011	13,108
2012	-
<b>Total</b>	<b>\$ 64,995</b>

Lease expense for 2007 and 2006 was approximately \$17,300 and \$6,300, respectively.

*Grant awards* The Institute regularly receives grants conditional upon performance of certain grantor stipulated activities. If the Institute does not comply with the grantor's stipulations, grant funds must be returned to the grantor. The Institute believes it has satisfied all grantor conditions related to grant revenue recognized in 2007 and 2006.

*Hotel agreement* During 2007 the Institute entered into an agreement with a hotel to host a conference in May 2008. If the Institute were to cancel the conference it would be required to pay the hotel approximately \$34,700.

*Employment contract* During 2003 the Institute entered into an employment contract under which it required an executive to live in Institute-owned housing. Management believes the contract requirements qualify the lodging for exclusion from the employee's taxable compensation in accordance with Internal Revenue Code Section 119.

### 11. Concentrations

*Credit risk*

The Institute maintains cash balances at financial institutions located in San Diego County, California. The Federal Deposit Insurance Corporation insures funds on deposit up to \$100,000. At times, balance may exceed federally insured limits. The Institute has not experienced any losses in such accounts. Management believes that the Institute is not exposed to any significant credit risk with respect to its cash.

### **12. Sublease**

In August 2003 the Institute sublet approximately 4,500 square feet of its leasehold interest (see Note 5) to UCSD under a non-cancelable lease. The original lease term was 18 months and commenced on August 1, 2003 with an option to extend the lease. Per an amendment dated June 14, 2007, the amended lease term was extended commencing August 1, 2007 through January 31, 2008 with the option to extend the lease for not less than six months before the expiration of the lease.

Subsequent to December 31, 2007, the sublease was amended to extend the lease through July 31, 2008, with the option to extend the lease for three one-month periods. The monthly lease payment was increased to \$9,949.

Other income included approximately \$117,000 and \$114,000 of sublease income for 2007 and 2006, respectively.

### **13. Related Parties**

Contribution revenue included approximately \$3,000 and \$92,000 of contributions from members of the Board of Directors during 2007 and 2006, respectively. There were no amounts due from Board members at December 31, 2007 and 2006.