Institute of the Americas

Financial Statements

Years Ended December 31, 2019 and 2018

Aldrich

INSTITUTE OF THE AMERICAS

Financial Statements

Years Ended December 31, 2019 and 2018

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Aldrich

Aldrich CPAs + Advisors LLP
7676 Hazard Drive, #1300
San Diego, California 92108

INDEPENDENT AUDITORS' REPORT

To the Audit Committee of
Institute of the Americas

We have audited the accompanying financial statements of Institute of the Americas (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Institute of the Americas as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Changes in Accounting Principles

As discussed in Note 1 to the financial statements, in 2019, Institute of the Americas adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958).* Our opinion is not modified with respect to these matters.

Aldrich CPAs + Advisors LLP

San Diego, California
May 11, 2020

INSTITUTE OF THE AMERICAS
Statements of Financial Position
December 31, 2019 and 2018

ASSETS		2019		2018
Current Assets:				
Cash	$	98,525	$	178,284
Accounts receivables		42,302		23,528
Prepaid expenses		321		1,500
Investments		5,079,435		67,782
Total Current Assets		5,220,583		271,094
Non-Current Assets:				
Endowment		6,060,332		5,743,029
Property and equipment, net of accumulated depreciation		3,035,773		3,062,313
Total Assets	$	14,316,688	$	9,076,436
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued expenses	$	116,525	$	86,847
Deferred revenue		24,348		114,314
Current portion of capital lease payable		6,804		6,498
Total Current Liabilities		147,677		207,659
Non-Current Liabilities:				
Capital lease payable		5,025		11,863
Total Liabilities		152,702		219,522
Net Assets:				
Without donor restrictions		5,557,394		482,044
With donor restrictions:		8,606,592		8,374,870
Total Net Assets		14,163,986		8,856,914
Total Liabilities and Net Assets	$	14,316,688	$	9,076,436

See accompanying notes to financial statements.

INSTITUTE OF THE AMERICAS
Statement of Activities
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Contributions	$ 5,027,589	$ -	$ 5,027,589
Net realized and unrealized gain on investments	10,092	855,062	865,154
Sponsorship and registration fees	524,825	-	524,825
Membership dues	245,000	-	245,000
Rent revenue	240,903	-	240,903
Interest and dividends	3,975	151,607	155,582
Agency and foundation grants	75,001	-	75,001
Net assets released from restrictions:			
Endowment appropriation- program funding	670,000	(670,000)	-
Depreciation and amortization expense	85,587	(85,587)	-
Endowment appropriation- management fees	19,360	(19,360)	-
Total Revenue and Support	6,902,332	231,722	7,134,054
Operating Expenses:			
Program services:			
Energy and Sustainability	723,765	-	723,765
Innovation and Life Sciences	80,678	-	80,678
STEAM	349,670	-	349,670
Supporting Services:			
General and administrative	659,264	-	659,264
Fundraising	13,605	-	13,605
Total Operating Expenses	1,826,982	-	1,826,982
Change in Net Assets	5,075,350	231,722	5,307,072
Net Assets, beginning	482,044	8,374,870	8,856,914
Net Assets, ending	$ 5,557,394	$ 8,606,592	$ 14,163,986

INSTITUTE OF THE AMERICAS
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Sponsorship and registration fees	$ 461,002	$ -	$ 461,002
Membership dues	242,500	-	242,500
Rent revenue	211,602	-	211,602
Interest and dividends	17,661	118,986	136,647
Contributions	31,214	-	31,214
Agency and foundation grants	15,000	-	15,000
Net realized and unrealized loss on investments	(11,091)	(74,723)	(85,814)
Net assets released from restrictions:			
Endowment appropriation- program funding	185,000	(185,000)	-
Depreciation and amortization expense	85,587	(85,587)	-
Endowment appropriation- management fees	16,203	(16,203)	-
Total Revenue and Support	1,254,678	(242,527)	1,012,151
Operating Expenses:			
Program services:			
Energy and Sustainability	562,409	-	562,409
Innovation and Life Sciences	352,887	-	352,887
STEAM	262,732	-	262,732
Supporting Services:			
General and administrative	727,346	-	727,346
Fundraising	43,853	-	43,853
Total Operating Expenses	1,949,227	-	1,949,227
Change in Net Assets	(694,549)	(242,527)	(937,076)
Net Assets, beginning	1,176,593	8,617,397	9,793,990
Net Assets, ending	$ 482,044	$ 8,374,870	$ 8,856,914

INSTITUTE OF THE AMERICAS
Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services				Supporting Services			
	Energy and Sustainability	Innovation and Life Science	STEAM	Total Program	General and Administrative	Fundraising	Total Supporting	Total
Salaries and benefits	$ 310,167	$ 60,772	$ 173,855	$ 544,794	$ 335,630	$ 9,658	$ 345,288	$ 890,082
Supplies, travel, and phone	296,188	19,095	123,368	438,651	128,133	2,802	130,935	569,586
Services and professional fees	90,870	811	25,906	117,587	114,757	1,145	115,902	233,489
Depreciation	26,540	-	26,541	53,081	80,601	-	80,601	133,682
Interest	-	-	-	-	143	-	143	143
Total Expenses	$ 723,765	$ 80,678	$ 349,670	$ 1,154,113	$ 659,264	$ 13,605	$ 672,869	$ 1,826,982

INSTITUTE OF THE AMERICAS
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services				Supporting Services			
	Energy and Sustainability	Innovation and Life Science	STEAM	Total Program	General and Administrative	Fundraising	Total Supporting	Total
Salaries and benefits	$ 304,884	$ 223,477	$ 149,087	$ 677,448	$ 412,249	$ 40,850	$ 453,099	$ 1,130,547
Supplies, travel, and phone	185,760	38,957	93,224	317,941	77,440	2,087	79,527	397,468
Services and professional fees	45,224	63,912	20,421	129,557	166,421	916	167,337	296,894
Depreciation	26,541	26,541	-	53,082	71,039	-	71,039	124,121
Interest	-	-	-	-	197	-	197	197
Total Expenses	$ 562,409	$ 352,887	$ 262,732	$ 1,178,028	$ 727,346	$ 43,853	$ 771,199	$ 1,949,227

See accompanying notes to financial statements.

INSTITUTE OF THE AMERICAS
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	$ 5,307,072	$ (937,076)
Adjustments to reconcile change in net assets to		
Net cash used by operating activities:		
Net realized and unrealized (gain)/loss on investments	(865,154)	85,814
Depreciation and amortization	133,682	124,121
Changes in operating assets and liabilities:		
Accounts receivable	(18,774)	6,134
Prepaid expenses	1,179	(1,500)
Accounts payable and accrued expenses	29,678	1,036
Deferred revenue	(89,966)	26,580
Net Cash Flows Provided/(Used) by Operating Activities	4,497,717	(694,891)
Cash Flows from Investing Activities:		
Proceeds from sales of investments	689,588	879,066
Purchases of investments	(5,153,390)	-
Purchases of property and equipment	(107,142)	(7,314)
Net Cash Flows Provided/(Used) by Investing Activities	(4,570,944)	871,752
Cash Flows Used by Financing Activities:		
Payments on capital leases	(6,532)	(6,362)
Net Change in Cash	(79,759)	170,499
Cash, beginning	178,284	7,785
Cash, ending	$ 98,525	$ 178,284
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 143	$ 197

See accompanying notes to financial statements.

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities
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, the Caribbean, as well as Central America, including, but not limited to social and economic aspects of such relations.

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

New Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This standard update, along with related subsequently issued updates, clarifies the principles for recognizing revenue and develops a common revenue standard under accounting principles generally accepted in the United States of America (US GAAP). During the year ended December 31, 2019, the Organization adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). This standard update, along with related subsequently issued updates, clarifies and improves the scope and the accounting guidance for contributions received and contributions made under US GAAP. During the year ended December 31, 2019, the Organization adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*.

Use of Estimates
The preparation of 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.

Basis of Presentation
The financial statements of the Institute have been prepared in accordance with U.S. GAAP, which require the Institute to report information regarding its financial position and activities according to the following net asset classifications:

> Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Institute. These net assets may be used at the discretion of the Institute's management and the board of directors.
>
> Net assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Institute or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Accounts Receivable
The Institute has historically collected all of its membership dues and sponsorship receivables. It is the Institute’s policy to charge off uncollectible receivables when management determines the receivable will not be collected. Based on the information available, management believes that no allowance is needed as of December 31, 2019.

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Fair Value Measurements
The Institute defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Institute applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs. The three levels are defined as follows:

> Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
>
> Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.
>
> Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

As a practical expedient, certain financial instruments may be valued using net asset value (NAV) per share. NAV is the amount of net assets attributable to each share of outstanding capital stock at the end of the period.

The carrying value of cash, receivables, other current assets, and payables approximate fair values as of December 31, 2019, due to the relative short maturities of these instruments.

Investments
Investments are carried at market value, and realized and unrealized gains and losses are reflected in the change in net assets in the statements of activities.

Property and Equipment
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 the capitalize assets with a useful life greater than one year and a value of $1,000 or more. The basis for valuation of purchased property and equipment is cost and estimated fair value on the date of contribution for contributed property and equipment.

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. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets of three to 50 years.

Deferred Revenue
Deferred revenue consists of payments received in advance for sublease rent as well as amounts received for sponsorships and registrations in advance of events. Such amounts are recorded as revenues when the related services are performed, or obligations are satisfied.

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.

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Income Taxes, continued
All tax-exempt entities are subject to review and audit by federal, state, and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the organization as a tax-exempt entity under Internal Revenue Code Section and applicable state statutes.

Revenue Recognition
Revenue – The Institute recognizes revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Institute expects to be entitled in exchange for those goods or services.

The Institute has adopted Accounting Standards Update (ASU) No. 2014-09 - Revenue from Contracts with Customers (Topic 606), as amended as management believes the standard improves the usefulness and understandability of the Organization's financial reporting.

The Institute recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

Membership dues and sponsorships, are comprised of an exchange element based on the value of benefits provided, and a contribution element for the difference between the total dues paid and the exchange element. The exchange portion is immaterial to the financial statements and the entire membership or sponsorship is recognized as a contribution immediately. The Institute records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

Functional Allocation of Expenses
The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Information technology salaries are booked directly by hours worked indicated on the employee's hourly time sheets submitted for payroll processing. All other salaries are allocated based on a two-month time allocation that was performed in 2019. Depreciation expense is allocated based on office space square footage. Phone is allocated evenly across all departments unless there is an event out of the country. If that is the case, a larger percentage is allocated to the program having the event.

Future Accounting Standards
In February 2016, the FASB issued ASU 2016-02 Leases. The primary change in US GAAP addressed by ASU 2016-02 is the requirement for a lessee to recognize on the statement of financial position a liability to make lease payments ("lease liability") and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 also requires qualitative and quantitative disclosures to enable users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, although there are optional practical expedients that entities may elect to apply. The Institute is evaluating the effect that the provisions of ASU 2016-02 will have on its financial statements and related disclosures.

Subsequent Events
The Institute has evaluated subsequent events through May 11, 2020, which is the date the financial statements were issued.

Note 2 – Liquidity and Availability

The following reflects the Institute's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual obligations within one year of the statement of financial position date.

	2019	2018
Cash	$ 98,525	$ 178,284
Accounts receivable	42,302	23,528
Investments	5,079,435	67,782
Financial Assets available to meet general expenditures over the next twelve months	$ 5,220,262	$ 269,594

The Board of Directors has designated a portion of income generated from endowment funds for use by the Institute in the event of operating cash flow shortfalls, programming needs, or in the event of immediate liquidity needs resulting from events outside the typical cash requirements. The approved withdrawals are between 3 and 5 percent of income and net appreciation generated by the endowment per year. Anything beyond that amount must have additional Board approval.

The Board also designates withdrawals of $325,000 per year in the annual budget from investment income without donor restrictions and/or endowment income with donor restrictions. These withdrawals are taken only in the case of an operating cash shortfall. If the need goes beyond $325,000, Board approval is required.

The endowment funds consist of donor-restricted endowments. Expenditures from the earnings of the endowment, are only used as appropriated for general expenditure as part of our Board's annual budget approval and appropriation but can be made available if necessary. See Note 7 for further details regarding the endowment.

Note 3 – Concentrations of Credit Risk

Cash
The Institute maintains cash accounts at a financial institution. The balances at times may exceed Federal Deposit Insurance Corporation (FDIC) limits. Accounts at the financial institution are insured by the FDIC up to $250,000.

Credit and market risk
The Institute holds investments in equity and debt securities. These securities, in general, are subject to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain of these investment securities, it is reasonably possible that change in the value of these investment securities may occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Note 4 – Investments

The following table presents investments carried at fair value as of December 31, 2019, by the fair value measurement valuation hierarchy:

	Level 1	Level 2	Level 3	NAV	Total
Domestic equities:					
Information technology	$ 1,455,739	$ -	$ -	$ -	$ 1,455,739
Health technology	1,197,100	-	-	-	1,197,100
Financial	672,852	-	-	-	672,852
Retail	610,526	-	-	-	610,526
Miscellaneous	321,235	-	-	-	321,235
Transportation	287,181	-	-	-	287,181
Media	219,720	-	-	-	219,720
US Treasury Bonds	5,003,530	-	-	-	5,003,530
Corporate bonds	1,094,652	-	-	-	1,094,652
Money market accounts	277,232	-	-	-	277,232
	$ 11,139,767	$ -	$ -	$ -	$ 11,139,767

The following table presents investments carried at fair value as of December 31, 2018, by the fair value measurement valuation hierarchy:

	Level 1	Level 2	Level 3	NAV	Total
Domestic equities:					
Information technology	$ 807,590	$ -	$ -	$ -	$ 807,590
Financial	427,883	-	-	-	427,883
Health technology	362,986	-	-	-	362,986
Transportation	201,854	-	-	-	201,854
Retail	261,146	-	-	-	261,146
Miscellaneous	138,427	-	-	-	138,427
Media	61,344	-	-	-	61,344
Corporate bonds	1,559,200	-	-	-	1,559,200
Money market accounts	1,990,381	-	-	-	1,990,381
	$ 5,810,811	$ -	$ -	$ -	$ 5,810,811

	2019	2018
Investments	5,079,435	67,782
Endowment	6,060,332	5,743,029
	$ 11,139,767	$ 5,810,811

Note 5 – Property and Equipment

Property and equipment consisted of the following as of December 31:

	2019	2018
Leasehold interest, Note 6	$ 5,975,233	$ 5,975,233
Equipment	308,857	298,102
Furniture and fixtures	234,587	222,128
Leasehold improvements	205,237	121,310
	6,723,914	6,616,773
Less accumulated depreciation	(3,688,141)	(3,554,460)
	$ 3,035,773	$ 3,062,313

Depreciation expense for the years ended December 31, 2019 and 2018 was $133,682 and $124,121, respectively.

Note 6 – Restrictions on Net Assets

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 and until April 2052 for Phase III. Phase III of the leasehold interest is sublet to UCSD. The structures are amortized over the term of the leasehold interest, the estimated useful life of the assets.

Net assets with donor restrictions consist of:

	2019	2018
Subject to the passage of time:		
Leasehold interest, net of accumulated depreciation	$ 2,546,260	$ 2,631,841
Endowments:		
Subject to appropriations and expenditures when a specified event occurs:		
Avaliable for general use	1,789,996	1,477,931
Scholarships	30,046	24,808
Subject to endowment spending policy and appropriation:		
General use	4,170,290	4,170,290
Scholarships	70,000	70,000
Total net assets with donor restrictions	$ 8,606,592	$ 8,374,870

Note 6 – Restrictions on Net Assets, continued

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

		2019		2019
Satisfaction of time restrictions:				
Depreciation and amortization expense	$	85,587	$	85,587
Restricted-purpose spending distributions and appropriations:				
Program funding		670,000		185,000
Management fees		19,360		16,203
	$	774,947	$	286,790

Note 7 – Endowment

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. Income from the endowment is available for the use of the Institute at the discretion of the Institute's Board of Directors.

In 2013, a donor contributed $70,000 to be invested in the endowment in perpetuity. The income from the $70,000 is to be used to fund scholarship for poor children to attend Institute programs. Scholarships were not awarded during the years ended December 31, 2019 and 2018.

The Board of the Institute has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds while supporting the operations of the Institute through a set spending rate. As a result of this interpretation, the Institute retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulation to the endowment made in accordance with the direction of the 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 retained in perpetuity is subject to appropriation for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Institute considers the following factors in deciding to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund
2) The purposes of the Institute and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Institute
7) The investment policies of the Institute

Spending Policy

The Board adopted an Endowment Policy (spending policy) upon recommendation of the Endowment and Finance Committee. The policy allows for withdrawals from the endowment for use in operations upon approval by the Committee. Except under extraordinary circumstances, approval withdrawals should be between 3% and 5% of income and net appreciation generated by the endowment per year. Board approved withdrawals are reclassified from net assets with donor restrictions to net assets without donor restrictions in the period that they are withdrawn for use.

Note 7 – Endowment, continued

Investment Policy
In order to achieve the Institute's long-term investment objective, the portfolio will be administered with a moderate level of risk, accepting some volatility in principal while attempting to grow the portfolio over time. The Institute's Investment Policy provides asset managers with a target allocation for the portfolio that approximates 65% invested in equity securities, 25% in bonds/fixed income, and 10% in alternatives allowing a 30% variance in either direction. At a minimum, an annual rebalancing will be administered to bring the portfolio back in line with the asset allocation model.

At December 31, 2019, the endowment net assets composition by type of fund consists of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds			
Original donor-restricted gift amount required to be maintained in perpetuity by donor	$ -	$ 4,240,290	$ 4,240,290
Accumulated investment gains	-	1,820,042	1,820,042
	$ -	$ 6,060,332	$ 6,060,332

At December 31, 2018, the endowment net assets composition by type of fund consists of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds			
Original donor-restricted gift amount required to be maintained in perpetuity by donor	$ -	$ 4,240,290	$ 4,240,290
Accumulated investment gains	-	1,502,739	1,502,739
	$ -	$ 5,743,029	$ 5,743,029

Changes in endowment net assets for the year ended December 31, 2019, consists of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 5,743,029	$ 5,743,029
Investment return:			
Net investment income	-	151,601	151,601
Net appreciation (realized and unrealized)	-	855,062	855,062
Total investment gain	-	1,006,663	1,006,663
Appropriation of endowment assets for expenditure	-	(689,360)	(689,360)
Endowment net assets, end of year	$ -	$ 6,060,332	$ 6,060,332

Note 7 – Endowment, continued

Changes in endowment net assets for the year ended December 31, 2018, consists of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 5,899,969	$ 5,899,969
Investment return:			
Net investment income	-	118,986	118,986
Net depreciation (realized and unrealized)	-	(74,723)	(74,723)
Total investment gain	-	44,263	44,263
Appropriation of endowment assets for expenditure	-	(201,203)	(201,203)
Endowment net assets, end of year	$ -	$ 5,743,029	$ 5,743,029

Note 8 – Employee Benefit Plans

<u>TDA Plan</u>
The Institute maintains a tax deferred annuity plan that is available to all of its employees. The employees fund contributions to the plan.

<u>403(b) Thrift Plan</u>
The Institute has a 403(b) Thrift Plan (“the Plan”). This Plan is effective January 1, 2018. 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 $24,000 and $38,000 in 2019 and 2018, respectively. This Plan requires all new full-time employees to make a 1% contribution to the Plan; however, an employee may opt out of the plan within 30 days.

Note 9 – Capital Lease Obligations

The Institute leases certain equipment under non-cancelable capital leases, which were included in property and equipment as follows:

	2019	2018
Copier	$ 32,865	$ 32,865
Less accumulated depreciation	(20,867)	(14,607)
	$ 11,998	$ 18,258

Note 9 – Capital Lease Obligations, continued

Depreciation expense related to these capitalized leases was approximately $6,260 and $6,260 during 2019 and 2018, respectively.

Future minimum lease payments are as follows:

Year ending December 31,		
2020	$	6,804
2021		5,194
2022		-
Total minimum lease payments		11,998
Amount representing interest		(169)
Present value of minimum lease payments	$	11,829

Note 10 – Commitments and Contingencies

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 much be returned to the grantor. The Institute believes it has satisfied all grantor conditions related to grant revenue recognized in 2019.

Note 11 – Sublease

The Institute sublet approximately 4,200 square feet of its leasehold interest to UCSD under non-cancelable lease ending February 16, 2019. This lease agreement was verbally extended through April 30, 2019. A new sublease agreement was entered into on May 1, 2019 subletting approximately 5,314 rentable square feet of its leasehold interest to UCSD. There is a termination option starting after April 30, 2020, both Sublandlord and Subtenant shall have the right to provide a 120-day prior written notice to terminate the sublease for the expansion space of 1,114 square feet. Lease revenue for the years ended December 31, 2019 and 2018 was $240,903 and $211,602, respectively.

Future minimum sublease payments under the above operating lease as of December 31, 2019 are as follows:

Year Ending December 31,		
2020		162,103
2021		141,088
2022		47,338
Therafter		-
	$	350,529

Note 12 – Subsequent Events

Due to national and world-wide disruptions caused by COVID-19 in 2020, the Institute may be adversely impacted. The Institute is adjusting its operations to compensate for disruptions on an ongoing basis. At this time, any financial impact of potential COVID-19 related disruptions are not known