

**INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
(FORMERLY, INTERNATIONAL INSTITUTE OF BOSTON, INC.)
AND AFFILIATE**

**COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

**INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
(FORMERLY, INTERNATIONAL INSTITUTE OF BOSTON, INC.) AND AFFILIATE**

Contents
September 30, 2016 and 2015

	<u>Pages</u>
Independent Auditor's Report	1
Combined Financial Statements:	
Combined Statements of Financial Position	2
Combined Statements of Activities and Changes in Net Assets	3
Combined Statements of Cash Flows	4
Combined Statements of Functional Expenses	5 - 6
Notes to Combined Financial Statements	7 - 14



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Independent Auditor's Report

To the Board of Directors of
International Institute of New England, Inc. and Affiliate:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of International Institute of New England, Inc. (formerly, International Institute of Boston, Inc.) (a Massachusetts nonprofit corporation) and Affiliate, which comprise the combined statements of financial position as of September 30, 2016 and 2015, and the related combined statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

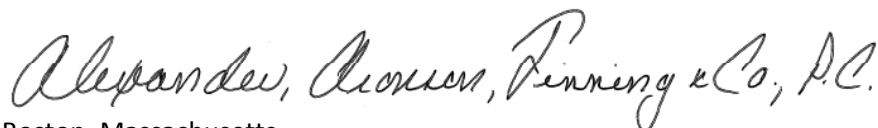
Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of International Institute of New England, Inc. (formerly, International Institute of Boston, Inc.) and Affiliate as of September 30, 2016 and 2015, 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.



Boston, Massachusetts
February 15, 2017

**INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
(FORMERLY, INTERNATIONAL INSTITUTE OF BOSTON, INC.) AND AFFILIATE**

Combined Statements of Financial Position
September 30, 2016 and 2015

Assets	2016	2015
Current Assets:		
Cash - operating	\$ 897,308	\$ 321,480
Grants, contracts and other receivables	763,475	456,169
Prepaid expenses and other	27,203	27,286
Cash - escrow	-	500,000
Short-term investments	-	1,260,000
Total current assets	1,687,986	2,564,935
Investments	8,129,057	8,782,486
Property and Equipment, net	2,080,248	55,008
Security Deposits	92,764	6,000
Total assets	\$ 11,990,055	\$ 11,408,429
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 388,266	\$ 46,850
Accrued expenses	311,762	1,481,596
Current portion of deferred rent and lease incentive	110,782	-
Deferred revenue	37,409	9,439
Total current liabilities	848,219	1,537,885
Deferred Rent and Lease Incentive, net of current portion	1,063,224	-
Total liabilities	1,911,443	1,537,885
Net Assets:		
Unrestricted:		
Operating	9,374,814	9,689,240
Property and equipment	678,351	55,008
Total unrestricted	10,053,165	9,744,248
Temporarily restricted	25,447	126,296
Total net assets	10,078,612	9,870,544
Total liabilities and net assets	\$ 11,990,055	\$ 11,408,429

**INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
(FORMERLY, INTERNATIONAL INSTITUTE OF BOSTON, INC.) AND AFFILIATE**

Combined Statements of Activities and Changes in Net Assets
For the Years Ended September 30, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues:						
Contract services	\$ 4,075,093	\$ -	\$ 4,075,093	\$ 4,071,098	\$ -	\$ 4,071,098
Donated goods and services	786,536	-	786,536	577,429	-	577,429
Grants and contributions	83,517	139,895	223,412	44,793	365,776	410,569
United Way allocation	115,679	-	115,679	116,820	-	116,820
Special events	93,659	-	93,659	193,891	-	193,891
Miscellaneous	33,483	-	33,483	1,698	-	1,698
Rental income	-	-	-	433,536	-	433,536
Net assets released from program restrictions	240,744	(240,744)	-	468,779	(468,779)	-
Total revenues	<u>5,428,711</u>	<u>(100,849)</u>	<u>5,327,862</u>	<u>5,908,044</u>	<u>(103,003)</u>	<u>5,805,041</u>
Expenses:						
Program services	4,422,262	-	4,422,262	4,411,729	-	4,411,729
General and administrative	1,259,198	-	1,259,198	891,753	-	891,753
Fundraising	317,974	-	317,974	216,240	-	216,240
Facilities	-	-	-	707,067	-	707,067
Total expenses	<u>5,999,434</u>	<u>-</u>	<u>5,999,434</u>	<u>6,226,789</u>	<u>-</u>	<u>6,226,789</u>
Changes in net assets from operations	<u>(570,723)</u>	<u>(100,849)</u>	<u>(671,572)</u>	<u>(318,745)</u>	<u>(103,003)</u>	<u>(421,748)</u>
Non-Operating Revenue (Expenses):						
Net investment gain (loss)	785,728	-	785,728	(534,458)	-	(534,458)
Capital grants	-	93,912	93,912	-	-	-
Net assets released from capital restrictions	93,912	(93,912)	-	-	-	-
Gain on sale of building, net of related income taxes of \$1,231,525	-	-	-	10,650,189	-	10,650,189
Amortization of financing fees	-	-	-	(184,549)	-	(184,549)
Total non-operating revenue (expenses)	<u>879,640</u>	<u>-</u>	<u>879,640</u>	<u>9,931,182</u>	<u>-</u>	<u>9,931,182</u>
Changes in net assets	308,917	(100,849)	208,068	9,612,437	(103,003)	9,509,434
Net Assets:						
Beginning of year	<u>9,744,248</u>	<u>126,296</u>	<u>9,870,544</u>	<u>131,811</u>	<u>229,299</u>	<u>361,110</u>
End of year	<u>\$ 10,053,165</u>	<u>\$ 25,447</u>	<u>\$ 10,078,612</u>	<u>\$ 9,744,248</u>	<u>\$ 126,296</u>	<u>\$ 9,870,544</u>

The accompanying notes are an integral part of these combined statements.

**INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
(FORMERLY, INTERNATIONAL INSTITUTE OF BOSTON, INC.) AND AFFILIATE**

Combined Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 208,068	\$ 9,509,434
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments	(785,728)	534,458
Gain on sale of building	-	(11,881,714)
Depreciation and amortization	54,180	341,859
Amortization of lease incentive	(18,464)	-
Capital grants	(93,912)	-
Changes in operating assets and liabilities:		
Grants, contracts and other receivables	(212,806)	(56,353)
Prepaid expenses and other	83	(7,734)
Security deposits	(86,764)	-
Accounts payable	19,025	(211,987)
Accrued expenses	61,691	1,242,863
Deferred rent	84,648	-
Deferred revenue	27,970	(10,882)
Net cash used in operating activities	<u>(742,009)</u>	<u>(540,056)</u>
Cash Flows from Investing Activities:		
Investment purchases	(4,430,297)	(10,576,944)
Proceeds from sale/transfer of investments	7,129,454	-
(Increase) decrease in cash - escrow	500,000	(500,000)
Acquisition of property and equipment	(1,757,029)	(44,211)
Proceeds from sale of building	-	17,766,479
Unrelated business income taxes paid	(1,231,525)	-
Net cash provided by investing activities	<u>210,603</u>	<u>6,645,324</u>
Cash Flows from Financing Activities:		
Proceeds from lease incentive	1,013,322	-
Capital grants	93,912	-
Principal payments on long-term debt	-	(6,531,318)
Net cash provided by (used in) financing activities	<u>1,107,234</u>	<u>(6,531,318)</u>
Net Change in Cash	575,828	(426,050)
Cash:		
Beginning of year	<u>321,480</u>	<u>747,530</u>
End of year	<u>\$ 897,308</u>	<u>\$ 321,480</u>
Supplemental Disclosure of Cash Flow Information:		
Property and equipment financed through accounts payable	<u>\$ 322,391</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ 174,524</u>
Cash paid for unrelated business income taxes	<u>\$ 1,231,525</u>	<u>\$ 96,225</u>

The accompanying notes are an integral part of these combined statements.

INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
(FORMERLY, INTERNATIONAL INSTITUTE OF BOSTON, INC.) AND AFFILIATE

Combined Statement of Functional Expenses
For the Year Ended September 30, 2016
(With Summarized Comparative Totals for the Year Ended September 30, 2015)

	2016			2015	
	Program Services	General and Administrative	Fundraising	Total	Total
Personnel and Related:					
Salaries	\$ 1,852,580	\$ 655,462	\$ 106,815	\$ 2,614,857	\$ 2,547,584
Donated services	557,583	109,868	26,399	693,850	533,695
Payroll taxes and fringe benefits	320,791	41,150	18,116	380,057	402,959
Purchased and contracted services	89,425	187,265	62,887	339,577	239,827
Recruitment	5,188	17,796	50	23,034	72,777
Total personnel and related	<u>2,825,567</u>	<u>1,011,541</u>	<u>214,267</u>	<u>4,051,375</u>	<u>3,796,842</u>
Occupancy:					
Rent and utilities	276,332	95,936	16,904	389,172	265,247
Depreciation	18,109	4,105	1,932	24,146	146,132
Equipment rental	12,414	-	-	12,414	13,403
Repairs and maintenance	763	10,132	-	10,895	54,675
Mortgage interest	-	-	-	-	174,524
Real estate taxes	-	-	-	-	85,711
Total occupancy	<u>307,618</u>	<u>110,173</u>	<u>18,836</u>	<u>436,627</u>	<u>739,692</u>
Other:					
Client assistance	1,029,865	-	-	1,029,865	1,209,710
Donated goods	92,686	-	-	92,686	43,734
Professional fees	1,128	68,195	227	69,550	63,463
Special events	-	-	61,937	61,937	59,066
Supplies and materials	47,553	11,675	2,367	61,595	77,964
Travel, meetings and conferences	35,085	15,774	3,341	54,200	57,180
Insurance	15,360	29,455	214	45,029	61,184
Telephone	39,886	1,658	-	41,544	33,974
Depreciation and amortization	18,361	7,408	4,265	30,034	11,178
Dues and subscriptions	5,781	1,250	5,410	12,441	13,073
Printing	-	-	5,755	5,755	-
Miscellaneous	2,368	843	500	3,711	17,938
Postage	1,004	1,226	855	3,085	3,607
Income taxes	-	-	-	-	38,184
Total other	<u>1,289,077</u>	<u>137,484</u>	<u>84,871</u>	<u>1,511,432</u>	<u>1,690,255</u>
Total expenses	<u>\$ 4,422,262</u>	<u>\$ 1,259,198</u>	<u>\$ 317,974</u>	<u>\$ 5,999,434</u>	<u>\$ 6,226,789</u>

The accompanying notes are an integral part of these combined statements.

**INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
(FORMERLY, INTERNATIONAL INSTITUTE OF BOSTON, INC.) AND AFFILIATE**

Combined Statement of Functional Expenses
For the Year Ended September 30, 2015

	<u>Program Services</u>	<u>General and Adminis- trative</u>	<u>Fundraising</u>	<u>Facilities</u>	<u>Total</u>
Personnel and Related:					
Salaries	\$ 1,825,111	\$ 559,779	\$ 68,169	\$ 94,525	\$ 2,547,584
Donated services	533,695	-	-	-	533,695
Payroll taxes and fringe benefits	288,664	88,557	10,784	14,954	402,959
Purchased and contracted services	111,070	60,541	61,716	6,500	239,827
Recruitment	740	71,927	110	-	72,777
	<u>2,759,280</u>	<u>780,804</u>	<u>140,779</u>	<u>115,979</u>	<u>3,796,842</u>
Total personnel and related					
Occupancy:					
Rent and utilities	210,640	-	-	54,607	265,247
Depreciation	-	-	-	146,132	146,132
Equipment rental	12,663	-	-	740	13,403
Repairs and maintenance	325	-	-	54,350	54,675
Mortgage interest	-	-	-	174,524	174,524
Real estate taxes	-	-	-	85,711	85,711
	<u>223,628</u>	<u>-</u>	<u>-</u>	<u>516,064</u>	<u>739,692</u>
Total occupancy					
Other:					
Client assistance	1,209,710	-	-	-	1,209,710
Donated goods	43,734	-	-	-	43,734
Professional fees	548	51,780	1,115	10,020	63,463
Special events	-	-	59,066	-	59,066
Supplies and materials	69,086	8,237	358	283	77,964
Travel, meetings and conferences	49,463	7,394	323	-	57,180
Insurance	8,171	30,312	500	22,201	61,184
Telephone	33,805	169	-	-	33,974
Depreciation and amortization	988	5,854	-	4,336	11,178
Dues and subscriptions	9,403	645	3,025	-	13,073
Miscellaneous	2,846	5,027	10,065	-	17,938
Postage	1,067	1,531	1,009	-	3,607
Income taxes	-	-	-	38,184	38,184
	<u>1,428,821</u>	<u>110,949</u>	<u>75,461</u>	<u>75,024</u>	<u>1,690,255</u>
Total other					
Total expenses	<u>\$ 4,411,729</u>	<u>\$ 891,753</u>	<u>\$ 216,240</u>	<u>\$ 707,067</u>	<u>\$ 6,226,789</u>

The accompanying notes are an integral part of these combined statements.

**INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
(FORMERLY, INTERNATIONAL INSTITUTE OF BOSTON, INC.) AND AFFILIATE**

Notes to Combined Financial Statements
September 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

International Institute of New England, Inc. (formerly, International Institute of Boston, Inc.) (the Institute) is a nonprofit organization that provides assistance to the immigrant and refugee populations of Massachusetts and New Hampshire. In fiscal years 2016 and 2015, there were approximately 1,700 and 1,900 unduplicated people, respectively, from approximately 66 and 65 countries, respectively, that benefited from the Institute's services, gaining the knowledge and skills necessary for their integration into American life. The Institute's services include English and literacy classes, citizenship education, job training and placement, legal aid and counseling services, and case management.

Community Lending Corporation (CLC) was a community-based nonprofit corporation established to provide financing, technical assistance and business support services to underserved populations. The Institute was the sole member of CLC. The Institute and CLC shared three common Board members and their President. CLC had limited activity for the years ended September 30, 2016 and 2015. During fiscal year 2016, CLC was dissolved and its remaining assets and liabilities were transferred to the Institute.

The Institute and CLC are exempt from Federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Institute and CLC are also exempt from state income taxes. Contributions made to the Institute and CLC are deductible by donors within the requirements of the IRC. During 2015, certain rental income and the sale of the Institute's building (see page 8) was subject to Federal and state income taxes under Unrelated Business Taxable Income (UBIT) regulations.

During fiscal year 2016, the Institute changed its name from International Institute of Boston, Inc. to International Institute of New England, Inc.

SIGNIFICANT ACCOUNTING POLICIES

The Institute and CLC (collectively, the Organization) prepare their combined financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Principles of Combination

The combined financial statements include the accounts of the Institute and CLC. All significant inter-company transactions and balances have been eliminated.

Combined Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major or central to the provision of program services are reported as operating revenue and expenses on the accompanying combined statements of activities and changes in net assets. Non-operating revenues (expenses) include capital and investment activity.

**INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
(FORMERLY, INTERNATIONAL INSTITUTE OF BOSTON, INC.) AND AFFILIATE**

Notes to Combined Financial Statements
September 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of combined financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment and Depreciation

Property and equipment are recorded at cost when purchased or at fair value at the date of donation. Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>	<u>2016</u>	<u>2015</u>
Leasehold improvements	Lesser of life of lease or 10 years	\$ 1,770,198	\$ -
Furniture and equipment	3 - 10 years	712,910	403,688
Vehicles	5 years	<u>35,064</u>	<u>35,064</u>
		2,518,172	438,752
Less - accumulated depreciation		<u>437,924</u>	<u>383,744</u>
Net property and equipment		<u>\$ 2,080,248</u>	<u>\$ 55,008</u>

In May 2015, the Institute sold its building resulting in a gain of \$10,650,189, net of related income taxes.

Depreciation expense was \$54,180 and \$152,974 for the years ended September 30, 2016 and 2015, respectively.

Financing Costs

Prior to May 2015, the Institute was amortizing \$203,589 of financing costs associated with certain long-term debt. In May 2015, the Institute sold its building (see above) and paid off its remaining debt. These costs were being amortized using the straight-line method over the term of the related debt and became fully amortized in May 2015 upon repayment of the debt. Amortization expense was \$188,885 for the year ended September 30, 2015.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is recorded based on management's analysis of specific accounts and their estimate of amounts that may be uncollectible, if any. No allowance for doubtful accounts was deemed necessary as of September 30, 2016 and 2015.

Cash

Cash for the purpose of the accompanying combined statements of cash flows does not include cash held in the investment portfolio or in escrow.

**INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
(FORMERLY, INTERNATIONAL INSTITUTE OF BOSTON, INC.) AND AFFILIATE**

Notes to Combined Financial Statements
September 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Organization follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Organization would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Investments

Investments are recorded in the financial statements at fair value. If an investment is directly held by the Organization and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Reported fair values of shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year.

Accounting Principle Adoption

In fiscal year 2016, the Organization adopted FASB Accounting Standards Update 2015-07 (ASU 2015-07) (see Note 4), *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, removing the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. As early application is allowed, the Organization has used the retrospective approach for all periods presented whereby investments for which fair value is measured using the net asset value per share practical expedient have been removed from the fair value hierarchy (see Note 4).

**INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
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Notes to Combined Financial Statements
September 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Grants and contributions that have no donor restrictions are recognized as unrestricted revenue upon receipt or when unconditionally pledged. Contract service revenue is recognized when services are performed and costs are incurred. Rental income is recognized ratably over the applicable lease periods.

Donor restricted grants and contributions are recorded as temporarily restricted revenue when received or unconditionally pledged. When a donor restriction is met, that is, when a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are transferred to unrestricted net assets as net assets released from restrictions.

Special event revenue is recorded at the time of the event; however, contributions unconditionally pledged in support of the special event are recorded as special event revenue at the time of the pledge. All other income is recorded as earned.

Expense Allocations

Program expenses contain direct expenses, as well as indirect expenses, which are allocated based upon management's estimate of the percentage attributable to each program.

Donated Goods and Services

The Institute receives donated goods and services in various aspects of its programs. The value of the donated items is based on estimates made by the volunteers, agencies or management. Donated goods include food and clothing; donated services include legal, teaching, and consulting work. Donated items received were as follows:

	<u>2016</u>	<u>2015</u>
Donated services	\$ 693,850	\$ 533,695
Donated goods	<u>92,686</u>	<u>43,734</u>
	<u>\$ 786,536</u>	<u>\$ 577,429</u>

The Institute also receives a substantial amount of donated administrative services. Many individuals volunteer their time and perform a variety of tasks that help the Organization accomplish its goals. These services do not meet the criteria for recognition as contributed services under U.S. GAAP and, accordingly, are not included in the accompanying combined financial statements.

Subsequent Events

Subsequent events have been evaluated through February 15, 2017, which is the date the combined financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the combined financial statements.

**INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
(FORMERLY, INTERNATIONAL INSTITUTE OF BOSTON, INC.) AND AFFILIATE**

Notes to Combined Financial Statements
September 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Deferred revenue consists of contract advances. These amounts will be recognized as revenue as the services are provided and costs are incurred.

Income Taxes

The Organization accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the combined financial statements regarding a tax position taken or expected to be taken in a tax return. The Organization has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combined financial statements at September 30, 2016 or 2015.

Net Assets

Unrestricted Net Assets:

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Organization. The Organization has grouped its unrestricted net assets into the following categories:

Operating - represents funds available to carry on the operations of the Organization.

Property and equipment - reflect and account for the activities relating to the Organization's property and equipment, net of related debt.

Temporarily Restricted Net Assets:

The Organization receives contributions and grants that are designated by donors for specific purposes or time periods. These contributions are recorded as temporarily restricted net assets until they are either expended for their designated purposes or as the time restrictions lapse. Temporarily restricted net assets as of September 30, 2016 and 2015, are purpose restricted.

2. RETIREMENT PLAN

The Institute has a defined contribution retirement plan covering all eligible employees over the age of twenty-one who have completed a minimum of 1,000 hours of service within each of their first two years of employment. Employee contributions are vested immediately into the plan upon eligibility. The Institute did not make any contributions to the plan during the years ended September 30, 2016 and 2015.

3. TENANT LEASES

Prior to May 19, 2015, the Institute leased its facility to various nonprofit and commercial tenants. The lease terms were from one to five years and provided for periodic escalation charges and contingent rent based on a percentage of excess gross revenues (as defined in respective agreements). The Institute did not receive contingent rent for the year ended September 30, 2015. On May 19, 2015, the Institute sold its building and assigned the leases to the new owners (see page 8).

**INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
(FORMERLY, INTERNATIONAL INSTITUTE OF BOSTON, INC.) AND AFFILIATE**

Notes to Combined Financial Statements
September 30, 2016 and 2015

4. INVESTMENTS

Investments, which are stated at fair value (see Note 1) in the accompanying statements of financial position, are as follows:

<u>2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 115,773	\$ -	\$ -	\$ 115,773
Mutual Funds	<u>6,998,707</u>	<u>-</u>	<u>-</u>	<u>6,998,707</u>
	<u>\$ 7,114,480</u>	<u>\$ -</u>	<u>\$ -</u>	7,114,480
Limited liability partnership (see below)				<u>1,014,577</u>
Total investments				<u>\$ 8,129,057</u>
<u>2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 3,643,575	\$ -	\$ -	\$ 3,643,575
Mutual Funds	<u>6,398,911</u>	<u>-</u>	<u>-</u>	<u>6,398,911</u>
Total investments	<u>\$ 10,042,486</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,042,486</u>

The Organization has adopted ASU 2015-07 (see page 9). The fair value amounts presented in the above table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined statements of financial position.

Investments are reported in the accompanying combined statements of financial position as current or long-term assets based on management's intent with respect to the use of the investments. As of September 30, 2016, all investments have been reported as long-term. At September 30, 2015, \$1,260,000 of investments were reported as current as management's intent was to use these funds to pay for the Federal and state income taxes related to the sale of its building (see page 8).

Net investment gains (losses) consist of:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 180,297	\$ 27,624
Unrealized gain (loss) on investments	621,613	(562,082)
Realized loss on investments	<u>(16,182)</u>	<u>-</u>
Net investment gain (loss)	<u>\$ 785,728</u>	<u>\$ (534,458)</u>

The investments are not insured and are subject to market fluctuation.

5. CONCENTRATIONS

The Organization maintains its cash balances with several banks. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. The Organization has supplemental coverage at one bank, which insures the portion of deposits in excess of the FDIC's limit. The Organization has not experienced any losses in such accounts.

**INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
(FORMERLY, INTERNATIONAL INSTITUTE OF BOSTON, INC.) AND AFFILIATE**

Notes to Combined Financial Statements
September 30, 2016 and 2015

5. CONCENTRATIONS (Continued)

Funding agencies and donors exceeding 10% of the Organization's operating revenue or accounts and grant receivable as of and for the years ended September 30, 2016 and 2015, are as follows:

<u>Funder</u>	Operating Revenue and Support %		Grants, Contracts and Other Receivables %	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
U.S. Committee for Refugees and Immigrants	42%	31%	41%	23%
Commonwealth of Massachusetts	24%	15%	32%	23%
State of New Hampshire	11%	8%	3%	4%

6. FUNDING

The Organization received approximately \$3,465,000 and \$3,170,000 of its funding from government agencies for the years ended September 30, 2016 and 2015, respectively, all of which are subject to audit by the specific government agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Organization as of September 30, 2016 and 2015, or on the changes in its net assets for the years then ended.

7. LEASE AGREEMENTS

The Institute leases program and administrative space under various operating leases and tenant-at-will agreements. These leases expire at various dates through September 2018. The leases require the Institute to maintain certain insurance coverage and pay for its proportionate share of real estate taxes and operating expenses.

In August 2016, the Institute entered into an agreement to lease new administrative and program space in Boston, Massachusetts through October 2026. Initial monthly lease payments are \$38,788 and increase throughout the term of the lease. The Institute records rent on a straight-line basis over the term of the lease. The difference between the monthly lease payments and the related rent expense for a given year is recorded as deferred rent. The straight-line rent expense combines the escalation amounts and an initial three month rent free period. At September 30, 2016, deferred rent was \$84,648 and is included in deferred rent and lease incentive in the accompanying 2016 combined statement of financial position.

The lease agreement also included a tenant improvement allowance of \$1,107,822 in the form of a reimbursement for construction and related costs incurred by the Institute for leasehold improvements. The leasehold improvements were completed and the Institute occupied the space during the year ended September 30, 2016. This improvement allowance is reported as a liability and is being amortized over the lease term as a reduction in the rent expense. The improvement allowance is included in deferred rent and lease incentives in the accompanying 2016 combined statement of financial position. At September 30, 2016, \$94,500 of this improvement allowance is included in grants, contracts and other receivables in the accompanying 2016 combined statement of financial position. Amortization of the lease incentive was \$18,464 during the year ended September 30, 2016, and is included in rent and utilities in the accompanying 2016 combined statement of functional expenses.

**INTERNATIONAL INSTITUTE OF NEW ENGLAND, INC.
(FORMERLY, INTERNATIONAL INSTITUTE OF BOSTON, INC.) AND AFFILIATE**

Notes to Combined Financial Statements
September 30, 2016 and 2015

7. LEASE AGREEMENTS (Continued)

In May 2015, the Institute sold its building (see page 8). As part of the sale agreement, the Institute entered into a one-year leaseback agreement with the new owner for certain space in the building. Monthly lease payments under the agreement were \$23,544. The Institute was responsible for certain operating costs as defined in the agreement. Rent paid for the year ended September 30, 2016, was \$178,479, which is included in rent and utilities in the accompanying combined statements of functional expenses.

As part of the leaseback agreement, the Institute was required to deposit \$500,000 in a rent holdback escrow account. This escrow deposit was refunded to the Institute in fiscal year 2016.

Rent expense under all leases was approximately \$389,000 and \$185,000 for the years ended September 30, 2016 and 2015, respectively.

Future minimum lease payments under the lease agreements for the next five years are as follows:

2017	\$ 477,104
2018	\$ 528,380
2019	\$ 488,939
2020	\$ 501,188
2021	\$ 513,437

8. RELATED PARTY TRANSACTIONS

The President and Chief Executive Officer (CEO) of the Institute is also a member of the Board of Directors. Compensation and employee benefits for services provided as the President and CEO are determined by the independent members of the Board of Directors and are based on performance objectives.

The Chief Financial Officer (CFO) of the Institute is also the Treasurer of the Organization. Compensation and employee benefits for services provided as the CFO are also determined by the independent members of the Board of Directors.

9. RECLASSIFICATIONS

Certain amounts in the fiscal year 2015 combined financial statements have been reclassified to conform with the fiscal year 2016 presentation.