

EAST-WEST MANAGEMENT INSTITUTE, INC.

**Financial Statements
For the Years Ended December 31, 2017 and 2016
With Independent Auditor's Reports**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

EAST-WEST MANAGEMENT INSTITUTE, INC.
For the Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
East-West Management Institute, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of East-West Management Institute, Inc. (the Institute), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity 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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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MITCHELL TITUS

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East-West Management Institute, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Mitchell Titus, LLP

June 29, 2018

EAST-WEST MANAGEMENT INSTITUTE, INC.
 Statements of Financial Position
 As of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 665,675	\$ 460,230
Contracts and grants receivable	1,902,631	1,495,489
Contributions receivable	178,849	280,849
Security deposits and other assets	243,833	223,905
Restricted cash	19,711	16,940
Total assets	<u>\$ 3,010,699</u>	<u>\$ 2,477,413</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 569,216	\$ 543,053
Deferred revenue	272,640	68,061
Loans payable	700,000	500,000
Total liabilities	<u>1,541,856</u>	<u>1,111,114</u>
Commitments		
<i>Net assets</i>		
Unrestricted	1,049,057	1,010,333
Temporarily restricted	419,786	355,966
Total net assets	<u>1,468,843</u>	<u>1,366,299</u>
Total liabilities and net assets	<u>\$ 3,010,699</u>	<u>\$ 2,477,413</u>

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

EAST-WEST MANAGEMENT INSTITUTE, INC.
Statements of Activities
For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND RECLASSIFICATIONS						
U.S. government grants and cooperative agreements	\$ 9,281,357	\$ -	\$ 9,281,357	\$ 10,243,497	\$ -	\$ 10,243,497
U.S. government contracts	5,085,574	-	5,085,574	1,608,428	-	1,608,428
Contributed services	433,324	-	433,324	208,792	-	208,792
Other contracts	171,664	-	171,664	-	-	-
Other grants and contributions	187,035	445,095	632,130	246,986	123,609	370,595
Other income	920	-	920	-	-	-
Net assets released from restrictions	381,275	(381,275)	-	419,929	(419,929)	-
Total revenue and reclassifications	15,541,149	63,820	15,604,969	12,727,632	(296,320)	12,431,312
EXPENSES						
Program	13,393,758	-	13,393,758	10,971,416	-	10,971,416
General and administrative	2,099,252	-	2,099,252	1,811,236	-	1,811,236
Total expenses	15,493,010	-	15,493,010	12,782,652	-	12,782,652
Change in net assets before other income (expense)	48,139	63,820	111,959	(55,020)	(296,320)	(351,340)
OTHER INCOME (EXPENSE)						
Interest income	1,458	-	1,458	222	-	222
Currency exchange gain (loss)	-	-	-	(573)	-	(573)
Interest expense	(18,848)	-	(18,848)	(8,442)	-	(8,442)
Deferred rent credit (expense)	9,500	-	9,500	(4,500)	-	(4,500)
Bad debt	(1,525)	-	(1,525)	-	-	-
Other expense, net	(9,415)	-	(9,415)	(13,293)	-	(13,293)
Change in net assets	38,724	63,820	102,544	(68,313)	(296,320)	(364,633)
Net assets, beginning of year	1,010,333	355,966	1,366,299	1,078,646	652,286	1,730,932
Net assets, end of year	\$ 1,049,057	\$ 419,786	\$ 1,468,843	\$ 1,010,333	\$ 355,966	\$ 1,366,299

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

EAST-WEST MANAGEMENT INSTITUTE, INC.
 Statements of Cash Flows
 For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 102,544	\$ (364,633)
<i>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities</i>		
Depreciation	-	1,563
<i>Changes in operating assets and liabilities (Decrease) increase in contracts and grants receivable</i>	(407,142)	67,926
Decrease in contributions receivable	102,000	162,576
(Increase) in security deposits and other assets	(19,928)	(27,180)
Increase in accounts payable and accrued expenses	26,163	106,409
Increase in deferred revenue	<u>204,579</u>	<u>11,327</u>
Net cash provided by (used in) operating activities	<u>8,216</u>	<u>(42,012)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings of loan principal	<u>200,000</u>	<u>250,000</u>
Net cash provided by financing activities	<u>200,000</u>	<u>250,000</u>
Net increase in cash and restricted cash	208,216	207,988
Cash and restricted cash, beginning of the year	<u>477,170</u>	<u>269,182</u>
Cash and restricted cash, end of the year	<u><u>\$ 685,386</u></u>	<u><u>\$ 477,170</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 18,848</u>	<u>\$ 8,442</u>

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

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 1 ORGANIZATION

East-West Management Institute, Inc. (the Institute, or EWMI) was organized in January 1988 as a not-for-profit corporation under sub-paragraph (a)(5) of Section 102 of the not-for-profit corporation law of the State of New York. The Institute was established to help build the infrastructure and institutions of an open society through the support of a variety of educational, legal, and economic restructuring activities.

The Institute's government revenue arises primarily from contracts, cooperative agreements, and grants from the United States Agency for International Development (USAID) and the U.S. Department of State (collectively, the U.S. Government). Programs covered by these contracts, cooperative agreements, and grants in 2017 and 2016 were as follows:

- Development and implementation of judicial reform, legal aid, and rule of law programs in Cambodia, Albania, Georgia, and Sri Lanka.
- Training and support for non-governmental organizations, grassroots networks, public policy, and human rights programs in Cambodia, Georgia, Kyrgyzstan, and Macedonia.
- Training and support for economic and community development in Azerbaijan.

During 2017 and 2016, the Institute had other programs that were funded through grants from other sources. They included a project to explore and promote the option for building community-based philanthropic endowments by capturing a portion of the proceeds of privatization; various programs to support public interest legal advocacy; and, a program to promote transparent development in the Lower Mekong countries.

The Institute also signed contracts in 2016 and 2017 to develop linkages between U.S. and European academic institutions and the Parliamentary Institute of Cambodia, and a contract to support Landesa's Myanmar Program.

As described in Note 7, the Institute implements grant-making programs to foster the rule of law, economic development, and a civil society worldwide. These programs are generally funded from various grants, cooperative agreements, contracts and contributions from governments, and private donors.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Institute's financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles in the United States (U.S. GAAP) as applicable to not-for-profit entities.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Net Asset Classification

The Institute's net assets have been presented and classified as unrestricted and temporarily restricted based on the existence or absence of donor-imposed restrictions.

Unrestricted—Resources that are not subject to donor restrictions. Unrestricted amounts may be designated by the Board of Directors (the Board), or management at the Board's direction, to cover any purpose determined by the Institute.

Temporarily restricted—Funds that the Institute may use in accordance with donor restrictions for specific purposes or upon the passage of time (see Note 5).

Use of Estimates

The preparation of 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 financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Revenue Recognition

Revenue from grants and contracts is recorded when services are performed in accordance with the underlying agreements. Federal funds under the cooperative agreements are recorded as revenue when expenditures are incurred and are billable to the government.

As of December 31, 2017 and 2016, all amounts due under such grants, cooperative agreements, and contracts were deemed to be fully collectible and, accordingly, no allowance for uncollectibility was required.

Contributions

All unconditional contributions are recorded as revenue when received at their fair value. The fair value of long-term receivables is measured based on the present value of future cash flows, with consideration of the expectation about possible variations in the amount and/or timing of the cash flows, the donors' credit risk and other specific factors that would be considered by market participants.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contributions *(continued)*

All contributions are considered available for unrestricted use, unless specifically restricted by the donor. The Institute records contributions as temporarily restricted if they are received with donor stipulations that limit their use either by purpose or by the passage of time. When donor restrictions expire (i.e., when a purpose or time restriction is fulfilled), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Cost-Share Amounts and Contributed Services

Cost-share amounts include cash received, from non-U.S. government donors, and expended, as well as in-kind services provided to the applicable USAID grants. These are recorded by the Institute as contributions and program expenses in the accompanying statements of activities.

Contributed services that meet the appropriate criteria are recorded as both contributions and expenses at fair value at the time the services are rendered. These include services of professionals who contributed their time to further develop the Institute's programs.

All of the Institute's Board members have volunteered their time to serve on the Board. The value of this contributed time is not reflected in these financial statements since the services do not meet all of the following criteria for recognition: (a) create or enhance nonfinancial assets or (b) require specialized skills provided by individuals possessing those skills, and (c) would typically need to be purchased if not provided by donation.

Cash

The Institute maintains cash in bank accounts in amounts that may exceed federally insured limits. The Institute has not experienced any losses on these accounts.

Property and Equipment

The Institute capitalizes property and equipment purchased at a cost of \$5,000 or more. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets purchased, which range from three to seven years.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Functional Allocation of Expenses

Costs that are specifically identifiable to programs or to management and administration are charged directly to such functions. Costs incurred for both programs and general and administration are allocated based on certain factors, such as the time spent on activities performed under the respective functions. The Institute does not perform fund-raising activities.

Income Taxes

The Institute is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and from state income taxes.

Management evaluated the Institute's tax positions and concluded that, as of December 31, 2017, there were no uncertain tax positions taken or are expected to be taken. Accordingly, no interest or penalties related to uncertain tax positions have been accrued in the accompanying financial statements.

The Institute is subject to audits by taxing jurisdictions; however, no audits for any tax periods are currently in progress. Management believes that the Institute is no longer subject to income tax examinations by federal, state, or local tax authorities for years ended on and prior to December 31, 2013.

Statements of Cash Flows

The following table provides a reconciliation of cash and restricted cash within the accompanying statements of financial position that sum to the total of the same amounts shown in the accompanying statements of cash flows.

	<u>2017</u>	<u>2016</u>
Cash	\$ 665,675	\$ 460,230
Restricted cash	<u>19,711</u>	<u>16,940</u>
	<u>\$ 685,386</u>	<u>\$ 477,170</u>

Amounts included in restricted cash represent amounts held on behalf of certain employees.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. The ASU requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also expands the footnote disclosure requirements related to contracts with customers. In August 2015, the effective date of the ASU was deferred for the Institute to the year ending December 31, 2019. The Institute is currently evaluating the impact of the adoption of the ASU on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU requires an entity to recognize all lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The effective date of the ASU for the Institute is for the year ending December 31, 2020. The Institute is currently evaluating the impact of the adoption of the ASU on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). The ASU amends the requirements for presentation of the financial statements and notes. In particular, it enhances the qualitative and quantitative disclosures of the net asset classes, investment return, expenses, liquidity and availability of resources, and operating cash flows. The effective date of the ASU for the Institute is for the year ending December 31, 2018. The Institute is currently evaluating the impact of the adoption of the ASU on its financial statements.

Reclassifications

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

NOTE 3 CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2017 and 2016 were expected to be collected in less than one year.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31 consisted of contributions for the following purposes:

	<u>2017</u>	<u>2016</u>
Philanthropication through Privatization (a program for building community-based philanthropic institutions in less developed countries)	\$ 141,095	\$ 193,265
Open Development Initiative	278,651	110,034
Chino Cienega	-	10,000
Partner Legacy Support Fund Donations	40	-
Open Development Cambodia Project	-	42,667
	<u>\$ 419,786</u>	<u>\$ 355,966</u>

Net assets released from restrictions consisted of expenditures for the following purposes:

	<u>2017</u>	<u>2016</u>
Philanthropication through Privatization (a program for building community-based philanthropic institutions in less developed countries)	\$ 132,171	\$ 148,652
Open Development Initiative	106,382	80,928
Open Development Cambodia Project	42,667	88,557
Making at Voices Count-Liberia - Hivos/USAID	-	22,608
Chino Cienega	20,000	-
Partner Legacy Support Fund Donations	6,055	4,184
Support for development of public interest law in Cambodia	74,000	74,000
Prison Fellowship Liberia (PFL) donations	-	1,000
	<u>\$ 381,275</u>	<u>\$ 419,929</u>

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

NOTE 6 GOVERNMENT GRANTS, COOPERATIVE AGREEMENTS, AND CONTRACTS

The Institute's grants, cooperative agreements, and contracts with the U.S. Government and sub-contracts with certain pass-through entities generally cover several periods. At the end of the year, total funds available consisted of the following: \$17,548,577 in 2017 and \$21,704,688 in 2016 under remaining grants and cooperative agreements; \$22,597,165 in 2017 under remaining contracts and \$27,682,739 in 2016; \$93,130 in 2017 under remaining sub-awards. These funds will be recognized as revenue when the services have been rendered.

The Institute is obligated to provide matching funding under certain U.S. Government grants and cooperative agreements. Subject to certain restrictions, matching funds may be met with funds from other grants and contracts, and cost-share amounts (see Notes 2 and 7), and other contributions. Matching funds obligated and not yet provided under remaining grants and cooperative agreements totaled \$903,933 and \$2,004,195 at December 31, 2017 and 2016, respectively.

All contracts, cooperative agreements, and grants with the USAID and the U.S. Department of State allow the Institute to charge for indirect costs using a provisional indirect cost rate for the year, which may be different from the actual indirect cost rate that may be finally allowed for that year under such contracts, cooperative agreements, and grants. Adjustments for the difference between the indirect costs allowed under the provisional rate and the actual indirect costs incurred during the year are accrued and recognized in the financial statements in the year in which the differences occur.

During 2017, the Institute's actual indirect costs were lower than the amount billed throughout 2017, using the provisional indirect cost rate, by a net amount of \$55,463. This amount was presented as a reduction of grants and contracts receivable in the accompanying financial statements at December 31, 2017, and will be deducted from the 2018 billing to the USAID and the U.S. Department of State after approval of the final indirect cost rate by the USAID.

During 2016, the Institute's actual indirect costs were lower than the amount billed throughout 2016, using the provisional indirect cost rate, by a net amount of \$48,168. This amount was presented as a reduction of grants and contracts receivable in the accompanying financial statements at December 31, 2016 are expected to be repaid in 2018 as the USAID's final approval of the 2016 indirect cost rate was received on May 23, 2018.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 7 GRANT EXPENSE

The Institute implements grant-making programs to foster the rule of law, economic development, and a civil society worldwide. The activities it has supported include the development of non-governmental organizations (NGOs) and professional associations; promotion of ethnic tolerance, human rights and independent media; rural economic development and curriculum development; and research and policy reform in transitional countries. A significant goal is the sustainability of local institutions. The Institute complements its grant-making with capacity-building activities for NGOs and other groups, professional training, and advisory services. It also engages other donors to co-fund programs and sub-grantees.

Generally, grants are awarded through a competitive grant application process. In addition, the Institute supports certain unsolicited proposals and partnerships. The Institute made cash grants of \$4,774,303 in 2017 and \$4,403,906 in 2016 to local NGOs and other groups. Sub-grantees' cost share under these programs totaled \$888,398 in 2017 and \$714,838 in 2016.

NOTE 8 EMPLOYEE BENEFIT PLAN

The Institute maintains a defined contribution plan (the Plan) under Section 401(k) of the Code, covering substantially all employees. Under the Plan, which was established in 1999, the Institute provides matching contributions equal to 3% of all qualified employees' compensation to the 401(k) component of the Plan. The Institute additionally elected to contribute 1.6% and 2.2% of all qualified employees' compensation to the revenue-sharing component of the Plan during 2017 and 2016, respectively. The Institute's total contributions to the Plan were approximately \$109,000 in 2017 and \$109,700 in 2016. An officer of the Institute serves as the Plan's trustee.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 9 FUNCTIONAL EXPENSES

The Institute's expenses were allocated to functional categories as follows:

	Year Ended December 31, 2017		
	Program	General and Administrative	Total
<i>Expenses</i>			
Salaries and employee benefits	\$ 4,516,639	\$ 1,396,516	\$ 5,913,155
Consultants and related expenses	1,002,756	169,292	1,172,048
Rent	275,476	228,681	504,157
Office expense and supplies	231,050	44,874	275,924
Travel and meals	206,305	73,255	279,560
Insurance	37,175	51,473	88,648
Overseas allowances	223,455	-	223,455
Grants and subcontracts	5,935,599	-	5,935,599
Messengers and postage	4,932	1,172	6,104
Noncapitalized equipment	87,232	18,940	106,172
Telecommunications	30,330	10,736	41,066
Other professional services	52,859	85,524	138,383
Meetings and trainings	756,763	940	757,703
Miscellaneous	33,187	17,849	51,036
Total expenses	<u>13,393,758</u>	<u>2,099,252</u>	<u>15,493,010</u>
<i>Other expenses</i>			
Interest	-	18,848	18,848
Deferred rent credit	-	(9,500)	(9,500)
Bad debt	-	1,525	1,525
Total other expenses	<u>-</u>	<u>10,873</u>	<u>10,873</u>
Total	<u><u>\$ 13,393,758</u></u>	<u><u>\$ 2,110,125</u></u>	<u><u>\$ 15,503,883</u></u>

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 9 FUNCTIONAL EXPENSES *(continued)*

	Year Ended December 31, 2016		
	Program	General and Administrative	Total
<i>Expenses</i>			
Salaries and employee benefits	\$ 3,653,526	\$ 1,222,767	\$ 4,876,293
Consultants and related expenses	1,147,336	96,100	1,243,436
Rent	236,004	170,195	406,199
Office expense and supplies	153,691	50,779	204,470
Depreciation	-	1,563	1,563
Travel and meals	214,586	54,760	269,346
Insurance	17,383	54,661	72,044
Overseas allowances	202,429	1,147	203,576
Grants and subcontracts	4,743,743	-	4,743,743
Messengers and postage	3,707	863	4,570
Noncapitalized equipment	73,695	10,526	84,221
Telecommunications	31,685	13,559	45,244
Other professional services	9,595	87,082	96,677
Meetings and trainings	446,400	3,631	450,031
Miscellaneous	37,636	43,603	81,239
Expenses as presented in the statement of activities	10,971,416	1,811,236	12,782,652
<i>Other expenses</i>			
Interest	-	8,442	8,442
Deferred rent	-	4,500	4,500
Total other expenses	-	12,942	12,942
Total	\$ 10,971,416	\$ 1,824,178	\$ 12,795,594

NOTE 10 COMMITMENTS AND CONTINGENCIES

Loan Agreement

On September 19, 2013, the Institute entered into a loan agreement (the Agreement) with Bank of America, N.A. (the Bank), whereby the Bank provided the Institute with a revolving line of credit (the Facility) in the amount of \$1,000,000 (the Facility Commitment). The Facility, as renewed, ends on December 31, 2018 (the Facility Expiration Date), and may be renewed by the Bank prior to the Facility Expiration Date. The portion of the Facility Commitment not used by the Institute is subject to an unused commitment fee of 0.0625%.

The Loan bears interest calculated daily using the British Bankers Association London Interbank Offered Rate (BBA LIBOR) plus 1.85%. Interest expense in 2017 and 2016 totaled \$18,848 and \$8,442, respectively.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 10 COMMITMENTS AND CONTINGENCIES *(continued)*

Loan Agreement *(continued)*

The payment of the Institute's obligations under the agreement, up to the amount of \$1,000,000, is unconditionally guaranteed by another organization (the guarantor).

The Institute is in compliance with the terms of the Agreement.

Leases

The Institute leases office space in New York, Washington, DC and various international locations. The New York office space is under a 10-year sub-lease that commenced on June 1, 2011 and will terminate on May 31, 2021, unless the prime lease is terminated earlier (the NYO sublease). The leases in foreign locations have terms terminating on various dates through 2021.

A portion of the New York office space was sublet, effective November 1, 2014 (the Sub-sublease). The Sub-sublease terminated on May 31, 2017.

Annual future minimum rental payments and income under the leases and subleases are as follows:

Year Ending December 31	Rental Payments			
	NYO Sublease	Washington, DC	Foreign Locations	Total
2018	\$ 216,000	\$ 18,480	\$ 253,303	\$ 487,783
2019	216,000	-	165,105	381,105
2020	216,000	-	58,489	274,489
2021	90,000	-	20,129	110,129
	<u>\$ 738,000</u>	<u>\$ 18,480</u>	<u>\$ 497,026</u>	<u>\$ 1,253,506</u>

Certain leases may be canceled by the Institute based on certain circumstances or with notice.

Rent expense for the years ended 2017 and 2016 was \$504,156 and \$406,199, respectively. Sublease income of \$12,500 in 2017 and \$60,000 in 2016 was netted against 2017 and 2016 rent expense, respectively.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 10 COMMITMENTS AND CONTINGENCIES *(continued)*

U.S. Government Grants, Cooperative Agreements, and Contracts

The Institute is obligated to provide matching funding under certain U.S. Government grants and cooperative agreements. Such obligations under the remaining grants and cooperative agreements at December 31, 2017 totaled \$903,933 (see Note 6).

Certain U.S. government grants, cooperative agreements, and contracts may be subject to audit by the funding sources. Such audit might result in disallowances of costs submitted for reimbursement. Management believes that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been accrued in the accompanying financial statements for such potential claims.

NOTE 11 CONCENTRATION OF RISK

The Institute received approximately 88% and 91% of its total revenue in 2017 and 2016, respectively, either directly or indirectly from the USAID. Any significant reduction in the level of support from the USAID could have a material adverse effect on the Institute's programs.

NOTE 12 SUBSEQUENT EVENTS

The Institute evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation was performed through June 29, 2018, the date the financial statements were approved for issuance. There were no subsequent events that should be accounted for or require disclosure in the accompanying financial statements.

