

EAST-WEST MANAGEMENT INSTITUTE, INC.

**Financial Statements
For the Years Ended December 31, 2018 and 2017
With Independent Auditor's Reports**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

EAST-WEST MANAGEMENT INSTITUTE, INC.
For the Years Ended December 31, 2018 and 2017

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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, 2018 and 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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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 East-West Management Institute, Inc. as of December 31, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Institute adopted the provisions of Accounting Standards Update ASU 2016-14, *Not-for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2018. Our opinion is not modified with respect to this matter.

Mitchell Titus, LLP

June 25, 2019

EAST-WEST MANAGEMENT INSTITUTE, INC.
 Statements of Financial Position
 As of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 1,090,305	\$ 665,675
Contracts and grants receivable	1,279,486	1,902,631
Contributions receivable	257,621	178,849
Security deposits and other assets	215,402	243,833
Restricted cash	<u>23,187</u>	<u>19,711</u>
Total assets	<u>\$ 2,866,001</u>	<u>\$ 3,010,699</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 601,948	\$ 569,216
Deferred revenue	220,037	272,640
Loans payable	<u>500,000</u>	<u>700,000</u>
Total liabilities	<u>1,321,985</u>	<u>1,541,856</u>
COMMITMENTS		
<i>Net assets</i>		
Without donor restriction	1,097,529	1,049,057
With donor restriction	<u>446,487</u>	<u>419,786</u>
Total net assets	<u>1,544,016</u>	<u>1,468,843</u>
Total liabilities and net assets	<u>\$ 2,866,001</u>	<u>\$ 3,010,699</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, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND RECLASSIFICATIONS						
U.S. Government grants and cooperative agreements	\$ 8,874,399	\$ -	\$ 8,874,399	\$ 9,281,357	\$ -	\$ 9,281,357
U.S. Government contracts	6,036,842	-	6,036,842	5,085,574	-	5,085,574
United Kingdom's Foreign and Commonwealth Office (FCO)	39,550	-	39,550	-	-	-
Contributed services	280,111	-	280,111	433,324	-	433,324
Other contracts	216,701	-	216,701	171,664	-	171,664
Other grants and contributions	251,444	386,571	638,015	187,035	445,095	632,130
Other income	247	-	247	920	-	920
Net assets released from restrictions	359,870	(359,870)	-	381,275	(381,275)	-
Total revenue and reclassifications	16,059,164	26,701	16,085,865	15,541,149	63,820	15,604,969
EXPENSES						
Program	13,860,595	-	13,860,595	13,393,758	-	13,393,758
General and administrative	2,142,981	-	2,142,981	2,099,252	-	2,099,252
Total expenses	16,003,576	-	16,003,576	15,493,010	-	15,493,010
Change in net assets before other income (expense)	55,588	26,701	82,289	48,139	63,820	111,959
OTHER INCOME (EXPENSE)						
Interest income	4,906	-	4,906	1,458	-	1,458
Currency exchange gain (loss)	748	-	748	-	-	-
Interest expense	(19,780)	-	(19,780)	(18,848)	-	(18,848)
Deferred rent expense	19,500	-	19,500	9,500	-	9,500
Bad debt	(12,490)	-	(12,490)	(1,525)	-	(1,525)
Other expense, net	(7,116)	-	(7,116)	(9,415)	-	(9,415)
Change in net assets	48,472	26,701	75,173	38,724	63,820	102,544
Net assets, beginning of year	1,049,057	419,786	1,468,843	1,010,333	355,966	1,366,299
Net assets, end of year	\$ 1,097,529	\$ 446,487	\$ 1,544,016	\$ 1,049,057	\$ 419,786	\$ 1,468,843

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 75,173	\$ 102,544
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>		
<i>Changes in operating assets and liabilities</i>		
Decrease (increase) in contracts and grants receivable	623,145	(407,142)
(Increase) decrease in contributions receivable	(78,772)	102,000
Decrease (increase) in security deposits and other assets	28,431	(19,928)
Increase in accounts payable and accrued expenses	32,732	26,163
(Decrease) increase in deferred revenue	(52,603)	204,579
Net cash provided by operating activities	<u>628,106</u>	<u>8,216</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings (repayments) of loan principal	<u>(200,000)</u>	<u>200,000</u>
Net cash (used in) provided by financing activities	<u>(200,000)</u>	<u>200,000</u>
Net increase in cash and restricted cash	428,106	208,216
Cash and restricted cash, beginning of the year	<u>685,386</u>	<u>477,170</u>
Cash and restricted cash, end of the year	<u>\$ 1,113,492</u>	<u>\$ 685,386</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 19,780</u>	<u>\$ 18,848</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, 2018 and 2017

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 2018 and 2017 were as follows:

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

During 2018 and 2017, 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 2018 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 through 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 accounting principles generally accepted 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, 2018 and 2017

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

Net Asset Classification

The Institute's net assets are presented and classified as net assets without donor restrictions and net assets with donor restrictions based on the existence or absence of donor-imposed restrictions.

Without donor restriction—Resources that are not subject to donor restrictions. Net assets without donor restrictions 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.

With donor restriction—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, 2018 and 2017, 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 market participants giving consideration to the expectation of possible variations in the amount and/or timing of the cash flows, the donors' credit risk and other specific factors to be determined.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

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 net assets with donor restrictions if they are received with donor stipulations that limit their use either by purpose or the passage of time. When donor restrictions expire (*i.e.*, when a purpose or time restriction is fulfilled), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 amounts 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 services are provided by 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 they were not donated.

Cash

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

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.

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.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

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

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, 2018, there were no uncertain tax positions taken or 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>2018</u>	<u>2017</u>
Cash	\$ 1,090,305	\$ 665,675
Restricted cash	<u>23,187</u>	<u>19,711</u>
	<u>\$ 1,113,492</u>	<u>\$ 685,386</u>

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

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.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

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

New Accounting Pronouncements *(continued)*

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 the 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 guidance was effective for the Institute's 2018 financial statements and required changes have been reflected herein.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The purpose of this guidance is to clarify cash flow presentation of restricted cash to reduce the significant diversity in practice. The Institute adopted the ASU for its 2017 financial statements and required changes have been reflected herein.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides a more robust framework for determining whether a transaction should be accounted for as a contribution or exchange transaction. The ASU also provides additional guidance on determining whether or not a contribution is conditional, which impacts the timing of when a contribution is recorded. The amendments are effective for the Institute's fiscal year ending December 31, 2019 as it relates to contributions received and for the fiscal year ending December 31, 2020 as it relates to any contributions made by the Institute. The Institute is currently evaluating the impact of the adoption of the ASU on its financial statements.

NOTE 3 CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2018 and 2017 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, 2018 and 2017

NOTE 4 DEFERRED REVENUE

Funds under the following grants were recorded as deferred revenue and recognized as revenue based on expenditures incurred.

	2018			
	Opening Balance	Funds Received	Recognized as Revenue	Deferred Revenue
The Mekong Regional Land Governance Project by Land Equity International Pty, Ltd.	\$ 17,732	\$ 24,486	\$ 42,218	\$ -
Stockholm University - SPIDER - ODC	52,564	34,072	69,910	16,726
Stockholm University - SPIDER - ODI	63,983	-	63,983	-
Stockholm University - SPIDER - ODI - Regional Meeting	19,972	-	19,972	-
Parliamentary Institute of Cambodia Landesa	-	30,000	7,466	22,534
	108,336	225,000	205,296	128,040
RECOFTC (EU FUNDS) - Voices for Mekong Forests	10,053	8,234	15,730	2,557
Open Data Myanmar Biodiversity - IUCN 2018 Grant	-	8,000	8,000	-
Risks of Open Data Sharing (ODI) - Spider	-	34,750	8,971	25,779
ODI Platform Upgrade (ODI) - Spider	-	24,401	-	24,401
	<u>\$ 272,640</u>	<u>\$ 388,943</u>	<u>\$ 441,546</u>	<u>\$ 220,037</u>

	2017			
	Opening Balance	Funds Received	Recognized as Revenue	Deferred Revenue
The Mekong Regional Land Governance Project by Land Equity International Pty, Ltd.	\$ 24,050	\$ 62,500	\$ 68,818	\$ 17,732
Stockholm University - SPIDER - ODC	7,748	107,761	62,945	52,564
Stockholm University - SPIDER - ODI	-	109,637	45,654	63,983
Stockholm University - SPIDER - ODI - Regional Meeting	-	19,972	-	19,972
Partners Asia	6,263	-	6,263	-
Parliamentary Institute of Cambodia Landesa	30,000	-	30,000	-
	-	250,000	141,664	108,336
RECOFTC (EU FUNDS) - Voices for Mekong Forests	-	13,381	3,328	10,053
	<u>\$ 68,061</u>	<u>\$ 563,251</u>	<u>\$ 358,672</u>	<u>\$ 272,640</u>

NOTE 5 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31 consisted of contributions for the following purposes:

	2018	2017
Philanthropic through Privatization (a program for building community-based philanthropic institutions in less developed countries)	\$ 180,290	\$ 141,095
Open Development Initiative	119,445	278,651
Partner Legacy Support Fund Donations	740	40
International Development Research Center	146,012	-
	<u>\$ 446,487</u>	<u>\$ 419,786</u>

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 5 NET ASSETS WITH DONOR RESTRICTIONS *(continued)*

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

	<u>2018</u>	<u>2017</u>
Philanthropicization through Privatization (a program for building community-based philanthropic institutions in less developed countries)	\$ 60,774	\$ 132,171
Open Development Initiative	209,208	106,382
Open Development Cambodia Project	-	42,667
Chino Cienega	-	20,000
Partner Legacy Support Fund Donations	500	6,055
Support for development of public interest law in Cambodia	85,000	74,000
International Development Research Center	4,388	-
	<u>\$ 359,870</u>	<u>\$ 381,275</u>

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: \$12,196,060 in 2018 and \$17,548,577 in 2017 under remaining grants and cooperative agreements; \$16,604,006 in 2018 under remaining contracts and \$22,597,165 in 2017; \$66,604 in 2018 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 \$399,463 and \$903,933 at December 31, 2018 and 2017, 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.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 6 GOVERNMENT GRANTS, COOPERATIVE AGREEMENTS, AND CONTRACTS *(continued)*

During 2018, the Institute's actual indirect costs were higher than the amount billed throughout 2018, using the provisional indirect cost rate. At December 31, 2018, the federal government and other contractors owed a net total of \$22,750 to the Institute in indirect cost adjustments in 2018 for its contracts and cooperative agreements. Such amounts have been included in the Institute's revenue and contracts and grants receivable in the accompanying financial statements at December 31, 2018, and are expected to be collected in the 2019 billings to the USAID and the U.S. Department of State after approval of the final indirect cost rate by the USAID.

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 2019 billings to the USAID and the U.S. Department of State after approval of the final indirect cost rate by the USAID.

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 \$5,291,299 in 2018 and \$4,774,303 in 2017 to local NGOs and other groups. Sub-grantees' cost share under these programs totaled \$585,442 in 2018 and \$888,398 in 2017.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

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 4.3% and 1.6% of all qualified employees' compensation to the revenue-sharing component of the Plan during 2018 and 2017, respectively. The Institute's total contributions to the Plan were approximately \$185,200 in 2018 and \$109,000 in 2017. An officer of the Institute serves as the Plan's trustee.

NOTE 9 FUNCTIONAL EXPENSES

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

	Year Ended December 31, 2018		
	Program	General and Administrative	Total
<i>Expenses</i>			
Salaries and employee benefits	\$ 4,399,817	\$ 1,449,304	\$ 5,849,121
Consultants and related expenses	1,189,198	102,372	1,291,570
Rent	283,444	254,482	537,926
Office expense and supplies	213,846	50,696	264,542
Travel and meals	171,633	63,737	235,370
Insurance	28,974	51,743	80,717
Overseas allowances	150,947	-	150,947
Grants and subcontracts	6,464,175	-	6,464,175
Messengers and postage	5,753	540	6,293
Noncapitalized equipment	40,155	13,158	53,313
Telecommunications	33,347	10,517	43,864
Other professional services	11,886	101,888	113,774
Meetings and trainings	807,409	8,069	815,478
Miscellaneous	60,011	36,475	96,486
Total expenses	<u>13,860,595</u>	<u>2,142,981</u>	<u>16,003,576</u>
<i>Other expenses</i>			
Interest	-	19,780	19,780
Deferred rent	-	(19,500)	(19,500)
Bad debt	-	12,490	12,490
Total other expenses	<u>-</u>	<u>12,770</u>	<u>12,770</u>
Total	<u><u>\$ 13,860,595</u></u>	<u><u>\$ 2,155,751</u></u>	<u><u>\$ 16,016,346</u></u>

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 9 FUNCTIONAL EXPENSES *(continued)*

	Year Ended December 31, 2017		
	Program	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	13,393,758	2,099,252	15,493,010
<i>Other expenses</i>			
Interest	-	18,848	18,848
Deferred rent	-	(9,500)	(9,500)
Bad debt	-	1,525	1,525
Total other expenses	-	10,873	10,873
Total	\$ 13,393,758	\$ 2,110,125	\$ 15,503,883

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, 2019 (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 2018 and 2017 totaled \$19,780 and \$18,848, respectively.

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 Institute is in compliance with the terms of the Agreement.

EAST-WEST MANAGEMENT INSTITUTE, INC.
Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 10 COMMITMENTS AND CONTINGENCIES *(continued)*

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 sublease that commenced on June 1, 2011 and terminates on May 31, 2021, unless the prime lease is terminated earlier. The leases in foreign locations have terms terminating on various dates through 2021.

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

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

Rental Payments				
Year Ending December 31	NYO Sublease	Washington, DC	Foreign Locations	Total
2019	\$ 216,000	\$ 29,106	\$ 227,517	\$ 472,623
2020	216,000	-	52,440	268,440
2021	90,000	-	20,610	110,610
	<u>\$ 522,000</u>	<u>\$ 29,106</u>	<u>\$ 300,567</u>	<u>\$ 851,673</u>

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

Rent expense for the years ended 2018 and 2017 was \$537,926 and \$504,156, respectively.

Sublease income of \$12,500 in 2017 was netted against 2017 rent expense. There was no sublease income in 2018.

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, 2018 totaled \$399,463 (see Note 6).

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NOTE 10 COMMITMENTS AND CONTINGENCIES *(continued)*

U.S. Government Grants, Cooperative Agreements, and Contracts *(continued)*

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 90% and 88% of its total revenue in 2018 and 2017, 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 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of December 31, 2018, comprise the following:

Cash and cash equivalents	\$ 1,090,305
Contributions receivable	<u>1,279,486</u>
	<u>\$ 2,369,791</u>

As part of the Institute's liquidity management plan, the Institute structures its assets to be available as general expenditures, liabilities and other obligations become due. The Institute maintains sufficient cash and cash equivalents to meet its operating requirements, and should additional needs arise, the Institute can draw down on its line of credit of \$1,000,000. As of December 31, 2018, amounts outstanding under the line of credit amounted to \$500,000.

NOTE 13 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 25, 2019, 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.

