ENVIRONMENTAL LAW INSTITUTE

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Environmental Law Institute

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Independent Auditor's Report

Board of Directors
Environmental Law Institute
Washington, D.C.

We have audited the accompanying financial statements of the **Environmental Law Institute** (a nonprofit organization), which comprise the Statements of Financial Position as of December 31, 2017 and 2016, and the related Statements of Activities and Changes in Net Assets and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (Continued)

Opinion

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

Aronson LLC

Rockville, Maryland
March 28, 2018

Certified Public Accountants & Management Consultants

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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December 31,	**2017**	2016
Assets		
Current assets		
Cash and cash equivalents	**$ 2,309,618**	$ 2,211,547
Accounts receivable:		
Awards and contracts	**598,138**	713,472
Other	**75,200**	16,161
Allowance for doubtful accounts	**(40,000)**	(7,729)
Net accounts receivable	**633,338**	721,904
Contributions receivable, current portion	**742,385**	1,122,683
Investments	**4,495,079**	4,034,094
Prepaid expenses and inventory	**134,170**	128,569
Total current assets	**8,314,590**	8,218,797
Contributions receivable, net of current portion	**128,000**	-
Property and equipment, at cost		
Furniture, equipment and software	**299,358**	366,464
Leasehold improvements	**748,408**	748,408
Total	**1,047,766**	1,114,872
Less: Accumulated depreciation and amortization	**(433,435)**	(403,902)
Property and equipment, net	**614,331**	710,970
Other assets		
Security deposit	**64,115**	64,115
Total assets	**$ 9,121,036**	$ 8,993,882

The accompanying Notes to Financial Statements are an integral part of these financial statements.

	2017	2016
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	**$ 659,066**	$ 365,296
Accrued payroll and vacation	**401,304**	322,646
Deferred revenue	**388,162**	440,562
Deferred rent, current portion	**100,175**	91,158
Total current liabilities	**1,548,707**	1,219,662
Deferred rent, net of current portion	**828,819**	928,994
Total liabilities	**2,377,526**	2,148,656
Net assets		
Unrestricted	**4,764,229**	4,179,757
Temporarily restricted	**1,979,281**	2,665,469
Total net assets	**6,743,510**	6,845,226
Total liabilities and net assets	**$ 9,121,036**	$ 8,993,882

Environmental Law Institute

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2017	Unrestricted	Unrestricted Board Designated	Total Unrestricted	Temporarily Restricted	Total
Operating revenues					
Federal awards and contracts	$ 1,327,668	$ -	$ 1,327,668	$ -	**$ 1,327,668**
Contributions	534,553	-	534,553	1,640,239	**2,174,792**
Publication sales and subscriptions	419,084	-	419,084	-	**419,084**
Membership revenue	713,378	-	713,378	-	**713,378**
Award dinner	409,610	-	409,610	-	**409,610**
Interest and dividends, net	79,751	-	79,751	-	**79,751**
Other revenue	209,730	-	209,730	-	**209,730**
Net assets released from time restriction	339,918	-	339,918	(339,918)	**-**
Net assets released from purpose restriction	1,986,509	-	1,986,509	(1,986,509)	**-**
Total operating revenues	6,020,201	-	6,020,201	(686,188)	**5,334,013**
Operating expenses					
Program services					
Research, policy and training	3,411,611	40,000	3,451,611	-	**3,451,611**
Publications and educational material	471,479	-	471,479	-	**471,479**
Membership and outreach	921,684	-	921,684	-	**921,684**
Total program services	4,804,774	40,000	4,844,774	-	**4,844,774**
Supporting services					
Fundraising	506,853	-	506,853	-	**506,853**
Management and general	647,126	-	647,126	-	**647,126**
Total supporting services	1,153,979	-	1,153,979	-	**1,153,979**
Total operating expenses	5,958,753	40,000	5,998,753	-	**5,998,753**
Net operating income (loss)	61,448	(40,000)	21,448	(686,188)	**(664,740)**
Net realized and unrealized gains	563,024	-	563,024	-	**563,024**
Changes in net assets	624,472	(40,000)	584,472	(686,188)	**(101,716)**
Transfer between unrestricted net assets - 2017	(40,000)	40,000	-	-	**-**
Transfer between unrestricted net assets - 2018	(340,000)	340,000	-	-	**-**
Net assets, beginning of year	4,151,801	27,956	4,179,757	2,665,469	**6,845,226**
Net assets, end of year	**$ 4,396,273**	**$ 367,956**	**$ 4,764,229**	**$ 1,979,281**	**$ 6,743,510**

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Year Ended December 31, 2016	Unrestricted	Unrestricted Board Designated	Total Unrestricted	Temporarily Restricted	Total
Operating revenues					
Federal awards and contracts	$ 983,806	$ -	$ 983,806	$ -	$ 983,806
Contributions	721,145	27,956	749,101	2,756,278	3,505,379
Publication sales and subscriptions	449,114	-	449,114	-	449,114
Membership revenue	750,648	-	750,648	-	750,648
Award dinner	474,100	-	474,100	-	474,100
Interest and dividends, net	73,039	-	73,039	-	73,039
Other revenue	295,495	-	295,495	-	295,495
Net assets released from restriction	1,529,993	-	1,529,993	(1,529,993)	-
Total operating revenues	5,277,340	$ 27,956	5,305,296	1,226,285	6,531,581
Operating expenses					
Program services					
Research, policy and training	2,596,981	-	2,596,981	-	2,596,981
Publications and educational material	529,156	-	529,156	-	529,156
Membership and outreach	853,053	-	853,053	-	853,053
Total program services	3,979,190	-	3,979,190	-	3,979,190
Supporting services					
Fundraising	530,771	-	530,771	-	530,771
Management and general	630,469	-	630,469	-	630,469
Total supporting services	1,161,240	-	1,161,240	-	1,161,240
Total operating expenses	5,140,430	-	5,140,430	-	5,140,430
Net operating income	136,910	27,956	164,866	1,226,285	1,391,151
Net realized and unrealized gains	227,680	-	227,680	-	227,680
Changes in net assets	364,590	27,956	392,546	1,226,285	1,618,831
Transfer between unrestricted accounts	-	-	-	-	-
Net assets, beginning of year	3,787,211	-	3,787,211	1,439,184	5,226,395
Net assets, end of year	$ 4,151,801	$ 27,956	$ 4,179,757	$ 2,665,469	$ 6,845,226

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Environmental Law Institute

Statements of Cash Flows

Years Ended December 31,	**2017**	2016
Cash flows from operating activities		
Changes in net assets	**$ (101,716)**	$ 1,618,831
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Provision for doubtful accounts	**32,271**	19,881
Net realized and unrealized gains on investments	**(563,024)**	(227,680)
Depreciation and amortization	**112,794**	121,210
Loss on disposal of property and equipment	**111**	-
Provision for project losses	**27,400**	19,275
(Increase) decrease in:		
Accounts receivable	**56,295**	(88,249)
Contributions receivable	**252,298**	(449,094)
Prepaid expenses and inventory	**(5,601)**	7,002
Increase (decrease) in:		
Accounts payable and accrued liabilities	**266,370**	(9,365)
Accrued payroll and vacation	**78,658**	69,946
Deferred revenue	**(52,400)**	7,478
Deferred rent	**(91,158)**	(82,340)
Net cash provided by operating activities	**12,298**	1,006,895
Cash flows from investing activities		
Purchases of investments	**(622,566)**	(98,297)
Proceeds from sales of investments	**724,605**	27,178
Purchases of property and equipment	**(16,266)**	(34,691)
Net cash provided (used) by investing activities	**85,773**	(105,810)
Net change in cash and cash equivalents	**98,071**	901,085
Cash and cash equivalents, beginning of year	**2,211,547**	1,310,462
Cash and cash equivalents, end of year	**$ 2,309,618**	$ 2,211,547

The accompanying Notes to Financial Statements are an integral part of these financial statements.

1. Organization and significant accounting policies

Organization: The Environmental Law Institute (the "Institute") ("ELI") is a nonprofit corporation, operating in the District of Columbia, that conducts its major program activities in three broad, interrelated program areas involving conservation and environmental protection: education and training; publications; and policy research and technical assistance. The Institute was organized in December 1969 and is generally exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and is not classified by the IRS as a private foundation. It is subject to income tax only on its unrelated business income.

Basis of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations.

Basis of presentation: The Institute classifies net assets and revenues based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Institute and changes therein are classified and reported as follows:

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

Unrestricted board designated net assets – The board may designate the use of unrestricted net assets to enhance operational capabilities intended to produce future revenue. For the years ended December 31, 2017 and 2016, the board approved the use of $340,000 and $27,956, respectively, of unrestricted net assets for program development.

Temporarily restricted net assets – net assets subject to donor imposed stipulations that will be met either by actions of the Institute and/or the passage of time.

Permanently restricted net assets – net assets subject to donor imposed stipulations that they be maintained permanently by the Institute. The Institute may use all or part of the income earned on these assets for general or specific purposes. The Institute has no permanently restricted net assets as of December 31, 2017 and 2016.

Cash and cash equivalents: Cash equivalents consist of demand deposits, money market funds, and investments with initial maturities of ninety days or less. The Institute maintains cash balances which may exceed federally insured limits. The Institute does not believe that this results in any significant credit risk.

Accounts receivable: Accounts receivable include all current billed and unbilled costs chargeable to awards and contracts within the respective cost limits. All unbilled receivables will be billed at the next billing date and are expected to be collected within a twelve-month period. The Institute has $157,392 and $139,221 of unbilled receivables as of December 31, 2017 and 2016, respectively. The face amount of accounts receivable is reduced by an allowance for doubtful accounts. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts.

Contributions receivable: Contributions receivable consist of unconditional promises to give that are expected to be collected in future years. An allowance for doubtful accounts is allocated on an account by account basis, if necessary. All amounts are considered collectible at December 31, 2017 and 2016. Contributions expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on contributions are computed at a discount rate approximating the prevailing local borrowing rate. Amortization of the discount is included in contribution revenue.

Investments: Investments consist of mutual funds and exchange traded funds. Mutual funds and exchange traded funds are stated at fair value based on quoted market prices on the last business day of the year as discussed in Note 4. Money market funds are valued at cost which approximates fair value.

Donated investments are recorded at their fair value at the date of the gift. The Institute's policy is to liquidate all gifts of investments as soon as possible after the gift is received.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains (losses) include the Institute's gains and losses on investments bought and sold as well as held during the year.

Interest and dividends are presented net of investment fees of $29,585 and $27,328, respectively, for the years ended December 31, 2017 and 2016.

Inventory: Inventory consists of books and publications and is valued at the lower of cost or net realizable value. Cost is determined using the average cost method. Inventory is recorded at $50,182 and $56,970 as of December 31, 2017 and 2016, respectively, and is included in prepaid expenses and inventory on the Statements of Financial Position.

Property and equipment: The Institute capitalizes all expenditures for property and equipment in excess of $500. Property and equipment are carried at cost. Donated property and equipment are valued at the approximate fair value at the date of donation.

Depreciation and amortization are computed using the straight-line method over estimated useful lives of three to eight years for furniture, equipment and software, and the shorter of the term of the lease or useful life for leasehold improvements. Depreciation and amortization expense for the years ended December 31, 2017 and 2016 is $112,794 and $121,210, respectively.

Deferred rent: The Institute recognizes the minimum rents required under a lease as rent expense on a straight-line basis over the term of the lease. Differences between amounts recorded as expense and amounts actually paid are reported as a liability for deferred rent on the Statements of Financial Position.

Deferred revenue: Payments received in advance of revenue recognition for periodicals, publication sales, the award dinner, and associate membership fees are recorded as deferred revenue. Revenue is recognized when the earnings process is completed.

Revenue recognition: Sponsored research is conducted pursuant to awards and U.S. government contracts. Revenue from fixed-price contracts is recognized on the percentage-of-completion method (with cost and estimated profits included in unrestricted net assets as work is performed), and revenue from cost-plus-fixed-fee contracts is recorded on the basis of direct costs plus overhead and an allocable portion of the fixed fee. If the estimate indicates a loss, a provision is made for the total estimated loss anticipated on the contract at the time such loss is probable and can be reasonably estimated. As of December 31, 2017 and 2016, the provision for estimated contract losses was $250,000 and $222,600, respectively.

The Institute records contributions of cash and other assets received and unconditional promises to give as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor imposed restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restriction.

Subscriptions to the *Environmental Law Reporter* (“ELR”), a periodical published by the Institute, are recognized as revenue ratably over the subscription period.

Revenue from publication sales is recorded at the time the item is shipped.

Revenue from membership dues is recognized ratably over the applicable membership period.

Revenues and costs relating to conferences and the annual award dinner are recorded as revenue and expense at the time the events are held.

Concentrations: Approximately 14% and 11% of the Institute’s revenue was derived from federal awards received from the Environmental Protection Agency (“EPA”) for the years ended December 31, 2017 and 2016, respectively. The current level of the Institute’s operations and program services may be impacted if funding is not renewed.

Approximately 20% of the Institute’s revenue was from contributions received from two foundations for the year ended December 31, 2016, there were no such concentrations noted for the year ended December 31, 2017.

As of December 31, 2017, accounts receivables from two customers represented 35% of the total balance and contributions receivables from three donors represented 61% of the total balance. As of December 31, 2016, there were no receivable concentrations.

Functional expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries are charged directly to the programs served. Fringe benefits are allocated to the programs based on each program’s proportionate share of total salaries.

Tax status: The Institute is incorporated as a nonprofit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as a publicly-supported organization.

Uncertainties in income taxes: The Institute evaluates uncertainty in income tax positions based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of December 31, 2017 and 2016, there are no accruals for uncertain tax positions. If applicable, the Institute records interest and penalties as a component of income tax expense. Tax years from 2014 through the current year remain open for examination by federal and state tax authorities.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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 the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash flow classification of donated financial assets: Cash receipts from the sale of donated securities that upon receipt were converted nearly immediately into cash and with no donor-imposed restrictions are included in the operating section of the Statements of Cash Flows, while cash receipts from the sale of donated securities with donor-imposed long-term restrictions are classified as financing activities. Otherwise, receipts from the sale of donated financial assets are classified as cash flows from investing activities.

New accounting standard adopted: In July 2015, the FASB issued Accounting Standards Update 2015-11 ("ASU 2015-11") *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in ASU 2015-11 require an entity to measure inventory at the lower of cost and net realizable value. For the Institute, ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years beginning after December 31, 2017. A reporting entity should apply the amendments prospectively to all periods presented. Management has adopted this ASU 2015-11 in the accompanying financial statements for the year ended December 31, 2017. There were no changes to the value of inventory reported for the year ended December 31, 2017 as a result of adopting ASU 2015-11.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through March 28, 2018, which is the date the financial statements were available to be issued.

2. Contributions receivable

Contributions receivable are summarized as follows at December 31:

		2017		2016
Contributions receivable to be collected in:				
Less than one year	**$**	**727,385**	$	1,122,683
One to five years		**118,000**		-
Total	**$**	**845,385**	$	1,122,683

3. Investments

Investments of the Institute as of December 31, 2017 and 2016, are as follows:

		2017		2016
Mutual funds:				
Money market	**$**	**-**	$	23,618
Domestic equities		**1,891,947**		1,713,030
International equities		**660,052**		453,296
Real estate		**64,832**		61,328
Domestic bonds		**163,576**		135,468
International bonds		**278,422**		241,669
Exchange traded funds:				
International equities		**442,312**		453,112
Domestic bonds		**983,989**		952,573
Common stock		**9,949**		-
Total investments	**$**	**4,495,079**	$	4,034,094

4. Fair value

The Institute values investments at fair value in accordance with a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the entity to develop its own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in the fair value methodologies used at December 31, 2017 and 2016.

Assets were recorded at fair value on a recurring basis as of December 31, 2017 and 2016 based on the following level of hierarchy:

		Fair Value Measurements Using		
December 31, 2017	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Mutual funds:				
Domestic equities	**$ 1,891,947**	**$ 1,891,947**	$ -	$ -
International equities	**660,052**	**660,052**	-	-
Real estate	**64,832**	**64,832**	-	-
Domestic bonds	**163,576**	**163,576**	-	-
International bonds	**278,422**	**278,422**	-	-
Exchange traded funds:				
International equities	**442,312**	**442,312**	-	-
Domestic bonds	**983,989**	**983,989**	-	-
Common stock	**9,949**	**9,949**		
Total	**$ 4,495,079**	**$ 4,495,079**	**$ -**	**$ -**

December 31, 2016	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Money market	$ 23,618	$ 23,618	$ -	$ -
Domestic equities	1,713,030	1,713,030	-	-
International equities	453,296	453,296	-	-
Real estate	61,328	61,328	-	-
Domestic bonds	135,468	135,468	-	-
International bonds	241,669	241,669	-	-
Exchange traded funds:				
International equities	453,112	453,112	-	-
Domestic bonds	952,573	952,573	-	-
Total	$ 4,034,094	$ 4,034,094	$ -	$ -

5. Risks and uncertainties

The Institute invests in various investment securities that are exposed to different risks such as interest rate, credit and market volatility risks. Due to the level of risk associated with certain securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect ELI's account balances and amounts reported in the Statements of Financial Position.

6. Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes as of December 31:

	2017	2016
Research activities	**$ 1,315,344**	$ 2,308,032
Training fund	**207,437**	207,437
Publications fund	**150,000**	150,000
Time restricted	**306,500**	-
Total temporarily restricted net assets	**$ 1,979,281**	$ 2,665,469

7. Contributed resources and services

In 2017 and 2016, the Institute received contributions of labor with a fair value of $219,245 and $335,570, respectively. Donated services are recognized when the services are performed for services provided that the Institute would typically have to pay to acquire. The donated services are reflected as a component of unrestricted contributions revenue on the Statements of Activities and Changes in Net Assets. During 2017 and 2016, labor valued at $216,754 and $335,570, respectively, related to the Institute's core programs was allocated to operating expenses, including $69,976 and $104,093 respectively, used to meet match requirements on federal projects. The remaining donated labor included $2,491 and $0, respectively, which was allocated to management and general expense and the annual award dinner.

8. Operating lease

In September 2014, the Institute entered into an operating lease agreement for new office space in Washington D.C. The lease term started in December 2014 and expires in February 2025 with a renewal option to extend the term of the lease. The lease provides for fixed annual increases during the lease term as well as a ten month rent abatement.

Future minimum lease payments under the lease are as follows:

Year Ending December 31:	Amount
2018	$ 409,751
2019	418,970
2020	428,397
2021	438,036
2022	447,892
Thereafter	1,004,576
Total	**$ 3,147,622**

Rent expense under the operating leasesfor the years ended December 31, 2017 and 2016 was $309,576 and $312,792, respectively.

9. Pension plan

The Institute has an Internal Revenue Code Section 403(b) pension plan covering substantially all employees. The Institute matches employees' contributions in an amount equal to the greater of 100% of each employee’s annual contribution up to $1,200, or 50% of the first 3% of compensation. The Institute's contributions were $66,771 and $62,862 for the years ended December 31, 2017 and 2016, respectively.

10. Direct costs

Included in program services are the costs of publications sold which were $36,848 and $46,656 for the years ended December 31, 2017 and 2016, respectively. Included in fundraising expenses are the direct costs of the Institute’s annual dinner which were $142,291and $135,887 for the years ended December 31, 2017 and 2016, respectively.

11. Related party transactions

Members of the Institute’s Board of Directors contributed $292,462 and $287,006 during the years ended December 31, 2017 and 2016, respectively.

12. Indirect cost recovery

The Institute receives cost-based grants from agencies of the United States government. Such grants are subject to audit under the provisions of OMB Circular A-133, for awards prior to December 26, 2014, or 2 CFR 200, if such grants were awarded after December 26, 2014. The ultimate determination of amounts received under the United States government grants is based upon the allowance of costs reported to and accepted by the United States government.

Billings under these cost-based government grants are calculated using provisional rates which permit recovery of indirect costs. These rates could be subject to audit by the government agencies. The determination of the final indirect cost rates is also determined by the government agency. The final rates, if different from the provisional rates, may create a receivable or a liability.

As of December 31, 2017, the Institute had received final settlements on indirect cost rates through 2016. The Institute periodically reviews its cost estimates and experience rates, and adjustments, if needed, are made and reflected in the period in which the estimates are revised. In the opinion of management, redetermination of any cost-based grants for the open year will not have any material effect on the Institute's financial position or change in net assets.

13. Contingency

The federal government is implementing significant changes and reductions to government spending and other programs. The Institute cannot predict the impact on existing, supplemental or replacement grants from potential changes in priorities due to spending levels. The United States government is facing substantial fiscal and economic challenges that are affecting funding for its non-discretionary and discretionary budgets. The funding of United States government programs is subject to an annual Congressional budget authorization and appropriation processes which have not followed normal practice in recent years.