

EAST-WEST HEALING ARTS INSTITUTE, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017, 2016

ASSETS	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents	1,108,663	1,027,408
Accounts Receivable	43,050	152,166
Allowance for Doubtful Accounts	(15,763)	(10,222)
Total current assets	1,135,950	1,169,352
PROPERTY AND EQUIPMENT:		
Automobile	27,518	27,518
Furniture & Fixture	17,316	17,316
	44,834	44,834
Accumulated depreciation	(44,834)	(44,834)
Total property and equipment, net		-
OTHER ASSETS:		
Due from IRS-tax overpayment	1,050	-
Inventory asset	6,399	-
Prepaid legal and regulation	166	166
Total other assets	7,615	166
Total assets	<u>\$ 1,143,565</u>	<u>\$ 1,169,518</u>
LIABILITIES AND OWNER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable	771	67,073
Unearned tuition	225,975	241,740
Prepays	28,804	25,620
Credit Cards Payable	957	1,463
Payroll tax payable	-	13,013
Income tax payable	12,653	428
Total current liabilities	269,160	349,337
Total liabilities	269,160	349,337
OWNER'S EQUITY		
Capital stock	1,000	1,000
Opening balance equity	527	527
Prior year adjustments		
Retained earnings	818,654	800,476
Net income	54,224	18,178
Total owner's equity	874,405	820,181
Total liabilities and owner's equity	<u>\$ 1,143,565</u>	<u>\$ 1,169,518</u>

The Accompanying notes are an integral part of these financial statements

EAST-WEST HEALING ARTS INSTITUTE, INC.
STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
REVENUE:		
Tuition and fees	\$ 357,350	\$ 343,057
Student clinic	93,198	99,396
Sales income	35,361	26,378
Other income	35	104
Interest income	950	739
TOTAL INCOME	<u>486,894</u>	<u>469,674</u>
COST OF GOODS SOLD:		
Cost of sales	<u>19,143</u>	<u>17,444</u>
GROSS PROFIT	467,751	452,230
EXPENSES:		
Rent expense	65,000	95,780
Salaries & wages	210,122	199,105
Teaching charge	49,937	44,610
Advertising and promotions	9,442	7,872
Taxes and Licenses	12,198	6,851
Legal and professional expenses	18,321	21,753
Accrediting expenses	13,510	17,336
Repairs & maintenance	1,455	812
Office expenses	4,230	3,915
Payroll tax	17,933	16,653
Telephone	1,275	4,608
Bad Debt Expense	5,541	6,347
Bank charges & interests	2,961	3,215
Professional Education	451	1,387
Insurance	-	3,042
Guest Lecture	1,062	584
Meals & entertainment	90	-
Auto and travel expenses	-	-
Depreciation	-	-
Miscellaneous expenses	-	181
Total expenses	<u>413,527</u>	<u>434,052</u>
NET PROFIT	<u>\$ 54,224</u>	<u>\$ 18,178</u>
Beginning retained earnings	818,654	800,476
Prior year adjustment		
Restated retained earnings	<u>\$ 872,878</u>	<u>\$ 818,654</u>

EAST-WEST HEALING ARTS INSTITUTE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net income	\$ 54,224	\$ 18,178
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	-	-
Overpayment due from IRS	(1,050)	
Accounts Receivable	109,116	(13,647)
Bad Debt Allowance	5,441	3,054
Estimated income tax		
Inventory Asset	(6,399)	-
Accounts payables	(66,202)	4,160
Unearned tuition	(15,765)	34,766
Credit Cards payable	(506)	(20,519)
Prepays	3,184	7,590
Payroll tax payable	(13,013)	11,726
2014 Tax refund due		-
Income tax payable	12,225	(11,224)
Prior year adjustments		-
Net cash flows (used) provided by operating activities	<u>81,255</u>	<u>34,094</u>
Cash flows from investing activities:		
Depreciation	-	-
Net cash flows (used) provided by investing activities	<u>-</u>	<u>-</u>
Financing Activities		
Retained Earnings Prior Period Adjustment	-	-
Net increase/(decrease) in cash	81,255	34,094
Cash, beginning of year	1,027,408	993,314
Restatement for beginning retained earnings		
Cash, end of year	<u>\$ 1,108,663</u>	<u>\$ 1,027,408</u>
Supplementary information:		
Interest paid during the year :		
Tax paid during the year:	\$ 10,912	\$ 6,051

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

EAST-WEST HEALING ARTS INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Nature of Operation

Organization

East-West Healing Arts Inc. (the Corporation) is a massage school whose mission is to train individuals in the Eastern and Western art of massage practice and have their graduates become massage therapists that will enhance the health of people in the overall community.

East-West is organized as a C corporation. Founders, stockholders and officers of the corporation are Dr. Xiping Zhou, and LiPing Mu. There is a Board of Directors and is made up of medical professionals and educators within the Madison Community.

A summary of the corporation's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared in accordance with generally accepted accounting principles using the accrual basis of accounting. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenue is recognized when the registration of class takes place. The tuition for courses taken by student is recorded as tuition. The Corporation also records fee income when there is nominal charge at registration.

Property and Equipment

Property and equipment are carried at cost. Depreciation is determined using straight-line methods over the estimated useful lives of the property.

EAST-WEST HEALING ARTS INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Fair Value of Financial Instruments

The Corporation's financial instruments include cash and cash equivalents, prepaid expenses, accounts payables, and deferred income. The carrying amounts of these items are a reasonable estimate of their fair values.

The Corporation measures fair value in accordance with Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (FAS 157) which was subsequently included in the FASB Codification as ASC 820. ASC 820 which applies to all financial instruments that are being measured and reported on a fair value basis.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy that priorities the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1- Inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2- Inputs other than quoted prices within Level 1 that are observable, either directly or indirectly. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3- Inputs are unobservable. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discontinued cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions.

The Corporation's financial assets measured at fair value on a recurring basis at June 30, 2011 are classified within Level 1 of the fair value hierarchy.

NOTE 2- PROPERTY AND EQUIPMENT

Automobile, furniture and equipment are capitalized at cost. In general, the Corporation has capitalized new purchases over any amount over \$500.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets generally as follows:

Furniture and equipment	5 years
Automobile	5 years

As of December 31, 2017, total depreciation expense for the year is 0.

EAST-WEST HEALING ARTS INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Inventories

Inventories are valued at the lower of cost or net realized value, with cost determined on the first-in, first-out method.

Income Taxes

The Corporation pays income taxes at the corporate income tax rate. Taxes paid for 2016 are as follows: Federal \$7,148 and State \$3,764. There no balance due to the State of WI in the amount.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Corporation considers bank accounts and short-term money market investments with remaining maturities of three months or less at the date of purchase to be cash equivalents. The balance as of December 31, 2017 is \$1,108,186.

Unearned tuition

Unearned tuition and fees result from student prepayments of tuition, credential fees and graduation fees applicable to period covered beginning after the end of each fiscal year. The Corporation recognizes revenue over the period in which the related educational instructions are performed. As of December 31, 2017, total unearned tuition is \$225,975, total prepaid credential fee and prepaid graduation fees are \$28,804.

Sales Tax

Sales tax collected from customers is recorded as a liability, pending remittance to the taxing jurisdiction. Consequently, sales taxes have been excluded from revenues and costs. The sales tax reported and collected have been paid to the State of Wisconsin by 12/31/2017.

EAST-WEST HEALING ARTS INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 3-RELATED PARTY TRANSACTIONS – Notes Receivables and Leases

Notes Receivables

There are no Note Receivables. Total Note was paid by the year-end of 2014.

Leases

East-West Healing Arts Institute, Inc. participates in the Student Financial Aid (SFA) under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). The East-West Healing Arts Institute, Inc. must comply with the regulations promulgated under the HEA. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the financial statements.

Rent Expense – Madison Campus, 6425 Normandy Lane. The building is owned by Zhou Enterprises, LLC. Members of Zhou Enterprise LLC are Xiping Zhou and LiPing Mu, husband and wife. East-West Healing Arts Institute, Inc. stockholders are Ziping Zhou and LiPing Mu, a closely held Corporation. Rent of \$65,000 was paid from East-West Healing Arts Institute, Inc. to Zhou Enterprises, LLC in 2017, and \$63,860 in 2016. East-West Healing Arts Institute, Inc. expects the rent expense to be same in the next 5 years with an adjustment for inflation. This information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

NOTE 4—ACCOUNTS RECEIVABLE

Accounts receivable of \$43,050, with an amount recognized for doubtful accounts in the amount of (15,763).

NOTE 5- CONCENTRATION OF RISK

1. The management believes that there is low risk for the operation of the Corporation at this moment. The market is stable and more people become interested in the Asian massage. Plus, some of the insurance start cover the medical massage charges. In 2014, East West Healing Arts began offering Financial Aide to students. The result of the school being able to provide financial aid is that there are more students to the school

NOTE 6 – UNEARNED TUITION AND FEES

Unearned tuition and fees result from student prepayments of tuition, credential fee and graduation fees applicable to period covered beginning after the end of each fiscal year. The Corporation recognizes revenue over the period in which the related educational instructions are performed. As of December 31, 2017, total unearned tuition is \$225,975 unearned graduation fees and credential fees are \$28,804.

EAST-WEST HEALING ARTS INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 7 – 90/10 Revenue Test

East-West Healing Institute, Inc. derives a substantial portion of its revenues from Student Financial Aid (SFA) received by its students under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). To continue to participate in the SFA programs the East-West Healing Arts Institute, Inc. must comply with the regulations promulgated under the HEA. The regulations restrict the proportion of cash receipts from tuition and fees from eligible programs to not more than 90 percent from the Title IV programs. The failure of the East-West Healing Arts Institute, Inc. to meet the 90 percent limitation will result in the loss of the East-West Healing Arts Institute, Inc.'s ability to participate in SFA programs. For the calendar year ended December 31, 2017, the East-West Healing Arts Institute, Inc. received \$233,135 of Title IV funds, other student payments and activities conducted by the institution that are necessary for education and training total \$190,190. This amount added to the Title IV money received is \$423,325. The 90/10 calculation is $233,135/423,325 = 55\%$. Total Unsubsidized Loans is \$105,637; Total Plus Loans is \$5,527; total Subsidized Loans is \$67,834 and total Pell Grants are \$67,913. The detail of the loans and grants are part of the Compliance Audit with the US Dept. of Education.

Revenue Amounts by Source:		Other Sources of Income	
FDSL – Sub	67,834	Application and other fees	4,400
FDSL – Unsub	105,637	Student Payments	102,876
FDSL – Plus	5,527	Student Clinic Income	<u>82,914</u>
Pell Grant	67,913		
Refunds	<u>(13,777)</u>	total other	190,190
<u>Total Title IV</u>	<u>233,135</u>		

Numerator is 233,135

Denominator is $233,135 + 190,190 = 423,325$

% of Title IV funds = $233,135/423,325 = 55\%$

NOTE 8 – PRIOR YEAR ADJUSTMENT AND RETAINED EARNINGS

The beginning retained earnings of 2017 is \$872,878 and the ending retained earnings from 2016's audit report is \$ 818,654.

NOTE 9 – SUBSEQUENT EVENTS

The management of the Corporation have reviewed the results of operations and evaluated subsequent events for the period of time from its year end December 31, 2017 through May 24, 2018, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements, the nature of which would require disclosure in accordance to FASB ASC 855-10-20.