

McGladrey & Pullen

Certified Public Accountants

East-West Management Institute, Inc.

Financial Report

December 31, 2009

Contents

Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 10

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
East-West Management Institute, Inc.
New York, New York

We have audited the accompanying statements of financial position of East-West Management Institute, Inc. (the "Institute") as of December 31, 2009 and 2008, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Institute's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2009 and 2008, 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.

McGladrey & Pullen, LLP

New York, New York
July 26, 2010

East-West Management Institute, Inc.

Statements of Financial Position
December 31, 2009 and 2008

	2009	2008
ASSETS		
Cash	\$ 430,012	\$ 217,792
Contracts and Grants Receivable	2,260,980	2,027,962
Security Deposits and Other Assets	123,434	129,562
Restricted Cash	23,086	-
Property and Equipment, net	<u>1,319</u>	<u>2,638</u>
Total assets	<u>\$ 2,838,831</u>	<u>\$ 2,377,954</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 802,148	\$ 385,606
Loans payable	<u>600,000</u>	<u>620,000</u>
Total liabilities	<u>1,402,148</u>	<u>1,005,606</u>
Commitments and Contingencies		
Net Assets:		
Unrestricted	1,263,831	1,336,281
Temporarily restricted	<u>172,852</u>	<u>36,067</u>
Total net assets	<u>1,436,683</u>	<u>1,372,348</u>
Total liabilities and net assets	<u>\$ 2,838,831</u>	<u>\$ 2,377,954</u>

See Notes to Financial Statements.

East-West Management Institute, Inc.

Statements of Activities
Years Ended December 31, 2009 and 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Changes in Unrestricted Net Assets:						
Revenue:						
Government grants	\$ 7,266,102	\$ -	\$ 7,266,102	\$ 6,659,602	\$ -	\$ 6,659,602
Government contracts	3,660,728	-	3,660,728	3,308,097	-	3,308,097
Contributed services and cost-share amounts	1,879,158	97,800	1,976,958	1,554,358	-	1,554,358
Other grants	-	231,808	231,808	9,980	75,000	84,980
United Kingdom's Department for International Development	284,985	-	284,985	151,892	-	151,892
Other contracts	566,397	-	566,397	597,999	-	597,999
Other contributions	-	-	-	1,000	-	1,000
Other income	1,238	-	1,238	92	-	92
Net assets released from restrictions	192,823	(192,823)	-	194,501	(194,501)	-
Total revenue	13,851,431	136,785	13,988,216	12,477,521	(119,501)	12,358,020
Expenses:						
Program	12,029,617	-	12,029,617	10,689,070	-	10,689,070
General and administrative	1,901,073	-	1,901,073	1,821,068	-	1,821,068
Total expenses	13,930,690	-	13,930,690	12,510,138	-	12,510,138
Change in net assets before other income (expense)	(79,259)	136,785	57,526	(32,617)	(119,501)	(152,118)
Other Income (Expense):						
Interest income	1,003	-	1,003	5,827	-	5,827
Currency exchange gain	15,234	-	15,234	-	-	-
Interest expense	(9,428)	-	(9,428)	(11,399)	-	(11,399)
Other income (expense), net	6,809	-	6,809	(5,572)	-	(5,572)
Change in net assets	(72,450)	136,785	64,335	(38,189)	(119,501)	(157,690)
Net Assets:						
Beginning	1,336,281	36,067	1,372,348	1,374,470	155,568	1,530,038
Ending	\$ 1,263,831	\$ 172,852	\$ 1,436,683	\$ 1,336,281	\$ 36,067	\$ 1,372,348

See Notes to Financial Statements.

East-West Management Institute, Inc.

Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities:		
Change in net assets	\$ 64,335	\$ (157,690)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,319	1,319
Changes in assets and liabilities:		
Increase in contracts and grants receivable	(233,018)	(311,779)
Decrease (increase) in security deposits and other assets	6,128	(13,952)
Increase in restricted cash	(23,086)	-
Increase (decrease) in accounts payable and accrued expenses	416,542	(270,380)
Net cash provided by (used in) operating activities	232,220	(752,482)
Cash Flows From Financing Activities:		
Proceeds from borrowings under line of credit	3,730,000	5,280,000
Repayments of loans under line of credit	(3,750,000)	(4,920,234)
Net cash (used in) provided by financing activities	(20,000)	359,766
Net change in cash	212,220	(392,716)
Cash:		
Beginning	217,792	610,508
Ending	\$ 430,012	\$ 217,792
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 9,428	\$ 11,399

See Notes to Financial Statements.

East-West Management Institute, Inc.

Notes to Financial Statements

Note 1. Organization

East-West Management Institute, Inc. (the "Institute") was organized in January 1988 as a not-for-profit corporation under subparagraph (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 from contracts, cooperative agreements and grants from the United States Agency for International Development ("USAID") and the U.S. Department of State. Programs covered by contracts, cooperative agreements and grants in 2009 were as follows:

- Development and implementation of judicial reform, legal aid and rule of law programs in Bosnia, Serbia, Cambodia, and Sri Lanka.
- Training and support for non-governmental organizations, grassroots networks, and human rights programs in Cambodia.
- Development of mechanisms for ensuring safety in communities in Kosovo.
- Public education on land rights in Cambodia.
- Sharing of best practices on financial sector reform in South Eastern Europe, Central Asia and the Caucasus.

The Institute also had the following contracts in 2009: a contract with the European Union to provide public education on land rights in Cambodia, and a contract with the Ministry of Justice of Romania to implement a World Bank-funded program to develop a training program for the Romanian National Institute of Magistrates. In addition, the Institute also had a contract to assist Egyptians in improving access to representation for criminal defendants, a contract to help establish a system of comprehensive criminal justice statistics and data analysis in Georgia, and a series of small contracts with various donors in the area of economic development.

Other programs that the Institute has implemented in 2009 that are funded through grants from other sources included a program to provide technical assistance with the development of a constitutional court in Kosovo; and a project to explore and promote the option for building community-based philanthropic endowments by capturing a portion of the proceeds of privatization.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting: The financial statements of the Institute have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applicable to not-for-profit entities.

The Institute reports gifts of cash and other assets as unrestricted support unless they are received with donor stipulations that limit the use of the donated assets or are designated for future periods. Net assets are classified as unrestricted, temporarily restricted or permanently restricted based on the designation of donors. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reported in the statement of activities as net assets released from restrictions.

Contributions of assets other than cash are recorded at their estimated fair value.

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Cash: The Institute maintains cash in bank accounts in amounts which, at times, may exceed federally insured limits. The Institute has not experienced any losses on these accounts.

Contracts and Grants Receivable: Revenue from government contracts is recorded when services are performed in accordance with the contract agreement. Federal funds obligated under the cooperative agreements are recorded by the Institute when expenditures are incurred and are billable to the government. As of December 31, 2009 and 2008, all amounts due from such agreements were deemed to be fully collectible, and consequently, no reserve was established for uncollectible amounts.

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. The Institute does not capitalize property and equipment acquired under any of its sponsored programs at the related overseas locations, as these assets become the property of the funding agency or local beneficiaries upon the termination of the programs.

Contributed Services/Cost-Share Amounts: Contributed services that meet the appropriate criteria are recorded as both contributions and expenses at their fair values when such services are rendered. Such contributed services include donated facilities space and volunteers' 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 these services do not meet the criteria for recognition as they do not (a) create or enhance nonfinancial assets or (b) is a required specialized skill which is provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

In addition, the Institute records as contributions those cost-share amounts paid in either cash or in-kind services by the Institute's sub-grantees and other organizations in furtherance of the Institute's program.

Functional Allocation of Expenses: The costs of providing the various programs and general and administrative services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, costs are directly allocated among the programs and general and administrative services. The Institute performs no fund-raising activities.

Income Taxes: The Institute is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes. In addition, the Institute is not classified as a private foundation.

On January 1, 2009, the Institute adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Institute may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

East-West Management Institute, Inc.

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Management evaluated the Institute's tax positions and concluded that the Institute had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Institute is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2006, which is the standard statute of limitations look-back period.

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 is performed through the date the financial statements are available for issuance, which was July 26, 2010 for these financial statements.

Reclassifications: Certain amounts in prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

Note 3. Property and Equipment

Property and equipment consists of the following as of December 31:

	2009	2008	Estimated Useful Lives
Furniture and fixtures	\$ 60,379	\$ 60,379	5 and 7 years
Software	27,812	27,812	3 years
	88,191	88,191	
Less accumulated depreciation	(86,872)	(85,553)	
	\$ 1,319	\$ 2,638	

Note 4. Temporarily Restricted Net Assets

As of December 31, 2009 and 2008, temporarily restricted net assets consist of contributions restricted for the Philanthropication through Privatization program.

Note 5. Government Grants and Contracts

As of December 31, 2009, the Institute was committed to incur cost-share amounts for certain federal government grants/cooperative agreements. As of December 31, 2009, total cost-share amounts committed and not yet incurred on the continuing federal grants/cooperative agreements were \$60,801. As of December 31, 2008, cost-share amounts committed but not yet incurred were \$1,941,924.

For the remaining federal grants/cooperative agreements, the federal government is committed to providing funds in the amount of \$14,346,259, which have not been recorded as revenue as of December 31, 2009. For the Institute's federal contracts as distinguished from its grants/cooperative agreements, the federal government is committed to providing funds in the amount of \$11,906,062, which also have not been recorded as revenue as of December 31, 2009.

Notes to Financial Statements

Note 5. Government Grants and Contracts (Continued)

All federal contracts and cooperative agreements allow the Institute to include indirect costs, using a provisional indirect cost rate, which may be different than the actual indirect cost rate that may be finally allowed by the funding source for that year. Adjustments for the difference between the indirect costs allowed using the provisional rate and actual indirect costs incurred are recorded in the year in which the differences actually occur.

During 2009, the Institute's actual indirect costs were higher than the amount billed throughout 2009 using the provisional indirect cost rate. At December 31, 2009, the federal government and other contractors owed a net total of \$32,705 to the Institute in indirect cost adjustments 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, 2009, and will be billed and expected to be collected in 2010 after final approval of the indirect cost rate from USAID.

During 2008, the Institute's actual indirect costs were higher than the amount billed during 2008 using the provisional indirect cost rate. At December 31, 2008, the federal government and other contractors owed a net total of \$76,468 to the Institute in indirect cost adjustments 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, 2008 and were billed and collected in 2009 and early 2010 after final approval of the indirect cost rate from USAID.

Note 6. Grant Expense

The Institute implements large grant-making programs to foster the rule-of-law, financial reforms and civil societies worldwide. It employs structured competitive grant application procedures and also supports some unsolicited proposals and partnerships. It has supported the following activities: 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 engages other donors to co-fund programs and grantees.

During 2009 and 2008, the Institute made cash grants of \$3,384,103 and \$2,864,617, respectively, to local NGOs and other groups, and third parties contributed a total of \$1,747,953 and \$1,335,221, respectively, to the Institute's programs. These third-party contributions were in-kind contributions, counted as cost-sharing for programs and were included in the grant and subcontracts expense line item on the accompanying financial statements.

Note 7. 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 3.39% and 5.51% of all qualified employees' compensation to the revenue-sharing component of the Plan during 2009 and 2008, respectively. Contributions to the Plan for 2009 and 2008 were approximately \$84,000 and \$116,000, respectively. An officer of the Institute serves as trustee of the Plan.

East-West Management Institute, Inc.

Notes to Financial Statements

Note 8. Expenses

The Institute's expenses were allocated to functional categories as follows as of December 31:

	2009			2008		
	Program	General and Administrative	Total	Program	General and Administrative	Total
Salaries and employee benefits	\$ 3,489,920	\$ 1,284,887	\$ 4,774,807	\$ 2,996,943	\$ 1,239,800	\$ 4,236,743
Consultants and related expenses	935,738	132,914	1,068,652	930,568	81,715	1,012,283
Rent	172,815	183,410	356,225	156,078	182,649	338,727
Office expense and supplies	241,761	57,566	299,327	228,528	47,629	276,157
Depreciation	-	1,319	1,319	-	1,319	1,319
Travel and meals	282,563	69,712	352,275	372,325	49,172	421,497
Insurance	20,402	52,606	73,008	31,859	52,668	84,527
Overseas allowances	252,547	6,077	258,624	231,063	789	231,852
Grants and subcontracts	6,079,993	-	6,079,993	5,050,625	-	5,050,625
Messengers and postage	17,028	2,992	20,020	17,061	3,507	20,568
Noncapitalized equipment	84,678	11,067	95,745	51,374	7,221	58,595
Telecommunications	61,792	24,894	86,686	66,231	16,844	83,075
Other professional services	17,575	60,931	78,506	18,233	122,731	140,964
Meetings and trainings	318,321	999	319,320	457,619	1,695	459,314
Miscellaneous	54,484	11,699	66,183	80,563	13,329	93,892
Total expenses	<u>\$ 12,029,617</u>	<u>\$ 1,901,073</u>	<u>\$ 13,930,690</u>	<u>\$ 10,689,070</u>	<u>\$ 1,821,068</u>	<u>\$ 12,510,138</u>

Note 9. Commitments and Contingencies

Line of Credit: The Institute had extended its \$1,000,000 line of credit with a bank through October 31, 2009. Interest was payable on any outstanding balances at the 90-day LIBOR (1.43% plus .75%). The line of credit was guaranteed by the Soros Economic Development Fund. The line of credit was paid off and terminated on October 29, 2009 by the Institute. At December 31, 2008, the Institute owed \$620,000 under this arrangement. At December 31, 2009, the Institute owed \$0 under this arrangement.

On October 28, 2009, the Institute entered into a \$1,000,000 line of credit agreement with Soros Economic Development Fund. Interest was payable at a fixed rate of 2% and this line of credit expires on October 31, 2010. This new line of credit agreement was used to pay off the existing line of credit noted above. The balance of amounts borrowed under this arrangement and outstanding at December 31, 2009 amounted to \$600,000.

Leases: The Institute leases space in New York and various locations throughout the world. The lease for the New York office space is a five-year lease with a provision for termination with six months' notice. All other leases may be canceled by the Institute based on certain circumstances or with notice.

Potential Claims: Certain grants may be subject to audit by the funding sources. Such audit might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been reserved in the accompanying financial statements for such potential claims.

East-West Management Institute, Inc.

Notes to Financial Statements

Note 10. Concentration of Revenue

The Institute received 76% and 78% of its total revenue for 2009 and 2008, respectively, either directly or indirectly from USAID. Any significant reduction in the level of support from USAID could have an effect on the Institute's programs.

Note 11. Other Grants

In 2009, the Institute was awarded a conditional grant totaling approximately \$231,808 (159,000 euros) from a group of Italian foundations of banking origin coordinated by the Associazione di Fondazioni e di Casse di Risparmio SpA (ACRI) to support the Philanthropication thru Privatization Project. During 2009, the Institute received \$115,954. This Association of Italian Bank Foundations received the following amounts from the following member foundations:

Fondazione Cariplo	\$	102,054
Fondazione Cassa di Risparmio di Cuneo		51,027
Compagnia di San Paolo		43,737
Fondazione Cassa di Risparmio di Bolzano		14,579
Fondazione Banca del Monte de Bologna		8,747
Fondazione Cassa di Risparmio di Fossano		4,374
Fondazione Banca del Monte de Lucca		4,374
Fondazione Salernitana		2,916
		<hr/>
	\$	231,808
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