East-West Management Institute, Inc.

Financial Report

December 31, 2010

Contents

McGladrey

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, 2010 and 2009, 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, 2010 and 2009, 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
August 5, 2011

East-West Management Institute, Inc.

Statements of Financial Position
December 31, 2010 and 2009

	2010	2009
ASSETS		
Cash	**$ 202,578**	$ 430,012
Contracts and Grants Receivable	**2,948,592**	2,260,980
Security Deposits and Other Assets	**124,130**	123,434
Restricted Cash	**51,106**	23,086
Property and Equipment, net	**-**	1,319
Total assets	**$ 3,326,406**	$ 2,838,831
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	**$ 958,257**	$ 802,148
Loans payable	**1,000,000**	600,000
Total liabilities	**1,958,257**	1,402,148
Commitments and Contingencies		
Net Assets:		
Unrestricted	**1,254,551**	1,263,831
Temporarily restricted	**113,598**	172,852
Total net assets	**1,368,149**	1,436,683
Total liabilities and net assets	**$ 3,326,406**	$ 2,838,831

See Notes to Financial Statements.

East-West Management Institute, Inc.

Statements of Activities
Years Ended December 31, 2010 and 2009

	2010			2009		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
Changes in Unrestricted Net Assets:						
Revenue:						
Government grants	**$ 6,697,509**	**$ -**	**$ 6,697,509**	$ 7,266,102	$ -	$ 7,266,102
Government contracts	**5,100,324**	**-**	**5,100,324**	3,660,728	-	3,660,728
Contributed services and cost-share amounts	**1,962,393**	**70,200**	**2,032,593**	1,879,158	97,800	1,976,958
Other grants	**-**	**5,826**	**5,826**	-	231,808	231,808
United Kingdom's Department for International Development	**279,367**	**-**	**279,367**	284,985	-	284,985
Other contracts	**405,374**	**-**	**405,374**	566,397	-	566,397
Other income	**1,528**	**-**	**1,528**	1,238	-	1,238
Net assets released from restrictions	**135,280**	**(135,280)**	**-**	192,823	(192,823)	-
Total revenue	**14,581,775**	**(59,254)**	**14,522,521**	13,851,431	136,785	13,988,216
Expenses:						
Program	**12,460,695**	**-**	**12,460,695**	12,029,617	-	12,029,617
General and administrative	**2,117,988**	**-**	**2,117,988**	1,897,111	-	1,897,111
Total expenses	**14,578,683**	**-**	**14,578,683**	13,926,728	-	13,926,728
Change in net assets before other income (expense)	**3,092**	**(59,254)**	**(56,162)**	(75,297)	136,785	61,488
Other Income (Expense):						
Interest income	**409**	**-**	**409**	1,003	-	1,003
Currency exchange gain (loss)	**4,279**	**-**	**4,279**	15,234	-	15,234
Interest expense	**(13,348)**	**-**	**(13,348)**	(9,428)	-	(9,428)
Bad debt provision						
Unallowable - bad debt expense	**(3,712)**	-	**(3,712)**	(3,962)	-	(3,962)
Other income (expense), net	**(12,372)**	**-**	**(12,372)**	2,847	-	2,847
Change in net assets	**(9,280)**	**(59,254)**	**(68,534)**	(72,450)	136,785	64,335
Net Assets:						
Beginning	**1,263,831**	**172,852**	**1,436,683**	1,336,281	36,067	1,372,348
Ending	**$ 1,254,551**	**$ 113,598**	**$ 1,368,149**	$ 1,263,831	$ 172,852	$ 1,436,683

See Notes to Financial Statements.

East-West Management Institute, Inc.

Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities:		
Change in net assets	**$ (68,534)**	$ 64,335
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	**1,319**	1,319
Changes in assets and liabilities:		
Increase in contracts and grants receivable	**(687,612)**	(233,018)
(Increase) decrease in security deposits and other assets	**(696)**	6,128
Increase in restricted cash	**(28,020)**	(23,086)
Increase in accounts payable and accrued expenses	**156,109**	416,542
Net cash (used in) provided by operating activities	**(627,434)**	232,220
Cash Flows From Financing Activities:		
Proceeds from borrowings under line of credit	**400,000**	3,730,000
Repayments of loans under line of credit	**-**	(3,750,000)
Net cash provided by (used in) financing activities	**400,000**	(20,000)
Net change in cash	**(227,434)**	212,220
Cash:		
Beginning	**430,012**	217,792
Ending	**$ 202,578**	$ 430,012
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	**$ 13,348**	$ 9,428

See 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 2010 were as follows:

- Development and implementation of judicial reform, legal aid and rule of law programs in Bosnia, Cambodia, Ecuador, Georgia, Montenegro, Serbia, and Sri Lanka;
- Training and support for non-governmental organizations, grassroots networks, public policy and human rights programs in Bosnia, Cambodia, Georgia and Montenegro;
- Community reconciliation and conflict resolution programs in Liberia and Fiji; and
- Development of mechanisms for ensuring safety in communities in Kosovo.

The Institute also had the following contracts in 2010: 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 syllabi for the National School of Clerks. In addition, the Institute had a subcontract to assist Egyptians in improving access to representation for criminal defendants, a subcontract to share best practices on financial sector reform in South Eastern Europe and the Caucuses, and a subcontract to improve alternative dispute resolution mechanisms in Kosovo. The Institute also had a series of small contracts with various donors to assist economic development and financial sector strengthening programs in Botswana, Burundi, Kenya, Lesotho, Rwanda, Suriname, and Uganda.

Other programs that the Institute has implemented in 2010 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 statements of activities as net assets released from restrictions.

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

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 reported amounts of 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 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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, 2010 and 2009, 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 programs.

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.

Management evaluated the tax positions for the Institute and concluded that the Institute had taken no uncertain income tax positions that require adjustments to the financial statements to comply with the provisions of this guidance. Generally, the Institute is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2007, 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 August 5, 2011 for these financial statements.

Note 3. Property and Equipment

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

	2010	2009	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	**(88,191)**	(86,872)	
	$ **-**	$ 1,319	

Note 4. Temporarily Restricted Net Assets

As of December 31, 2010 and 2009, temporarily restricted net assets consist of contributions restricted for the Philanthropication through Privatization program.

Note 5. Government Grants and Contracts

As of December 31, 2010, the Institute was committed to provide matching funding for certain federal government grants/cooperative agreements. As of December 31, 2010, total matching obligated and not yet provided on the continuing federal grants/cooperative agreements were $3,969,057. As of December 31, 2009, the obligated matching was $60,801.

For the remaining federal grants/cooperative agreements, the federal government is committed to providing funds in the amount of $47,201,721, which have not been recorded as revenue as of December 31, 2010. 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 $17,018,255, which also have not been recorded as revenue as of December 31, 2010.

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 2010, the Institute's actual indirect costs were higher than the amount billed throughout 2010 using the provisional indirect cost rate. At December 31, 2010, the federal government and other contractors owed a net total of $92,960 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, 2010, and will be billed and expected to be collected in 2011 after final approval of the indirect cost rate from USAID.

During 2009, the Institute's actual indirect costs were higher than the amount billed during 2009 using the provisional indirect cost rate. At December 31, 2009, the federal government and other contractors owed

Note 5. Government Grants and Contracts (Continued)

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 were billed and collected in 2010 and early 2011 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, economic development 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 substainability 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 2010 and 2009, the Institute made cash grants of $3,222,376 and $3,384,103, respectively, to local NGOs and other groups, and third parties contributed a total of $1,944,925 and $1,747,953, 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 4.41% and 3.39% of all qualified employees' compensation to the revenue-sharing component of the Plan during 2010 and 2009, respectively. Contributions to the Plan for 2010 and 2009 were approximately $125,000 and $84,000, respectively. An officer of the Institute serves as trustee of the Plan.

Note 8. Expenses

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

	2010			2009		
	Program	**General and Administrative**	**Total**	Program	General and Administrative	Total
Salaries and employee benefits	**$ 4,177,149**	**$ 1,406,822**	**$ 5,583,971**	$ 3,489,920	$ 1,284,887	$ 4,774,807
Consultants and related expenses	**681,108**	**105,845**	**786,953**	935,738	132,914	1,068,652
Rent	**193,045**	**195,499**	**388,544**	172,815	183,410	356,225
Office expense and supplies	**237,216**	**66,483**	**303,699**	241,761	57,566	299,327
Depreciation	**-**	**1,319**	**1,319**	-	1,319	1,319
Travel and meals	**312,949**	**118,359**	**431,308**	282,563	69,712	352,275
Insurance	**52,263**	**61,434**	**113,697**	20,402	52,606	73,008
Overseas allowances	**455,290**	**10,799**	**466,089**	252,547	6,077	258,624
Grants and subcontracts	**5,818,658**	**-**	**5,818,658**	6,079,993	-	6,079,993
Messengers and postage	**13,602**	**1,542**	**15,144**	17,028	2,992	20,020
Noncapitalized equipment	**156,485**	**7,979**	**164,464**	84,678	11,067	95,745
Telecommunications	**37,625**	**16,278**	**53,903**	61,792	24,894	86,686
Other professional services	**22,559**	**108,372**	**130,931**	17,575	60,931	78,506
Meetings and trainings	**221,528**	**2,695**	**224,223**	318,321	999	319,320
Miscellaneous	**81,218**	**14,562**	**95,780**	54,484	7,737	62,221
Total expenses	**$ 12,460,695**	**$ 2,117,988**	**$ 14,578,683**	$ 12,029,617	$ 1,897,111	$ 13,926,728

Note 9. Commitments and Contingencies

Line of Credit: 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, 2011. The balance of amounts borrowed under this arrangement and outstanding at December 31, 2010 and 2009 amounted to $1,000,000 and $600,000, respectively.

Leases: The Institute leases space in New York and various locations throughout the world. Leases in the field offices may be canceled by the Institute based on certain circumstances or with notice. The lease for the New York office space is a five-year lease with a provision for termination with six months' notice, which expires in 2011 and DC office space is a three-year lease which expires in 2013. On June 1, 2011, the Institute entered into a new 10-year lease for its New York office space with a provision for termination with six months' notice. Annual future minimum payments for both office lease agreements are as follows:

Year ending December 31,	
2011	$ 200,198
2012	214,333
2013	204,033
2014	192,000
2015	192,000
Thereafter	1,152,000
	$ 2,154,564

Note 9. Commitments and Contingencies (Continued)

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.

Note 10. Concentration of Revenue

The Institute received 80% and 76% of its total revenue for 2010 and 2009, 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 through Privatization Project. The Institute received $121,780 and $115,954 for 2010 and 2009, respectively.