McGladrey & Pullen
Certified Public Accountants

East-West Management Institute, Inc.

Financial Report

December 31, 2008

Contents

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, 2008 and 2007, 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, 2008 and 2007, 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 29, 2009

East-West Management Institute, Inc.

Statements of Financial Position
December 31, 2008 and 2007

	2008	2007
ASSETS		
Cash	**$ 217,792**	$ 610,508
Contracts and Grants Receivable	**2,027,962**	1,716,183
Security deposits and Other Assets	**129,562**	115,610
Property and Equipment, net	**2,638**	3,957
Total assets	**$ 2,377,954**	$ 2,446,258
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	**$ 385,606**	$ 655,986
Loans payable	**620,000**	260,234
Total liabilities	**1,005,606**	916,220
Commitments and Contingencies		
Net Assets:		
Unrestricted	**1,336,281**	1,374,470
Temporarily restricted	**36,067**	155,568
Total net assets	**1,372,348**	1,530,038
Total liabilities and net assets	**$ 2,377,954**	$ 2,446,258

See Notes to Financial Statements.

East-West Management Institute, Inc.

Statements of Activities
Years Ended December 31, 2008 and 2007

	2008			2007		
	Unrestricted	**Restricted**	**Total**	Unrestricted	Restricted	Total
Changes in Unrestricted Net Assets:						
Revenue:						
Government grants	**$ 6,659,602**	**$ -**	**$ 6,659,602**	$ 6,947,777	$ -	$ 6,947,777
Government contracts	**3,308,097**	**-**	**3,308,097**	6,587,698	-	6,587,698
Contributed services and cost-share amounts	**1,554,358**	**-**	**1,554,358**	2,200,142	-	2,200,142
Other grants	**161,872**	**75,000**	**236,872**	326,001	155,568	481,569
Other contracts	**597,999**	**-**	**597,999**	221,156	-	221,156
Other contributions	**1,000**	**-**	**1,000**	-	-	-
Other income	**92**	**-**	**92**	21	-	21
Net assets released from restrictions	**194,501**	**(194,501)**	**-**	-	-	-
Total revenue	**12,477,521**	**(119,501)**	**12,358,020**	16,282,795	155,568	16,438,363
Expenses:						
Program	**10,689,070**	**-**	**10,689,070**	14,217,960	-	14,217,960
General and administrative	**1,821,068**	**-**	**1,821,068**	1,873,844	-	1,873,844
Total expenses	**12,510,138**	**-**	**12,510,138**	16,091,804	-	16,091,804
Change in net assets before other income (expense)	**(32,617)**	**(119,501)**	**(152,118)**	190,991	155,568	346,559
Other Income (Expense):						
Interest income	**5,827**	**-**	**5,827**	5,290	-	5,290
Interest expense	**(11,399)**	**-**	**(11,399)**	(22,439)	-	(22,439)
Other expense, net	**(5,572)**	**-**	**(5,572)**	(17,149)	-	(17,149)
Change in net assets	**(38,189)**	**(119,501)**	**(157,690)**	173,842	155,568	329,410
Net Assets:						
Beginning	**1,374,470**	**155,568**	**1,530,038**	1,200,628	-	1,200,628
Ending	**$ 1,336,281**	**$ 36,067**	**$ 1,372,348**	$ 1,374,470	$ 155,568	$ 1,530,038

See Notes to Financial Statements.

East-West Management Institute, Inc.

Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities:		
Change in net assets	**$ (157,690)**	$ 329,410
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	**1,319**	1,319
Changes in operating assets and liabilities:		
(Increase) decrease in contracts and grants receivable	**(311,779)**	597,565
Increase in security deposits and other assets	**(13,952)**	(44,740)
Decrease in accounts payable and accrued expenses	**(270,380)**	(121,336)
Net cash (used in) provided by operating activities	**(752,482)**	762,218
Cash Flows From Financing Activities:		
Proceeds from borrowings under line of credit	**5,280,000**	6,775,000
Repayments of loans under line of credit	**(4,920,234)**	(7,104,766)
Net cash provided by (used in) financing activities	**359,766**	(329,766)
Net change in cash	**(392,716)**	432,452
Cash:		
Beginning	**610,508**	178,056
Ending	**$ 217,792**	$ 610,508
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	**$ 11,399**	$ 22,439

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 is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Effective January 1, 2004, pursuant to a private letter ruling from the Internal Revenue Service dated February 10, 2004, the Institute received approval to terminate its private foundation status and to be classified as a public charity. Accordingly, the Institute has completed its 60-month termination period under Section 507(b)(1)(B) of the Code and will file form 990.

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 2008 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 Caucuses.

The Institute also has a contract in 2008 with the Asian Development Bank to provide technical assistance with the development of resettlement policies in Cambodia, 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 court clerk training curriculum for the Romanian National School of Clerks. In addition, the Institute also had a contract with another party to assist Egyptians in improving access to representation for criminal defendants, and a contract with another party to help establish a system of comprehensive criminal justice statistics and data analysis in Georgia.

Other programs that the Institute has implemented in 2008 that are funded from other sources included a program to assist Kosovo's civic and government leaders to prepare for challenges associated with independence; 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. Accordingly, net assets are classified as unrestricted, temporarily restricted or permanently restricted based on the designation of donors.

Note 2. Summary of Significant Accounting Policies (Continued)

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. 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. However, donor-restricted support whose restrictions are met in the same reporting period are reported as unrestricted support.

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, 2008 and 2007, 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, 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.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

Income Taxes: The Financial Accounting Standards Board (the "FASB") has issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken on a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Institute qualifies as a charitable organization as defined by Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal income taxes under Internal Revenue Code Section 501(a). Additionally, the Institute is a Section 509(a)(1) publicly supported organization. The Institute is also exempt from New York State and New York City income taxes. The Institute is subject to taxes on unrelated business income, if any. The Institute presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*.

The Institute has elected to defer the application of FIN 48 in accordance with FASB Staff Position ("FSP") FIN 48-3. This FSP defers the effective date of FIN 48 for certain nonpublic enterprises to the annual financial statements for fiscal years beginning after December 15, 2008. The Institute will be required to adopt FIN 48 in its 2009 annual financial statements. The provisions of FIN 48 are to be applied to all tax positions upon initial application of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption.

The cumulative effect, if any, of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of net assets for the fiscal year of adoption. Management has not assessed the impact of FIN 48 on its financial position and change in net assets and has not determined if the adoption of FIN 48 will have a material impact on its financial statements.

Note 3. Property and Equipment

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

	2008	2007	Estimated Useful Lives
Furniture and fixtures	**$ 60,379**	$ 60,379	5 to 7 years
Software	**27,812**	27,812	3 years
	88,191	88,191	
Less accumulated depreciation	**(85,553)**	(84,234)	
	$ 2,638	$ 3,957	

Note 4. Temporarily Restricted Net Assets

As of December 31, 2008, temporarily restricted net assets consist of contributions restricted for the Philanthropication through Privatization program. As of December 31, 2007, temporarily restricted net assets consist of amounts restricted for Kosovo Negotiation Awareness and Kosovo First 100 Days programs.

Note 5. Government Grants and Contracts

As of December 31, 2008, the Institute was committed to incurring matching expenditures for certain federal government grants/cooperative agreements. As of December 31, 2008, total matching expenditures committed and not yet incurred on the continuing federal grants/cooperative agreements were $1,941,924. As of December 31, 2007, matching expenditures committed but not yet incurred were $816,246.

For the remaining federal grants/cooperative agreements, the federal government is committed to providing funds in the amount of $21,612,360, which had not been recorded as revenue as of December 31, 2008. 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 $10,557,834, which also had not been recorded as revenue as of December 31, 2008.

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 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 will be billed and expected to be collected in 2009 after final approval of the indirect cost rate from USAID.

During 2007, the Institute's actual indirect costs were higher than the amount billed during 2007 using the provisional indirect cost rate. At December 31, 2007, the federal government and other contractors owed a net total of $59,629 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, 2007 and were billed and collected in 2008 after final approval of the indirect cost rate from USAID.

Note 6. Grant Expense

The Institute implements large grant-making programs to foster 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.

Note 6. Grant Expense (Continued)

During 2008 and 2007, the Institute made cash grants of $2,864,617 and $4,870,415, respectively, to local NGOs and other groups, and third parties contributed a total of $1,335,221 and $2,109,492, respectively, to the Institute's programs. In accordance with the Institute's accounting policies, the third-party contributions were in-kind contributions, counted as cost-sharing for programs and were included in the grant and sub-contracts 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 5.51% and 4.0% of all qualified employees' compensation to the revenue-sharing component of the Plan during 2008 and 2007, respectively. Contributions to the Plan for 2008 and 2007 were approximately $116,000 and $97,000, 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:

	2008			2007		
	Program	**General and Administrative**	**Total**	Program	General and Administrative	Total
Salaries and employee benefits	**$ 2,996,943**	**$ 1,239,800**	**$ 4,236,743**	$ 3,189,241	$ 1,334,278	$ 4,523,519
Consultants and related expenses	**930,568**	**81,715**	**1,012,283**	662,943	83,758	746,701
Rent	**156,078**	**182,649**	**338,727**	163,207	185,900	349,107
Office expense and supplies	**228,528**	**47,629**	**276,157**	280,090	44,702	324,792
Depreciation	**-**	**1,319**	**1,319**	-	1,319	1,319
Travel and meals	**372,325**	**49,172**	**421,497**	339,500	57,910	397,410
Insurance	**31,859**	**52,668**	**84,527**	22,247	36,718	58,965
Overseas allowances	**231,063**	**789**	**231,852**	265,401	3,410	268,811
Grants and subcontracts	**5,050,625**	**-**	**5,050,625**	8,588,068	-	8,588,068
Messengers and postage	**17,061**	**3,507**	**20,568**	21,653	2,149	23,802
Noncapitalized equipment	**51,374**	**7,221**	**58,595**	44,643	8,077	52,720
Telecommunications	**66,231**	**16,844**	**83,075**	89,779	22,480	112,259
Other professional services	**18,233**	**122,731**	**140,964**	15,818	77,876	93,694
Meetings and trainings	**457,619**	**1,695**	**459,314**	451,848	1,500	453,348
Miscellaneous	**80,563**	**13,329**	**93,892**	83,522	13,767	97,289
Total expenses	**$ 10,689,070**	**$ 1,821,068**	**$ 12,510,138**	$ 14,217,960	$ 1,873,844	$ 16,091,804

Note 9. Commitments and Contingencies

Line of Credit: The Institute has extended its $1,000,000 line of credit with a bank through August 31, 2009. Interest is payable on any outstanding balances at the 90-day LIBOR (1.43% plus .75% and 4.70% plus .75% at December 31, 2008 and 2007, respectively). The line of credit is guaranteed by the Soros Economic Development Fund. The balances of amounts borrowed under this arrangement were $620,000 and $260,234 at December 31, 2008 and 2007, respectively.

Note 9. Commitments and Contingencies (Continued)

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, and 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.

During 2008, the Institute determined that a former employee in one of its overseas offices diverted payments for legitimate invoices to her personal bank accounts, for approximately $31,000. The Institute performed an extensive review of the facts and circumstances surrounding these events and paid all of the outstanding invoices, the original payments for which were misappropriated by the former employee. The Institute was able to arrive at an agreement with the former employee, whereby the individual agreed to repay the amount mentioned above. The Institute has also notified its federal oversight agency and has submitted three reports to the agency which provides a detailed description of all of the steps taken to determine when and how the misappropriation took place. The Institute had reimbursed the agency for these potentially unsubstantiated expenditures subsequent to December 31, 2008 and offset the reimbursements to USAID against its 2008 government contracts revenue. Subsequent to year-end, during April 2009, the Institute was informed that USAID was satisfied with the efforts that were undertaken to rectify the situation.

Note 10. Concentration of Revenue

The Institute received 78% and 83% of its total revenue for 2008 and 2007, 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.