

EAST-WEST MANAGEMENT INSTITUTE, INC.

**Financial Statements
For the Year Ended December 31, 2011
With Report of Independent Auditors**

EAST-WEST MANAGEMENT INSTITUTE, INC.
December 31, 2011

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
East-West Management Institute, Inc.

We have audited the accompanying statement of financial position of East-West Management Institute, Inc. (the Institute) as of December 31, 2011, and the related statements of activities and cash flows for the year 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 audit. The statement of financial position of East-West Management Institute, Inc. as of December 31, 2010 was derived from its financial statements for the year ended December 31, 2010, which were audited by other auditors whose report dated August 5, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Institute's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides 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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

A handwritten signature in black ink that reads "Mitchell & Titus, LLP".

September 27, 2012

EAST-WEST MANAGEMENT INSTITUTE, INC.

Statements of Financial Position
As of December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash	\$ 864,663	\$ 202,578
Contracts and grants receivable	2,202,674	2,948,592
Security deposits and other assets	182,661	124,130
Restricted cash	53,558	51,106
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Total assets	<u>\$ 3,303,556</u>	<u>\$ 3,326,406</u>
 LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 813,379	\$ 958,257
Loans payable	1,000,000	1,000,000
	<hr/>	<hr/>
Total liabilities	1,813,379	1,958,257
Commitments		
Net assets		
Unrestricted	1,385,665	1,254,551
Temporarily restricted	104,512	113,598
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Total net assets	1,490,177	1,368,149
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 3,303,556</u>	<u>\$ 3,326,406</u>

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

EAST-WEST MANAGEMENT INSTITUTE, INC.

Statement of Activities

For the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND RECLASSIFICATIONS			
U.S. Government grants and cooperative agreements	\$ 11,792,272	\$ -	\$ 11,792,272
U.S. Government contracts	6,513,133	-	6,513,133
Contributed services	32,935	-	32,935
United Kingdom's Department for International Development	426,434	-	426,434
Other contracts	824,191	-	824,191
Other grants and contributions	-	138,654	138,654
Other revenue	1,624	-	1,624
Net assets released from restrictions	147,740	(147,740)	-
Total revenue	<u>19,738,329</u>	<u>(9,086)</u>	<u>19,729,243</u>
EXPENSES			
Program	17,001,451	-	17,001,451
General and administrative	2,594,210	-	2,594,210
Total expenses	<u>19,595,661</u>	<u>-</u>	<u>19,595,661</u>
Change in net assets before other income (expense)	142,668	(9,086)	133,582
OTHER INCOME (EXPENSE)			
Interest income	223	-	223
Currency exchange gain	24,848	-	24,848
Interest expense	(20,000)	-	(20,000)
Deferred rent expense	(16,625)	-	(16,625)
Other income (expense), net	<u>(11,554)</u>	<u>-</u>	<u>(11,554)</u>
Change in net assets	131,114	(9,086)	122,028
Net assets, beginning of year	1,254,551	113,598	1,368,149
Net assets, end of year	<u>\$ 1,385,665</u>	<u>\$ 104,512</u>	<u>\$ 1,490,177</u>

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

EAST-WEST MANAGEMENT INSTITUTE, INC.

Statement of Cash Flows

For the Year Ended December 31, 2011

CASH FROM OPERATING ACTIVITIES

Change in net assets	\$ 122,028
<i>Changes in operating assets and liabilities</i>	
Decrease in contracts and grants receivables	745,918
Increase in security deposits and other assets	(58,531)
Increase in restricted cash	(2,452)
Decrease in accounts payable and accrued expenses	(144,878)
Net cash provided by operating activities	<u>662,085</u>
Cash, beginning of the year	<u>202,578</u>
Cash, end of the year	<u><u>\$ 864,663</u></u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW
INFORMATION**

Cash paid during the year for interest	<u><u>\$ 20,000</u></u>
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The accompanying notes are an integral part of these financial statements.

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

December 31, 2011

NOTE 1 ORGANIZATION

East-West Management Institute, Inc. (the Institute, or EWMI) 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 primarily from contracts, cooperative agreements, and grants from the United States Agency for International Development (USAID) and the U.S. Department of State (collectively, the U.S. Government). Programs covered by contracts, cooperative agreements, and grants in 2011 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, Montenegro;
- Training and support for economic and community development in Azerbaijan and Montenegro; and
- Community reconciliation and conflict resolution programs in Liberia and Fiji.

The Institute also had the following contracts in 2011: two contracts with the Ministry of Justice of Romania to implement World Bank-funded judicial reform projects; 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 Caucasus; and a subcontract to improve alternative dispute resolution mechanisms in Kosovo. EWMI also had a series of small contracts with various donors to assist economic development programs in Botswana, Burundi, Kenya, Lesotho, Montenegro, Rwanda, and Uganda.

Other programs that the Institute implemented in 2011, which are funded through grants from other sources, included: a program to provide technical assistance for the development of a constitutional court in Kosovo; a project to explore and promote the option for building community-based philanthropic endowments by capturing a portion of the proceeds of privatization; a program to support public interest legal advocacy in Cambodia; and a program to update the law textbook in Cambodia.

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

December 31, 2011

NOTE 1 ORGANIZATION *(continued)*

As described in Note 5, the Institute implements grant-making programs to foster the rule-of-law, economic development, and civil society worldwide. These programs are generally funded from various grants, cooperative agreements, contracts and contributions from governments, and private donors.

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.

Net Asset Classification

The Institute's net assets have been presented and classified as unrestricted and temporarily restricted based on the existence or absence of donor-imposed restrictions.

Unrestricted—Resources that are not subject to donor restrictions. Unrestricted amounts may be designated by the Board of Directors (the Board), or management at the Board's direction, to cover any purposes determined by the Institute.

Temporarily restricted—Funds that the Institute may use, in accordance with donors' restrictions, for specific purposes or upon the passage of time (see Note 3).

Use of Estimates

The preparation of financial statements in accordance with U.S. 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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

December 31, 2011

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Revenue Recognition

Revenue from grants and contracts is recorded when services are performed in accordance with the underlying agreements. Federal funds under the cooperative agreements are recorded as revenue when expenditures are incurred and are billable to the government.

As of December 31, 2011 and 2010, all amounts due under such grants, cooperative agreements, and contracts were deemed to be fully collectible and, accordingly, no allowance for uncollectibility was required.

Contributions

All unconditional contributions are recorded as revenue when received at their fair value. All contributions are considered available for unrestricted use, unless specifically restricted by the donor. The Institute records contributions as temporarily restricted if they are received with donor stipulations that limit their use either by purpose or by the passage of time. When donor restrictions expire (i.e., when a purpose or time restriction is fulfilled), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

Cost-Share Amounts and Contributed Services

Cost-share amounts include cash received from non-U.S. government donors and expended, as well as in-kind services provided to the applicable USAID grants. These are recorded by the Institute as contributions and program expenses in the accompanying statement of activities.

Contributed services that meet the appropriate criteria are recorded as both as contributions and expenses at fair value at the time the services are rendered. These include donated facilities and services of professionals who volunteered their 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 following criteria for recognition: (a) create or enhance nonfinancial assets or (b) require specialized skills provided by individuals possessing those skills, and (c) would typically need to be purchased if not provided by donation.

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

December 31, 2011

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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.

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. All of the Institute's property and equipment are fully depreciated as of December 31, 2011.

Functional Allocation of Expenses

Costs that are specifically identifiable to programs or to management and administration are charged directly to such functions. Costs incurred for both program and general and administration are allocated based on certain factors, such as time spent on activities performed under the respective functions.

The Institute does not perform fund-raising activities.

Income Taxes

The Institute is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and from state income taxes.

Management evaluated the Institute's tax positions and concluded that, as of December 31, 2011, there were no uncertain tax positions taken or expected to be taken. Accordingly, no interest or penalties related to uncertain tax positions have been accrued in the accompanying financial statements.

The Institute is subject to audits by taxing jurisdictions; however, no audits for any tax periods are currently in progress. Management believes that the Institute is no longer subject to income tax examinations by federal, state, or local tax authorities for years ended on or prior to December 31, 2007.

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

December 31, 2011

NOTE 3 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31 consisted of contributions for the following purposes:

	<u>2011</u>	<u>2010</u>
Philanthropication through Privatization (a program for building community-based philanthropic institutions in less developed countries)	\$ 95,481	\$ 113,598
Updating the Land Law Book for Cambodia	8,872	-
Support participation of Latin American participants in the Latin America Pre-Trial Advocacy Regional Meeting	159	-
	<u>\$ 104,512</u>	<u>\$ 113,598</u>

Net assets released from restrictions consisted of expenditures for the following purposes:

Philanthropication through Privatization (a program for building community-based philanthropic institutions in less developed countries)	\$ 46,557
Updating the Land Law Book for Cambodia	9,542
Support participation of Latin American participants in the Latin America Pre-Trial Advocacy Regional Meeting	21,641
Support the development of public interest law in Cambodia	70,000
	<u>\$ 147,740</u>

NOTE 4 GOVERNMENT GRANTS, COOPERATIVE AGREEMENTS AND CONTRACTS

The Institute's grants, cooperative agreements, and contracts with the U.S. Government and sub-contracts with certain pass-through entities generally cover several periods. At December 31, 2011, total funds available consisted of the following: \$46,542,643 under remaining grants and cooperative agreements, \$8,822,290 under remaining contracts, and \$983,907 under remaining sub-contracts. These funds will be recognized as revenue when services are rendered.

The Institute is obligated to provide matching funding under certain U.S. Government grants and cooperative agreements. Subject to certain restrictions, matching funds may be met with funds from other grants and contracts, cost share amounts (see Notes 2 and 5), and other contributions. Matching funds obligated and not yet provided under remaining grants and cooperative agreements at December 31, 2011 totaled \$4,390,641.

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

December 31, 2011

NOTE 4 GOVERNMENT GRANTS, COOPERATIVE AGREEMENTS AND CONTRACTS *(continued)*

All contracts, cooperative agreements and grants with the USAID and the U.S. Department of State allow the Institute to charge for indirect costs, using a provisional indirect cost rate for the year, which may be different from the actual indirect cost rate that may be finally allowed for that year under such contracts, cooperative agreements and grants. Adjustments for the difference between the indirect costs allowed under the provisional rate and actual indirect costs incurred during the year are accrued and recognized in the financial statements in the year in which the differences actually occur.

During 2011, the Institute's actual indirect costs incurred under these contracts, cooperative agreements and grants were lower than the amount billed using the provisional indirect cost rate by a net amount of \$267,447. This amount was presented as a reduction of grants and contracts receivable in the accompanying financial statements at December 31, 2011, and will be deducted from 2012 billing after approval of the final indirect cost rate by the USAID.

NOTE 5 GRANT EXPENSE

The Institute implements grant-making programs to foster the rule-of-law, economic development and civil society worldwide. The activities it has supported include the 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 also engages other donors to co-fund programs and sub-grantees.

Generally, grants are awarded through a competitive grant application process. In addition, the Institute supports certain unsolicited proposals and partnerships. During 2011, the Institute made cash grants of \$5,888,993 to local NGOs and other groups. Sub-grantees' cost share under these programs totaled \$996,528 in 2011.

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

December 31, 2011

NOTE 6 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 3.10% of all qualified employees' compensation to the revenue-sharing component of the Plan during 2011. The Institute's total contributions to the Plan for 2011 were approximately \$124,500. An officer of the Institute serves as trustee of the Plan.

NOTE 7 FUNCTIONAL EXPENSES

The Institute's expenses in 2011 were allocated to functional categories as follows:

	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and employee benefits	\$ 6,041,735	\$ 1,799,673	\$ 7,841,408
Consultants and related expenses	1,449,784	67,928	1,517,712
Rent	328,145	214,457	542,602
Office expense and supplies	308,348	104,519	412,867
Travel and meals	451,584	97,729	549,313
Insurance	47,278	61,472	108,750
Overseas allowances	424,752	27,665	452,417
Grants and subcontracts	7,204,336	-	7,204,336
Messengers and postage	19,641	2,805	22,446
Noncapitalized equipment	187,849	41,078	228,927
Telecommunications	68,788	14,284	83,072
Other professional services	10,531	139,062	149,593
Meetings and trainings	391,182	4,646	395,828
Miscellaneous	67,498	18,892	86,390
	<u>\$ 17,001,451</u>	<u>\$ 2,594,210</u>	<u>\$ 19,595,661</u>

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

December 31, 2011

NOTE 8 COMMITMENTS AND CONTINGENCIES

Loan Agreement

On October 28, 2009, the Institute entered into a loan agreement with Soros Economic Development Fund (SEDF) whereby SEDF agreed to make loans to the Institute in amounts of up to \$1,000,000. The loan may be drawn by the Institute in the form of promissory notes in tranches of not less than \$100,000 each. The maturity date of the loan is deemed automatically extended by one year, from time to time, unless SEDF notifies the Institute that it will no longer extend the maturity date. The loans payable at December 31, 2011 are due on December 31, 2012. Interest is payable at a fixed rate of 2%, and due semi-annually on June 15 and December 15 of each year.

Leases

The Institute leases office spaces in New York, Washington, D.C., and various foreign locations. The New York office space is under a 10-year sub-lease that commenced on June 1, 2011 and will terminate on May 31, 2021, unless the prime lease is terminated earlier. The Washington, D.C. office space is under a three-year lease, expiring in 2013. The leases in foreign locations have terms terminating on various dates from 2012 to 2016. Annual future minimum payments under the leases are as follows:

<u>Year Ending December 31,</u>	<u>New York</u>	<u>Washington, D.C.</u>	<u>Foreign Locations</u>	<u>Total</u>
2012	\$ 180,000	\$ 37,786	\$ 358,377	\$ 576,163
2013	180,000	26,335	286,708	493,043
2014	187,000	-	208,294	395,294
2015	192,000	-	99,235	291,235
2016	192,000	-	48,300	240,300
Thereafter	944,000	-	-	944,000
	<u>\$ 1,875,000</u>	<u>\$ 64,121</u>	<u>\$ 1,000,914</u>	<u>\$ 2,940,035</u>

Certain leases may be canceled by the Institute based on certain circumstances or with notice.

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

December 31, 2011

NOTE 8 **COMMITMENTS AND CONTINGENCIES** *(continued)*

Grants, Cooperative Agreements, and Contracts

The Institute is obligated to provide matching funding under certain U.S. Government grants and cooperative agreements. Such obligations under remaining grants and cooperative agreements at December 31, 2011 totaled \$4,390,641 (see Note 4).

Certain grants, cooperative agreements and contracts may be subject to audit by the funding sources. Such audit might result in disallowances of costs submitted for reimbursement. Management believes that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been accrued in the accompanying financial statements for such potential claims.

NOTE 9 **CONCENTRATION OF RISK**

The Institute received approximately 87% and 80% of its total revenue for 2011 and 2010, respectively, either directly or indirectly from USAID. Any significant reduction in the level of support from USAID could have a material adverse effect on the Institute's programs.

NOTE 10 **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 was performed through September 27, 2012, the date the financial statements were approved for issuance. There were no subsequent events that should be accounted for or require disclosure in the accompanying financial statements.