

EAST-WEST MANAGEMENT INSTITUTE, INC.

**Financial Statements
For the Years Ended December 31, 2012 and 2011
With Report of Independent Auditors**

EAST-WEST MANAGEMENT INSTITUTE, INC.
For the Years Ended December 31, 2012 and 2011

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of East-West Management Institute, Inc. (the Institute), which comprise the statements of financial position as of December 31, 2012 and 2011, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Mitchell & Titus, LLP

September 17, 2013

EAST-WEST MANAGEMENT INSTITUTE, INC.

Statements of Financial Position
As of December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash	\$ 1,104,368	\$ 864,663
Contracts and grants receivable	2,128,126	2,202,674
Security deposits and other assets	196,385	182,661
Restricted cash	47,359	53,558
Property and equipment, net	6,255	-
Total assets	<u>\$ 3,482,493</u>	<u>\$ 3,303,556</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 834,997	\$ 813,379
Loans payable	1,000,000	1,000,000
Total liabilities	<u>1,834,997</u>	<u>1,813,379</u>
Commitments		
Net assets		
Unrestricted	1,452,180	1,385,665
Temporarily restricted	195,316	104,512
Total net assets	<u>1,647,496</u>	<u>1,490,177</u>
Total liabilities and net assets	<u>\$ 3,482,493</u>	<u>\$ 3,303,556</u>

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

EAST-WEST MANAGEMENT INSTITUTE, INC.

Statements of Activities

For the Years Ended December 31, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND RECLASSIFICATIONS						
U.S. Government grants and cooperative agreements	\$ 12,768,624	\$ -	\$ 12,768,624	\$ 11,792,272	\$ -	\$ 11,792,272
U.S. Government contracts	5,862,815	-	5,862,815	6,513,133	-	6,513,133
Contributed services	112,161	-	112,161	32,935	-	32,935
United Kingdom's Department for International Development	257,324	-	257,324	426,434	-	426,434
Other contracts	966,570	-	966,570	824,191	-	824,191
Other grants and contributions	-	204,983	204,983	-	138,654	138,654
Other revenue	184	-	184	1,624	-	1,624
Net assets released from restrictions	114,179	(114,179)	-	147,740	(147,740)	-
Total revenue	20,081,857	90,804	20,172,661	19,738,329	(9,086)	19,729,243
EXPENSES						
Program	17,279,751	-	17,279,751	17,001,451	-	17,001,451
General and administrative	2,712,036	-	2,712,036	2,594,210	-	2,594,210
Total expenses	19,991,787	-	19,991,787	19,595,661	-	19,595,661
Change in net assets before other income (expense)	90,070	90,804	180,874	142,668	(9,086)	133,582
OTHER INCOME (EXPENSE)						
Interest income	256	-	256	223	-	223
Currency exchange gain	21,162	-	21,162	24,848	-	24,848
Interest expense	(20,055)	-	(20,055)	(20,000)	-	(20,000)
Deferred rent expense	(24,500)	-	(24,500)	(16,625)	-	(16,625)
Bad debt	(418)	-	(418)	-	-	-
Other expense, net	(23,555)	-	(23,555)	(11,554)	-	(11,554)
Change in net assets	66,515	90,804	157,319	131,114	(9,086)	122,028
Net assets, beginning of year	1,385,665	104,512	1,490,177	1,254,551	113,598	1,368,149
Net assets, end of year	\$ 1,452,180	\$ 195,316	\$ 1,647,496	\$ 1,385,665	\$ 104,512	\$ 1,490,177

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

EAST-WEST MANAGEMENT INSTITUTE, INC.

Statements of Cash Flows

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 157,319	\$ 122,028
<i>Adjustments to reconcile change in net assets to net cash provided by (used in) operations</i>		
Depreciation	1,564	-
<i>Changes in operating assets and liabilities</i>		
Decrease in contracts and grants receivable	74,548	745,918
Increase in security deposits and other assets	(13,724)	(58,531)
Decrease (increase) in restricted cash	6,199	(2,452)
Increase (decrease) in accounts payable and accrued expenses	21,618	(144,878)
Net cash provided by operating activities	<u>247,524</u>	<u>662,085</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(7,819)	-
Net cash used by investing activities	<u>(7,819)</u>	<u>-</u>
Net increase in cash	239,705	662,085
Cash, beginning of the year	864,663	202,578
Cash, end of the year	<u><u>\$ 1,104,368</u></u>	<u><u>\$ 864,663</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u><u>\$ 20,055</u></u>	<u><u>\$ 20,000</u></u>

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

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

For the Years Ended December 31, 2012 and 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 these contracts, cooperative agreements, and grants in 2012 and 2011 were as follows:

- Development and implementation of judicial reform, legal aid, and rule of law programs in Bosnia, Cambodia, Ecuador, Georgia, Montenegro, Serbia, Sri Lanka, and Tajikistan;
- Training and support for non-governmental organizations, grassroots networks, public policy, and human rights programs in Bosnia, Cambodia, Georgia, and 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 2012 and 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 Caucuses; 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 of the Institute during 2012 and 2011, which were 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 land law textbook in Cambodia.

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

For the Years Ended December 31, 2012 and 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 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 purpose 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

For the Years Ended December 31, 2012 and 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, 2012 and 2011, 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 statements 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 statements of activities.

Contributed services that meet the appropriate criteria are recorded as both 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

For the Years Ended December 31, 2012 and 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.

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 programs and general and administration are allocated based on certain factors, such as the 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, 2012, there were no uncertain tax positions taken or are 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, 2008.

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

NOTE 3 TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Philanthropic through Privatization (a program for building community-based philanthropic institutions in less developed countries)	\$ 91,407	\$ 95,481
Updating the Land Law Book for Cambodia	8,872	8,872
Support participation of Latin American participants in the Latin America Pre-Trial Advocacy Regional Meeting	-	159
Open Development Cambodia Project	94,037	-
Kosovo Women's Network	1,000	-
	<u>\$ 195,316</u>	<u>\$ 104,512</u>

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

	<u>2012</u>	<u>2011</u>
Philanthropic through Privatization (a program for building community-based philanthropic institutions in less developed countries)	\$ 28,596	\$ 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	159	21,641
Support for development of public interest law in Cambodia	70,000	70,000
Open Development Cambodia Project	15,424	-
	<u>\$ 114,179</u>	<u>\$ 147,740</u>

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

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 the end of year, total funds available consisted of the following: \$35,371,910 in 2012 and \$46,542,643 in 2011 under remaining grants and cooperative agreements; \$6,281,701 in 2012 and \$8,822,290 in 2011 under remaining contracts; and \$1,811,353 in 2012 and \$983,907 in 2011 under remaining sub-awards. 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 totaled \$3,508,454 and \$4,390,641 at December 31, 2012 and 2011, respectively.

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 2012, 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 \$119,091. This amount was presented as a reduction of grants and contracts receivable in the accompanying financial statements at December 31, 2012, and will be deducted from 2013 billing after approval of the final indirect cost rate by the USAID.

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 has been credited back to the funding organizations or applied against subsequent billings in 2013 following approval of the final indirect cost rate by the USAID.

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

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. The Institute made cash grants of \$6,324,687 in 2012 and \$5,888,993 in 2011 to local NGOs and other groups. Sub-grantees' cost share under these programs totaled \$848,731 in 2012 and \$996,528 in 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 1.44% and 3.10% of all qualified employees' compensation to the revenue-sharing component of the Plan during 2012 and 2011, respectively. The Institute's total contributions to the Plan were approximately \$141,000 in 2012 and \$212,000 in 2011. An officer of the Institute serves as trustee of the Plan.

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

NOTE 7 FUNCTIONAL EXPENSES

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

	Year Ended December 31, 2012		
	Program	General and Administrative	Total
Salaries and employee benefits	\$ 5,847,732	\$ 1,921,427	\$ 7,769,159
Consultants and related expenses	1,700,331	77,994	1,778,325
Rent	394,217	216,381	610,598
Office expense and supplies	340,780	68,486	409,266
Depreciation	-	1,564	1,564
Travel and meals	362,579	155,835	518,414
Insurance	45,108	60,701	105,809
Overseas allowances	415,674	106	415,780
Grants and subcontracts	7,253,874	-	7,253,874
Messengers and postage	20,324	3,516	23,840
Noncapitalized equipment	75,807	10,492	86,299
Telecommunications	68,282	12,666	80,948
Other professional services	34,171	164,710	198,881
Meetings and trainings	661,832	3,059	664,891
Miscellaneous	59,040	15,099	74,139
	<u>\$ 17,279,751</u>	<u>\$ 2,712,036</u>	<u>\$ 19,991,787</u>

	Year Ended December 31, 2011		
	Program	General and Administrative	Total
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
Depreciation	-	-	-
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

For the Years Ended December 31, 2012 and 2011

NOTE 8 COMMITMENTS AND CONTINGENCIES

Loan Agreement

On October 28, 2009, the Institute entered into a loan agreement with the 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, 2012 are due on December 31, 2013. 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 2013 to 2017.

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>
2013	\$ 180,000	\$ 23,349	\$ 311,797	\$ 515,146
2014	187,000	-	199,607	386,607
2015	192,000	-	60,032	252,032
2016	192,000	-	45,024	237,024
2017	206,000	-	-	206,000
Thereafter	738,000	-	-	738,000
	<u>\$ 1,695,000</u>	<u>\$ 23,349</u>	<u>\$ 616,460</u>	<u>\$ 2,334,809</u>

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

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, 2012 totaled \$3,508,454 (see Note 4).

EAST-WEST MANAGEMENT INSTITUTE, INC.

Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

NOTE 8 COMMITMENTS AND CONTINGENCIES *(continued)*

Grants, Cooperative Agreements, and Contracts *(continued)*

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 92% and 87% of its total revenue for 2012 and 2011, respectively, either directly or indirectly from the USAID. Any significant reduction in the level of support from the 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 17, 2013, 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.