

**THE BALTIC-AMERICAN PARTNERSHIP FUND, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2006 AND 2005**



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
The Baltic-American Partnership Fund, Inc.

We have audited the accompanying statements of financial position of The Baltic-American Partnership Fund, Inc. (the "Fund") as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the Fund. 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 The Baltic-American Partnership Fund, Inc. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Lutz + Carr, LLP*

New York, New York  
May 10, 2007

## THE BALTIC-AMERICAN PARTNERSHIP FUND, INC.

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Cash and cash equivalents (Notes 1b and 3)	\$ 9,694	\$ 175,816
Investments - USAID Endowment (Notes 1c and 2)	1,909,057	2,686,501
Matching grant receivable from The Open Society Institute (Note 1a)	1,909,544	2,396,043
Other assets	<u>2,087</u>	<u>2,989</u>
<b>Total Assets</b>	<b><u>\$3,830,382</u></b>	<b><u>\$ 5,261,349</u></b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accrued liabilities (Note 4)	\$ 535,439	\$ 228,296
Grants payable (Note 5)	<u>449,607</u>	<u>2,063,939</u>
Total Liabilities	985,046	2,292,235
Net Assets		
Temporarily restricted net assets	<u>2,845,336</u>	<u>2,969,114</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$3,830,382</u></b>	<b><u>\$ 5,261,349</u></b>

See notes to financial statements.

**THE BALTIC-AMERICAN PARTNERSHIP FUND, INC.**

**STATEMENTS OF ACTIVITIES**

**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Revenue		
USAID Endowment grant		
Income on Endowment Fund		
Interest and dividends	\$ 90,929	\$ 116,511
Net realized and unrealized investment gains (loss)	1,882	(10,553)
	<u>92,811</u>	<u>105,958</u>
The Open Society Institute		
Matching grant	92,811	105,958
Interest income on cash in bank accounts	-	3
	<u>185,622</u>	<u>211,919</u>
Net assets released from restrictions to cover current period expenses		
Endowment Fund	(154,700)	(1,496,774)
Open Society Institute	(154,700)	(1,496,774)
Other	-	(5,444)
Total	<u>(309,400)</u>	<u>(2,998,992)</u>
	<u>(123,778)</u>	<u>(2,787,073)</u>
<b>Changes in Unrestricted Net Assets</b>		
Revenue		
Donated services - The Open Society Institute (Note 4)	43,094	58,171
Supplementary USAID funds for program consulting	-	17,675
Net assets released from restrictions	<u>309,400</u>	<u>2,998,992</u>
	<u>352,494</u>	<u>3,074,838</u>
Expenses		
Grants awarded	-	(2,683,484)
Program and general administration	(322,036)	(373,679)
Other program expenses	<u>(30,458)</u>	<u>(17,675)</u>
	<u>(352,494)</u>	<u>(3,074,838)</u>
	<u>-</u>	<u>-</u>
Change in net assets	(123,778)	(2,787,073)
Net assets, beginning of year	<u>2,969,114</u>	<u>5,756,187</u>
	<u>\$2,845,336</u>	<u>\$ 2,969,114</u>

See notes to financial statements.

## THE BAL TIC-AMERICAN PARTNERSHIP FUND, INC.

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (123,778)	\$(2,787,073)
Adjustments to reconcile change in net assets to net cash used in operations:		
Depreciation	305	610
Realized and unrealized (gains) loss on sale investments	(1,882)	10,553
Decrease in matching grant receivable from The Open Society Institute	663,707	970,624
(Increase) decrease in other assets	597	(2,607)
Increase in accrued liabilities	129,935	103,551
Increase (decrease) in grants payable	<u>(1,614,332)</u>	<u>1,196,011</u>
Net Cash Used By Operating Activities	<u>(945,448)</u>	<u>(508,331)</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of investments	(3,189,239)	(116,511)
Proceeds received from sale of investments	3,936,565	802,821
(Increase) decrease in Endowment Fund cash	<u>32,000</u>	<u>(32,000)</u>
Net Cash Provided By Investing Activities	<u>779,326</u>	<u>654,310</u>
Net increase (decrease) in cash and cash equivalents	(166,122)	145,979
Cash and cash equivalents, beginning of year	<u>175,816</u>	<u>29,837</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 9,694</u>	<u>\$ 175,816</u>

See notes to financial statements.

**THE BALTIC-AMERICAN PARTNERSHIP FUND, INC.****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2006 AND 2005****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

The Baltic-American Partnership Fund, Inc. (the "Fund"), a New York State not-for-profit corporation, supports and promotes efforts to stabilize democracy and market orientation in the Baltic States through increased and better informed citizen participation in political and economic decision making. It seeks to accomplish this purpose through, among other things, efforts to promote legal and tax reform to support the development of indigenous non-governmental organizations (NGOs), efforts to strengthen indigenous NGO management and technical capabilities and efforts to develop mechanisms to achieve financial sustainability of indigenous NGOs.

The Fund is jointly funded by the United States Agency for International Development ("USAID") and The Open Society Institute ("OSI"), a charitable trust.

In 1998, USAID granted the Fund \$7,500,000 to establish an endowment ("USAID Endowment"), all of which was received and invested by the Fund in 1998 and 1999. Interest and other investment income, including net gains, and the endowment principal are to be expended over approximately ten years from the date of the grant, which is the anticipated life of the Fund's program. OSI has awarded the Fund a matching grant of \$7,500,000 and, in addition, a match of interest and other investment income, including net gains, earned by the USAID Endowment. OSI funds its grant to the Fund by matching withdrawals made by the Fund from the USAID Endowment. OSI's obligation to the Fund is collateralized by an irrevocable standby letter of credit. The amount to be received each year has not been determined.

In 2002, USAID modified its grant to the Fund, increasing it by \$375,000. The increase is not subject to the OSI matching obligation described above.

**b - Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Fund considers all highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents, except for cash and money market fund which are part of the USAID Endowment.

**c - Investments**

The Fund reflects investments at fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of activities.

**THE BALTIC-AMERICAN PARTNERSHIP FUND, INC.****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2006 AND 2005****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****d - Contributions**

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Fund that is, in substance, unconditional. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

In-kind contributions received from OSI consist primarily of donated rent and accounting services. The estimated value of these donations is reflected in grant revenue and in expenses in the Statement of Activities.

Grants made and unconditional promises to give are recognized as expenses in the period made at their fair value.

**e - Financial Statement Presentation**

The Fund reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**f - Tax Status**

The Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

**g - Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**THE BALTIC-AMERICAN PARTNERSHIP FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2006 AND 2005**

**Note 2 - Investments**

The USAID Endowment at December 31, 2006 and 2005 consists of the following:

	<u>Fair Value</u>	
	<u>2006</u>	<u>2005</u>
Cash and money market fund	<u>\$1,909,057</u>	<u>\$ 32,000</u>
Fixed Income		
Short-term bond index fund	-	434,761
Total bond market index fund	-	1,147,275
Inflation-protected securities fund	<u>-</u>	<u>681,345</u>
Total Fixed Income	<u>-</u>	<u>2,263,381</u>
Equity Funds		
Total international stock index fund	-	199,220
Total stock market index fund	<u>-</u>	<u>191,900</u>
Total Equity	<u>-</u>	<u>391,120</u>
Total Investments	<u>\$1,909,057</u>	<u>\$2,686,501</u>

In accordance with a plan developed by the Fund's finance committee in consultation with the Fund's external financial advisor, and approved by the Fund's board, investments in fixed income and equity funds were sold during 2006 and the proceeds were transferred to a money market fund.

**Note 3 - Concentration of Credit Risk**

The Fund maintains its cash balances in a financial institution located in New York, New York. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000.

**Note 4 - Agreement with the Open Society Institute**

Effective July 9, 1998, the Fund entered into an agreement with OSI, whereby OSI agreed to provide certain services to the Fund. Pursuant to the agreement, OSI maintains on its payroll and benefit plans, certain employees who provide services to the Fund and paid certain administrative expenses. The Fund paid or accrued \$189,778 and \$202,416 for the years ended December 31, 2006 and 2005, respectively, to reimburse OSI for these expenses; \$335,218 and \$202,416, respectively, of these administrative expenses are included in accrued liabilities at December 31, 2006 and 2005.

**THE BALTIC-AMERICAN PARTNERSHIP FUND, INC.****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2006 AND 2005****Note 4 - Agreement with the Open Society Institute (continued)**

In prior years, the Fund settled certain liabilities to OSI for services provided under the agreement by recording a non-cash transaction, namely offsetting liabilities to OSI against the matching grant receivable from OSI. In 2006, the Fund reversed those non-cash transactions in the amount of \$177,209 because, as discussed in Note 1a, OSI is required to match withdrawals from the USAID Endowment Fund only at the time cash withdrawals are made. As a result, both accrued liabilities and the matching grant receivable from OSI at December 31, 2006 include an additional \$177,209, bringing the total due to OSI to \$512,427 and the matching grant receivable from OSI to \$1,909,544.

OSI also provides office space and other support services to the Fund in accordance with the agreement for which it is not reimbursed. In order to reflect these in-kind contributions, the Fund has recorded donated services and the related expenses in the amount of \$43,094 and \$58,171 for the years ended December 31, 2006 and 2005, respectively.

**Note 5 - Grant Expense**

Grants are awarded to the Baltic-American Partnership Programs ("BAPPs") in each of the Baltic states and paid as expenses are incurred by the Programs.

Grant expense for the year ended December 31, 2005 was \$2,683,484, which includes multi-year grants made pursuant to a two-year grant making cycle covering 2005 and 2006. Therefore, there was no grant expense for the year ended December 31, 2006.

**Note 6 - Future Plans**

In January 2007, the Fund made its final program grants in the amount of \$1,325,000 to the BAPPs. Administrative grants for 2007 in the amount of \$286,826 were also made at that time. Administrative grants for 2008 are to be awarded at the end of 2007. It is also planned that an exit grant in an amount up to \$300,000 will be awarded to the BAPPs for post-BAPF activities that are consistent with BAPF's mission in the region.

Barring any unforeseen developments, it is planned that the BAPPs will commit all of their remaining grant funding at the local level by the end of 2007, with 2008 serving as their close-out year. The Fund's New York office plans to use the first six months of 2009 to complete all of its work.