

THE BALTIC-AMERICAN PARTNERSHIP FUND, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004



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, 2005 and 2004, 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, 2005 and 2004, 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
March 13, 2006

THE BALTIC-AMERICAN PARTNERSHIP FUND, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash and cash equivalents (Notes 1b and 3)	\$ 175,816	\$ 29,837
Investments - USAID Endowment (Notes 1c and 2)	2,686,501	3,351,364
Matching grant receivable from The Open Society Institute (Note 1a)	2,396,043	3,366,667
Other assets	<u>2,989</u>	<u>992</u>
Total Assets	<u>\$ 5,261,349</u>	<u>\$6,748,860</u>
Liabilities and Net Assets		
Liabilities		
Accrued liabilities (Note 4)	\$ 228,296	\$ 124,745
Grants payable (Note 5)	<u>2,063,939</u>	<u>867,928</u>
Total Liabilities	<u>2,292,235</u>	<u>992,673</u>
Net Assets		
Temporarily restricted net assets	<u>2,969,114</u>	<u>5,756,187</u>
Total Liabilities and Net Assets	<u>\$ 5,261,349</u>	<u>\$6,748,860</u>

See notes to financial statements.

THE BALTIC-AMERICAN PARTNERSHIP FUND, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Changes in Temporarily Restricted Net Assets		
Revenues		
USAID Endowment grant		
Income on Endowment Fund		
Interest and dividends (net of investment fees in 2004)	\$ 116,511	\$ 124,713
Net realized and unrealized investment gains (loss)	<u>(10,553)</u>	<u>140,483</u>
	105,958	265,196
The Open Society Institute		
Matching grant	105,958	265,196
Interest income on cash in bank accounts	<u>3</u>	<u>676</u>
Total Temporarily Restricted Revenues	<u>211,919</u>	<u>531,068</u>
Net assets released from restrictions to cover current period expenses		
Endowment Fund	(1,496,774)	(210,731)
Open Society Institute Fund	(1,496,774)	(210,731)
Other	<u>(5,444)</u>	<u>(68,975)</u>
Total	<u>(2,998,992)</u>	<u>(490,437)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(2,787,073)</u>	<u>40,631</u>
Changes in Unrestricted Net Assets		
Revenue		
Donated services - The Open Society Institute (Note 4)	58,171	72,112
Supplementary USAID funds for program consulting	17,675	-
Other income	-	14,210
Net assets released from restrictions	<u>2,998,992</u>	<u>490,437</u>
Total Revenue	<u>3,074,838</u>	<u>576,759</u>
Expenses		
Grants awarded	(2,683,484)	(250,999)
Program and general administration	(373,679)	(325,760)
Other program expenses	<u>(17,675)</u>	<u>-</u>
Total Expenses	<u>(3,074,838)</u>	<u>(576,759)</u>
Change in Unrestricted Net Assets	<u>-</u>	<u>-</u>
Change in net assets	(2,787,073)	40,631
Net assets, beginning of year	<u>5,756,187</u>	<u>5,715,556</u>
Net Assets, End of year	<u><u>\$ 2,969,114</u></u>	<u><u>\$5,756,187</u></u>

See notes to financial statements.

THE BAL TIC-AMERICAN PARTNERSHIP FUND, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Cash Flows From Operating Activities		
Change in net assets	\$(2,787,073)	\$ 40,631
Adjustments to reconcile change in net assets to net cash used in operations:		
Depreciation	610	612
Realized and unrealized (gains) loss on investments	10,553	(140,483)
Decrease in interest and dividends receivable	-	43,636
Decrease in matching grant receivable from The Open Society Institute	970,624	543,051
(Increase) decrease in other assets	(2,607)	676
Increase (decrease) in accrued liabilities	103,551	(22,042)
Increase (decrease) in grants payable	<u>1,196,011</u>	<u>(1,349,220)</u>
Net Cash Used By Operating Activities	<u>(508,331)</u>	<u>(883,139)</u>
Cash Flows From Investing Activities		
Purchase of investments	(116,511)	(3,648,797)
Proceeds received from sale of investments	802,821	4,120,269
(Increase) decrease in Endowment Fund cash	<u>(32,000)</u>	<u>222,944</u>
Net Cash Provided By Investing Activities	<u>654,310</u>	<u>694,416</u>
Net increase (decrease) in cash and cash equivalents	145,979	(188,723)
Cash and cash equivalents, beginning of year	<u>29,837</u>	<u>218,560</u>
Cash and Cash Equivalents, End of Year	<u>\$ 175,816</u>	<u>\$ 29,837</u>

See notes to financial statements.

THE BALTIC-AMERICAN PARTNERSHIP FUND, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2005 AND 2004****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 has been received and invested by the Fund. 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.

In addition, in 2002 the Central European University, which has been a grantee of OSI, granted the Fund \$85,000.

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 which was 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. Interest and dividend income is stated net of investment management fees of \$6,100 for the year ended December 31, 2004.

THE BALTIC-AMERICAN PARTNERSHIP FUND, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2005 AND 2004****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 - Other Assets

Other assets consist primarily of prepaid insurance (2005) and equipment recorded at cost (2004). Equipment is depreciated using the straight-line method over the estimated useful life of the related asset.

f - 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.

g - 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.

h - 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, 2005 AND 2004

Note 2 - Investments

The USAID Endowment for the years ended December 31, 2005 and 2004 consists of the following:

	<u>Fair Value</u>	
	<u>2005</u>	<u>2004</u>
Cash	\$ 32,000	\$ -
Fixed Income		
Short-term bond index fund	434,761	486,928
Total bond market index fund	1,147,275	1,224,071
Inflation-protected securities fund	<u>681,345</u>	<u>738,561</u>
Total Fixed Income	<u>2,263,381</u>	<u>2,449,560</u>
Equity Funds		
REIT index fund	-	220,657
Total international stock index fund	199,220	342,636
Total stock market index fund	<u>191,900</u>	<u>338,511</u>
Total Equity	<u>391,120</u>	<u>901,804</u>
Total Investments	<u>\$2,686,501</u>	<u>\$3,351,364</u>

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 \$202,416 and \$183,716 for the years ended December 31, 2005 and 2004, respectively, to reimburse OSI for these expenses; \$202,416 and \$100,079, respectively, of these amounts are included in accrued liabilities at December 31, 2005 and 2004. 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 \$58,171 and \$72,112 for the years ended December 31, 2005 and 2004, respectively.

THE BALTIC-AMERICAN PARTNERSHIP FUND, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2005 AND 2004****Note 5 - Grant Expense**

Grants are awarded to the Baltic-American Partnership Programs 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.

Grant expense for the year ended December 31, 2004 was \$250,999, which includes modifications to the 2004 administrative grants accrued in 2003 and new administrative grants for 2005.