



International Development Law Organization

Financial statements as at and
for the year ended
31 December 2010
(with Independent Auditors' Report thereon)



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Independent Auditors' Report

To Standing Committee of
International Development Law Organization

We have audited the accompanying financial statements of International Development Law Organization, which comprise the balance sheet as at December 31, 2010, the statements of revenues and expenses, contribution's revenues, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of International Development Law Organization based on the accounting policies described in Note 2 to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the accounting policies outlined in Note 2 to the financial statements, for determining the acceptability of the basis of accounting, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 our 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, we consider internal control relevant to the entity's preparation 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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

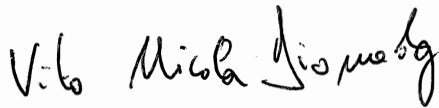
In our opinion, the financial statements of International Development Law Organization for the year ended December 31, 2010 are prepared, in all material respects, in accordance with the accounting policies described in Note 2 to the financial statements.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 to the financial statements which describes the basis of accounting. The financial statements are prepared to assist International Development Law Organization to present financial information relevant to the Standing Committee purposes. As a result, the financial statements may not be suitable for another purpose.

Rome, March 11, 2011

KPMG S.p.A.



Vito Nicola Diomeda
Director of Audit

International Development Law Organization
BALANCE SHEETS
For the Years Ended December 31 2010 and 2009 (Expressed in Euros)

	2010	2009
<u>ASSETS</u>		
<u>Current assets</u>		
Cash (Note 3)	6,302,193	6,710,374
Accounts receivable	755,542	1,301,387
Prepaid expenses	142,295	133,736
Total current assets	7,200,030	8,145,497
<u>Non current assets</u>		
<u>Fixed assets</u>		
Furniture, fixtures, ICT and equipment, net of depreciation (Note 5)	372,127	486,811
Leasehold improvements, net of amortization (Note 5)	2,215,518	2,882,096
Total net fixed assets	2,587,646	3,368,907
<u>Investments</u>		
Investment portfolio (Note 6)	4,350,024	8,388,634
Donor Endowment funds (Note 7)	643,875	641,488
Total Investments	4,993,899	9,030,122
Total non current assets	7,581,545	12,399,029
TOTAL ASSETS	14,781,575	20,544,526
<u>LIABILITIES AND EQUITY</u>		
<u>Current liabilities</u>		
Accounts payable and accrued expenses (Note 10)	1,937,559	1,303,050
Short Term Financial Debts (Note 8)	2,975,000	3,026,494
Deferred revenue and grants received in advance (Note 9)	4,191,900	6,891,922
Total current liabilities	9,104,459	11,221,466
<u>Equity</u>		
Retained Earnings	5,033,241	8,681,572
Donor Endowment funds (Note 7)	643,875	641,488
Total equity	5,677,116	9,323,060
TOTAL LIABILITIES AND EQUITY	14,781,575	20,544,526

The accompanying notes 1 to 13 form an integral part of these financial statements

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International Development Law Organization
STATEMENTS OF REVENUES AND EXPENSES
For the Years Ended December 31 2010 and 2009 (Expressed in Euros)

	2010	2009
<u>REVENUES</u>		
Grants unrestricted (Schedule 1)	2,480,668	2,404,430
Revenue from restricted grants - programs (Schedule 1)	8,547,740	9,330,262
	11,028,408	11,734,692
Other income	105,220	218,550
Total revenues	11,133,628	11,953,243
<u>EXPENSES</u>		
Staff costs	6,065,581	4,774,912
Office expenses	1,277,926	1,342,333
Institutional Expenses *	506,109	640,759
Program direct costs	6,202,004	6,429,605
Depreciation	548,601	514,074
Total expenses	14,600,222	13,701,683
Excess of expenses over revenues on regular operations	(3,466,594)	(1,748,441)
Realized and Unrealized gains or (losses) on investment portfolio	44,637	747,635
Realized and Unrealized gains or (losses) on endowment funds	2,387	62,269
Total Realized and Unrealized gains	47,024	809,904
<u>Financial and write off expenses</u>		
Interest short term debt (Note 8)	(35,499)	(49,037)
Effect of foreign exchange rate movements	284,296	(121,973)
Account receivable & fixed assets write offs & other adjustments	(475,170)	(233,287)
Total financial and write off expenses	(226,373)	(404,297)
Net excess of expenses over revenues on regular operations	(3,645,943)	(1,342,834)

* Program Development/Fundraising/Governance/Library/Communication/Alumni Networks

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The accompanying notes 1 to 13 form an integral part of these financial statements

**International Development Law Organization
STATEMENTS OF CONTRIBUTION'S REVENUE
For the Years Ended December 31 2010 and 2009 (Expressed in Euros)**

<u>Donors</u>	<u>Unrestricted grants</u>	<u>Programs Implemented</u>	<u>Grants utilized 2010</u>	<u>Grants utilized 2009</u>
	Euro	Euro	Euro	Euro
Arab Bank for Economic Development in Africa (BADEA)	-	-	-	81,138
Australian Agency for International Development	-	102,243	102,243	-
Bill and Melinda Gates Foundation	-	-	-	2,020,030
Carnegie Corporation	-	-	-	13,249
Coca-Cola Greater Europe - London	-	-	-	46,501
European Bank for Reconstruction and Development	-	121,620	121,620	634,864
European Union	-	330,375	330,375	-
Ford Foundation	-	215,602	215,602	-
Gates Foundation	-	1,365,964	1,365,964	-
Government of Canada (CIDA & DFAIT)	-	-	-	154,965
Government of China	16,000	-	16,000	6,770
Government of Finland	300,000	609,409	909,409	764,003
Government of France	-	-	-	501
Government of Ireland	-	58,603	58,603	108,908
Government of Italy	1,032,913	2,614,006	3,646,919	4,210,014
Government of Japan	-	-	-	14,669
Government of the Netherlands	600,000	1,721,676	2,321,676	1,191,096
Government of the United States of America (US Department of State & USAID)	449,035	261,457	710,492	631,140
Inter-American Development Bank	-	-	-	67,336
Microsoft Corporation	52,123	119,196	171,319	144,306
Nike Foundation	-	-	-	20,163
Omidyar Foundation	-	159,742	159,742	-
Omidyar Network	-	-	-	578,181
OPEC Fund for Development	-	546,384	546,384	-
The World Bank Institute	-	-	-	40,436
The World Bank Procurement Project in Afghanistan (Charles Kendall's lead partner)	-	80,864	80,864	508,597
UNDP	-	240,599	240,599	403,918
UNHCR	30,597	-	30,597	-
White & Chase	-	-	-	6,986
World Trade Organization	-	-	-	86,921
Total Revenue from Donors	2,480,668	8,547,740	11,028,408	11,734,692

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International Development Law Organization
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2010 and 2009 (Expressed in Euros)

	Retained Earnings	Donor endowment funds			Total Donor endowment funds	Total Equity
		Arab Fund	Kuwait Fund			
Fund balances as at January 1, 2009	10,086,675	348,768	230,451	579,219	10,665,894	
Excess of support & revenue over expenses on regular operations	(1,748,441)	-	-	-	(1,748,441)	
Effect of financial expenses & investment portfolio	343,338	-	-	-	343,338	
Net change in fund balances	-	37,494	24,775	62,269	62,269	
Fund balances as at December 31, 2009	8,681,572	386,262	255,226	641,488	9,323,060	
Fund balances as at January 1, 2010	8,681,572	386,262	255,226	641,488	9,323,060	
Excess of expenses over revenues on regular operations	(3,466,594)	-	-	-	(3,466,594)	
Effect of financial expenses & investment portfolio	(181,736)	-	-	-	(181,736)	
Net change in fund balances	-	1,437	950	2,387	2,387	
Fund balances as at December 31, 2010	5,033,242	387,699	256,176	643,875	5,677,117	

STATEMENTS OF CASH FLOWS

For the Years Ended December 31 2010 and 2009 (Expressed in Euros)

CASH FLOWS FROM OPERATING ACTIVITIES	2010	2009
Net deficit of expenses over revenues	(3,645,943)	(1,342,834)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	548,601	514,074
(Gain)/Loss on disposal of fixed assets	317,154	-
(Increase)/decrease in other debtors and prepayments	(8,559)	49,315
(Increase)/decrease market value of investment portfolio	(47,024)	(809,904)
(Increase)/decrease in accounts receivable - operations	545,845	404,394
Increase/(decrease) in accounts payables	634,508	514,941
Increase/(decrease) in Short Term Debts Payable	(51,494)	(347,691)
Increase/(decrease) in deferred revenues and grants received in advance	(2,700,022)	2,435,648
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	(4,406,933)	1,417,943
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(84,494)	(288,026)
(Increase)/decrease in deposits	-	761,546
Disposal from Investment Portfolio	4,083,247	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,998,753	473,520
Net Increase/(decrease) in cash	(408,181)	1,891,463
CASH AT BEGINNING OF YEAR	6,710,374	4,818,911
CASH AT END OF YEAR (Note 3)	6,302,193	6,710,374
Represented By:		
Cash at Bank	6,302,193	6,710,374

The accompanying notes 1 to 13 form an integral part of these financial statements

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NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009
(Expressed in Euro)

1 THE ORGANIZATION

The International Development Law Organization (IDLO or the Organization), headquartered in Rome, Italy, Viale Vaticano 106, is an international intergovernmental organization. IDLO supports efforts by developing and transition economy countries to strengthen the rule of law and good governance in order to stimulate sustainable economic and social development and to alleviate poverty.

A Headquarters Agreement signed on 20 March 1992, amended 19 July 1993, ratified by the Italian Parliament on October 28, 1994 and effective as of December 1, 1994, regulates IDLO's relations with the host government, Italy. The Organization also maintained regional offices in Sydney, Australia and Cairo, Egypt. The regional offices were closed during 2010.

IDLO receives voluntary contributions for institutional and/or program support from government agencies, multilateral organizations and private foundations. In 2010 IDLO received support from six governmental donors (2009: nine). Any significant reduction in the level of this support, if this were to occur, would have a material effect on IDLO's programs and activities.

IDLO is governed by an Assembly of Parties.

The twenty-three Parties to IDLO's Establishment Agreement are currently:

- | | |
|----------------|---|
| • Australia | • Kuwait |
| • Austria | • Norway |
| • Bulgaria | • OPEC Fund for International Development |
| • Burkina Faso | • Paraguay |
| • Colombia | • People's Republic of China |
| • Ecuador | • Philippines |
| • Egypt | • Romania |
| • France | • Senegal |
| • Italy | • Sudan |
| • Jordan | • The Netherlands |
| • Kenya | • Tunisia |
| | • United States |

The governance structure of the Organization, since March 28, 2008 is composed of:

THE ASSEMBLY OF PARTIES - composed of all representatives of IDLO's member parties, which are signatories to the Establishment Agreement of IDLO. The Assembly is IDLO's highest decision-making body and it convenes in Rome at least once a year. The role of the Assembly is to determine the Organization's policies and oversee the work of the Director-General. Its duties include the adoption of the budget, the action plan and the by-laws for the governance of the Organization and the appointment of the Director-General and members of the Board of Advisers.

THE STANDING COMMITTEE provides the link between the Assembly, the Board of Advisers and the Director-General. It includes the President and Vice-Presidents of the Assembly, the Chairman and Vice-Chairman of the Board, and on a rotational basis, a Representative of a State Party (*ad hoc*

member), for a one year term. One of its functions is the adoption of the financial statements as well as to monitor the proper implementation of the budget and report on this item to the Assembly.

The Standing Committee meets at least every two months and prepares the meetings of the Assembly.

IDLO Standing Committee in 2010 is composed of the representatives of: The Netherlands (President), Burkina Faso (Vice-President), Italy (Vice-President) and Colombia (*ad hoc* member); and of Atty. Alfredo F. Tadiar, Chairman of the Board and Atty. Pascal Roux, Vice-Chairman of the Board.

THE BOARD OF ADVISERS includes ten members elected by the Assembly for a four-year term. Half the members are renewed every two years. All Board Members are selected on the basis of their expertise in the fields of development or law or their experience of the management of international organizations. They serve in their personal capacities and not as representatives of their governments or organizations. Meetings of the Board of Advisors are convened at least once a year, prior to the regular meeting of the Assembly.

The number of personnel employed by the Organization was 72 as at December 31, 2010 (2009: 86). Subsequent to the year end, the number of personnel employed as at January 4, 2011 was 60.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of IDLO are prepared in accordance with the following accounting policies described below. The financial statements of IDLO are composed by the balance sheets, the statement of revenues and expenses, contribution's revenue, changes in equity and cash flow, and the explanatory notes. In addition, the financial statements are prepared to assist IDLO to present financial information relevant to the Standing Committee purposes.

Grant revenue recognition

IDLO records revenue from unrestricted grants when they are received except that amounts received from donors with respect to future years are deferred to the year in which they relate. Grants restricted by the donor for particular operating purposes are deemed to be earned and are reported as revenues when expenditures are incurred in accordance with the specific restrictions of such donor. Such amounts received but not yet earned are reported as deferred revenue.

Foreign exchange

IDLO conducts its operations in several currencies and has maintained its accounting records in Euro since 2007. Revenue and expense items in currencies other than Euro have been recorded at appropriate rates of exchange during the period. The exchange adjustments arising from the translation of assets and liabilities in other than Euro are credited or charged to the Statement of Revenues and Expenses.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Revenues and Expenses. Accordingly, certain costs have been allocated between project related costs and office expenses and institutional costs.

Cash

IDLO classifies as cash and cash equivalent cash on hand, amounts on deposits and on accounts in banks.

Investments

Investments are reported at fair value, based primarily on market quotes. The fair values are reviewed and evaluated by Management. IDLO has an exposure to a number of risks including interest rate, market, and credit risks for both marketable and non-marketable securities. Due to the level of risk exposure, it is possible that near-term valuations changes for investment securities may occur to an extent that could materially affect the amounts reported in IDLO's financial statements.

Both realized exchange and security gains and losses and unrealized exchange and security gains and losses are reflected in Statement of Revenues and Expenses.

Project revenue and grant revenue

In the Statement of Contribution's Revenue, grants recognized as revenue are classified as either unrestricted grants or programs implemented.

Receivables and payables

Receivables are recorded at their estimated net realizable value. Payables are stated at face value.

Fixed assets and depreciation

Office equipment and furniture are recorded at cost and are depreciated over the estimated useful lives of the respective assets (five years) on a straight-line basis. Leasehold improvements are depreciated on a straight-line basis over the expected life of the leases (twelve years). Ordinary maintenance expenses on property are charged directly to operating expenses in the period in which they are incurred.

3 CASH

Cash balance is determined by cash held in IDLO bank accounts and petty cash and amounts to €6,302,193 (2009: €6,710,374) as at 31 December 2010. During 2010, cash at bank balances were transferred to into accounts held with the new banking supplier, Banca Popolare di Sondrio.

4 SHORT TERM INVESTMENTS

At December 31, 2010, IDLO has no deposits.

5 FIXED ASSETS

The following table presents the changes in fixed assets:

FIXED ASSETS Expressed in Euros	Leasehold Improvements	Fixtures, Furniture, ICT & Equipment	TOTAL
COST			
Balance as of January 1, 2010	6,007,794	1,798,103	7,805,897
Additions	14,065	70,430	84,495
Disposals	(288,564)	(28,590)	(317,154)
Balance as of December 31, 2010	5,733,295	1,839,943	7,573,237
ACCUMULATED AMORTIZATION			
Balance as of January 1, 2010	3,125,698	1,311,292	4,436,990
Depreciation		156,523	156,523
Amortization	392,079		392,079
Balance as of December 31, 2010	3,517,777	1,467,815	4,985,591
NET BOOK VALUE			
Balance as of December 31, 2010	2,215,518	372,128	2,587,646
Balance as of December 31, 2009	2,882,096	486,811	3,368,907

The additions of the period are related to the expenses incurred for asset replacement and minor refurbishments of the headquarters in Rome. The disposals relate to the write-off of fixed assets at the Cairo Regional Office, which was closed as of December 31, 2010.

6 INVESTMENT PORTFOLIO

UBS, the organization's third party investment advisor, has managed the investments under investment guidelines provided by IDLO. In 2010, an Investment Policy was approved by the Standing Committee. This policy specifies that a maximum of 20% of IDLO's investments can be held in equities and the rest must be held in fixed income securities.

The portfolio mix of the investments as at 31 December 2010 and 2009 is reflected in the following table.

Asset Class	As at 31.12.10		As at 31.12.09		Variance	
	Value	Value %	Value	Value %	Change in Value	Value % of TOT
Liquidity	610,455	12.22%	1,808,672	20.03%	(1,198,217)	-7.81%
Bonds	3,288,417	65.85%	1,739,038	19.26%	1,549,379	46.59%
Equities	774,976	15.52%	3,175,419	35.16%	(2,400,443)	-19.65%
Alternative Investments	-	0.00%	1,760,991	19.50%	(1,760,991)	-19.50%
Real Estate	320,050	6.41%	383,843	4.25%	(63,793)	2.16%
Precious Metals & Commodities	-	0.00%	162,158	1.80%	(162,158)	-1.80%
Total Asset Value	4,993,898	100.00%	9,030,121	100.00%	(4,036,223)	

The investment portfolio at year end December 31, 2010 had a value of €4,350,024 (2009: €8,388,634), and represents the principal together with changes in market value during the year and less amounts utilized in the year. Changes in the market value of the investment portfolio are reported in the Statements of Revenues and Expenses in the year in which the change occurs.

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The movement in the investment portfolio in 2009 and 2010 consisted of:

Investment Portfolio		
(Expressed in Euros)	2010	2009
Balance beginning of year	8,388,634	7,640,999
Realized Gain or (Loss)		
Unrealized Gain or (Loss)	44,637	747,635
Outflows	(4,083,247)	
Balance end of year	4,350,024	8,388,634

The outflows represent transfers to IDLO's operating bank accounts required in order to bring asset holdings in line with deferred revenue accounts.

7 DONOR ENDOWMENT FUNDS

The Donor Endowment Funds represent restricted endowment contributions from the Kuwait Fund for Arab and Economic Development (the "Kuwait Endowment") and from the Arab Fund for Economic and Social Development (the "Arab Endowment").

Income from the Arab Endowment is determined at year-end. It is subsequently recognized when utilized for fellowships. Income from the Kuwait Endowment, which is not restricted, is used for the operation and administration of IDLO.

At December 31, 2010, the net investment gain of the Arab Endowment Fund was €1,437 (2009: €37,494). The principal amount of this fund is €387,699. At December 31, 2010, the net investment gain for the Kuwait Endowment Fund was €950, (2009: €24,775). The principal amount of the fund is €256,176.

The balance at December 31, 2010 representing the total market value of the Donor Endowment Funds was €643,875 versus €641,488 as at December 31, 2009, constituting an unrealized gain of €2,387.

8 SHORT TERM FINANCIAL DEBTS

With the approval of the Board of Directors in 2006, IDLO established a revolving line of credit financed by UBS SA. This line of credit is secured by the IDLO Investment Portfolio as collateral. As at December 31, 2010, IDLO has current liabilities with a principal of €2,975,000 (2009: €3,026,494). Interest on the principal amounted to €35,499 in 2010 (2009: €49,037).

9 DEFERRED REVENUE AND GRANTS RECEIVED IN ADVANCE

The balance of €4,192,105 (2009: €6,891,922) includes grants for projects received in 2010 and prior years and not utilized as at December 31, 2010 and un-earmarked grants received in advance for 2011.

10 PROVIDENT FUND

All eligible staff participates in the IDLO provident fund, which is a defined contribution retirement plan. The benefits are paid at retirement or termination of employment. This plan is funded by a mandatory seven percent contribution from employees' salaries, an additional fourteen percent matching contribution by IDLO and further voluntary contributions by each participant.

The Organization suspended investment of its own and the employee's contribution from August 2008 onwards. The accumulated non-invested contribution is included in accrued expenses, which at December 31, 2010 amounts to €1,162,950 (2009: €629,525), which is held in separate bank accounts.

11 TAXATION

The position of IDLO with respect to taxation in Italy is established in the Headquarters Agreement.

Article IX, Section 12 of the Headquarters Agreement exempts "the Organization, its properties, incomes and assets" from "all direct taxation and duties levied by the State, Regions and Municipalities". Article IX, Section 13 establishes additional tax exemptions for the Organization, including an exemption from the payment of Value Added Tax on "substantial purchases". Article XV, Section 21 exempts "members of the staff who are not Italian nationals and who are not permanent residents" from "any form of direct taxation on salaries, emoluments, indemnities, pensions, and other benefits paid to them by or on behalf of the Organization".

12 LEASE COMMITMENTS

IDLO has operating leases for buildings used for office space, residential and teaching facilities. These leases are accounted for as operating leases with rental payments being expensed directly to the Statement of Revenues and Expenses. One lease expires at the end of 2011, and the negotiations for this lease may affect future rental payment amounts as listed below. As of December 31, 2010 the future rental minimum payments for all operating leases is as follows:

2011: €500,400
 2012: €420,500
 2013: €428,000
 2014: €435,500
 2015: €443,000
 In total thereafter: €1,652,500

13 SUBSEQUENT EVENTS

IDLO received, on 21 January 2011, a grant from The International Narcotics and Law Enforcement, United States Department of State for the amount of US\$ 12,165,649 (€ 9,114,211) for its two year program 'Supporting the National Justice Sector Strategy of Afghanistan - Improving Security, Legal Rights and Legal Services for the Afghan People' in Afghanistan.