



KPMG S.p.A.
Revisione e organizzazione contabile
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Independent Auditors' Report

To the Standing Committee of
International Development Law Organization

We have audited the accompanying financial statements of International Development Law Organization ("the Entity"), which comprise the balance sheet as at December 31, 2012, the statements of revenues and expenses, 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 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 the Entity for the year ended December 31, 2012 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 the Entity to present financial information relevant for the Standing Committee of International Development Law Organization. As a result, the financial statements may not be suitable for another purpose.

Rome, April 2, 2013

KPMG S.p.A.

Vito Nicola Diomeda
Director of Audit

International Development Law Organization

BALANCE SHEETS

For the Years Ended December 31 2012 and 2011 (Expressed in Euros)

	2012	2011
<u>ASSETS</u>		
<u>Current assets</u>		
Cash (Note 3)	9,369,127	14,792,397
Deposits (Note 4)	-	1,772,857
Accounts receivable	3,097,330	1,585,479
Prepaid expenses	342,541	81,876
Total current assets	12,808,998	18,232,609
<u>Non current assets</u>		
<u>Fixed assets</u>		
Furniture, fixtures, ICT and equipment, net of depreciation (Note 5)	161,483	236,652
Leasehold improvements, net of amortization (Note 5)	1,649,601	1,942,022
Total net fixed assets	1,811,084	2,178,674
<u>Investments</u>		
Investment portfolio (Note 6)	1,388,075	1,318,080
Donor Endowment funds (Note 6)	668,919	642,093
Provident Fund Investments (Note 8)	1,117,934	1,127,908
Total Investments	3,174,928	3,088,081
Total non current assets	4,986,012	5,266,756
TOTAL ASSETS	17,795,010	23,499,364
<u>LIABILITIES AND EQUITY</u>		
<u>Current liabilities</u>		
Accounts payable and accrued expenses	1,154,302	566,418
Deferred revenue and grants received in advance (Note 7)	7,415,434	14,480,607
Provident Fund (Note 8)	2,506,451	2,353,480
Total current liabilities	11,076,187	17,400,505
<u>Equity</u>		
Retained Earnings	6,049,904	5,456,766
Donor Endowment funds (Note 6)	668,919	642,093
Total equity	6,718,823	6,098,859
TOTAL LIABILITIES AND EQUITY	17,795,010	23,499,364

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International Development Law Organization
STATEMENTS OF REVENUES AND EXPENSES
For the Years Ended December 31 2012 and 2011 (Expressed in Euros)

	2012	2011
<u>REVENUES</u>		
Grants Unrestricted (Schedule 1)	2,843,158	3,664,656
Earmarked Revenue (Schedule 1)	412,229	-
Revenue from restricted grants - programs (Schedule 1)	13,838,009	9,620,029
	17,093,396	13,284,685
Other income	46,204	152,653
Total revenues	17,139,600	13,437,338
<u>EXPENSES</u>		
Staff costs	4,092,693	4,133,531
Office expenses	849,452	943,851
Institutional Expenses *	799,606	437,381
Depreciation	409,268	439,520
Program direct costs	10,560,055	6,734,971
Total expenses	16,711,075	12,689,253
Net revenue	428,525	748,086
Realized and Unrealized gains or (losses) on investment portfolio	69,995	(37,291)
Realized and Unrealized gains or (losses) on endowment funds	26,826	(1,782)
Total Realized and Unrealized gains or (losses)	96,821	(39,073)
<u>Financial expenses, write-offs and prior period adjustments</u>		
Interest short term debt		(19,674)
Effect of foreign exchange rate movements	34,630	(22,794)
Account receivable & fixed assets write offs & prior period adjustments	59,988	(244,801)
Total financial and write off expenses	94,617	(287,270)
Net revenue	619,964	421,743

* Fundraising/Governance/Library/Communication/Alumni Networks

International Development Law Organization
STATEMENTS OF CASH FLOWS
For the Years Ended December 31 2012 and 2011 (Expressed in Euros)

CASH FLOWS FROM OPERATING ACTIVITIES	2012	2011
Net revenue (shortfall)	619,964	421,743
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	409,268	439,520
(Increase)/decrease in other debtors and prepayments	(260,665)	60,419
(Increase)/decrease in accounts receivable - operations	(1,511,851)	(829,936)
Increase/(decrease) in accounts payable	587,885	(208,191)
Increase/(decrease) in deferred revenues and grants received in advance	(7,065,173)	10,288,707
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	(7,220,574)	10,172,262
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(41,678)	(79,156)
Loss on disposal of fixed assets	0	48,607
(Increase)/decrease market value of investment portfolio	(86,847)	603,984
Increase/(decrease) in Provident Fund invested funds	152,971	(482,636)
Increase/(decrease) in Short Term Debts Payable	0	(2,975,000)
Disposal from Investment Portfolio	0	2,975,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	24,446	90,799
Net Increase/(decrease) in cash	(7,196,128)	10,263,061
CASH AT BEGINNING OF YEAR	16,565,255	6,302,193
CASH AT END OF YEAR (Note 3)	9,369,127	16,565,255
Represented By:		
Cash at Bank	9,369,127	14,792,397
Deposits	0	1,772,857
Total Cash	9,369,127	16,565,255

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International Development Law Organization
STATEMENTS OF CONTRIBUTION'S REVENUE
For the Years Ended December 31 2012 and 2011 (Expressed in Euros)

Donors	Unrestricted grants	Earmarked Grants	Programs Implemented	Total grants received & utilized 2012	Total grants received & utilized 2011
APCO Worldwide	-	-	16,263	16,263	-
Arab Bank for Economic Development in Africa (BADEA)	-	-	61,978	61,978	41,071
Australian Agency for International Development (AUSAID)	-	-	539,006	539,006	251,305
Bill and Melinda Gates Foundation	-	165,061	-	165,061	620,379
Center for International Sustainable Development Law (CISDL)	-	-	12,823	12,823	-
European Bank for Reconstruction and Development (EBRD)	-	-	191,759	191,759	717,653
European Union	-	-	448,354	448,354	144,961
Food and Agriculture Organization (FAO)	-	-	24,355	24,355	98,296
Ford Foundation	-	-	348,239	348,239	255,676
Government of Canada (CIDA & DFAIT)	-	-	927,803	927,803	774,748
Government of China	20,000	-	-	20,000	14,001
Government of Denmark	-	-	669,564	669,564	-
Government of Finland	-	-	-	-	135,703
Government of France	-	-	149,791	149,791	22,837
Government of Italy	-	-	586,067	1,619,815	2,210,694
Government of Jordan	1,033,748	-	-	10,000	-
Government of the Netherlands	10,000	-	-	-	-
Government of the Philippines	1,200,000	247,168	1,355,790	2,802,958	2,957,412
Government of Sweden	1,540	-	-	1,540	21,001
Government of the United States of America (US Department of State, INL & USAID)	465,947	-	180,462	180,462	36,310
Government of Vietnam	-	-	6,825,061	7,291,008	3,418,576
International Fund for Agricultural Development (IFAD)	-	-	66,310	66,310	-
Kuwait Fund	-	-	128,711	128,711	37,803
Microsoft Corporation	54,200	-	81,496	135,696	173,369
Omidyar Foundation	57,723	-	307,034	364,757	258,760
Omidyar Network	-	-	-	-	102,194
OPEC Fund for International Development	-	-	73,462	73,462	741,008
PriceWaterHouseCoopers	-	-	226,364	226,364	51,453
The World Bank Institute	-	-	393,103	393,103	-
The World Bank	-	-	22,769	22,769	33,254
UNCDB	-	-	-	-	33,084
UNDP	-	-	75,502	75,502	-
	-	-	125,943	125,943	133,135
Total Revenue from Donors	2,843,158	412,229	13,838,009	17,093,396	13,284,684

International Development Law Organization

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2012 and 2011 (Expressed in Euros)

	Retained Earnings	Donor endowment funds			Total Donor Endowment Funds	Total Equity
		Arab Fund	Kuwait Fund			
Total fund balances January 1, 2011	5,033,241	387,699	256,176		643,875	5,677,116
Excess of support & revenue over expenses on regular operations	748,086	-	-		-	748,086
Effect of financial expenses & investment portfolio	(324,561)	-	-		-	(324,561)
Net change in fund balances	-	(1,073)	(709)		(1,782)	(1,782)
Fund balances as at December 31, 2011	5,456,766	386,626	255,467		642,093	6,098,859
Total fund balances January 1, 2012	5,456,766	386,626	255,467		642,093	6,098,859
Excess of support & revenue over expenses on regular operations	428,525	-	-		-	428,525
Effect of financial expenses & investment portfolio	164,612	-	-		-	164,612
Net change in fund balances	-	16,153	10,673		26,826	26,826
Fund balances as at December 31, 2012	6,049,904	402,779	266,140		668,919	6,718,823

84
68

For the years ended December 31, 2012 and 2011
(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 enables governments and empowers people to reform laws and strengthen institutions to promote peace, justice, sustainable development and economic opportunity.

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.

IDLO receives voluntary contributions for institutional and/or program support from government agencies, multilateral organizations and private foundations. In 2012 IDLO received unrestricted budget support from seven governmental donors (2011: six). 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-seven Parties to IDLO's Establishment Agreement are currently:

- | | |
|----------------|-------------------|
| • Afghanistan | • Norway |
| • Australia | • OPEC Fund for |
| • Austria | International |
| • Bulgaria | Development |
| • Burkina Faso | • Paraguay |
| • China | • Peru |
| • Ecuador | • Philippines |
| • Egypt | • Romania |
| • El Salvador | • Senegal |
| • France | • Sudan |
| • Italy | • The Netherlands |
| • Jordan | • Tunisia |
| • Kenya | • Turkey |
| • Kuwait | • United States |
| • Mozambique | |

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

THE ASSEMBLY OF PARTIES - composed of representatives of all of IDLO's member parties, a member party being a state of intergovernmental organization that has signed the Agreement for the Establishment of IDLO. The Assembly is IDLO's highest decision-making body and it convenes in Rome at least once a year, holding its regular session in the last quarter of each year. The role of the Assembly is to determine the Organization's policies and oversee the actions of the Director-General. Its duties include the adoption of the budget and action plan for the following year; the adoption of by-laws for the governance of the Organization and inter alia, for the personnel policies; the adoption of recommendations relating to the Organization's policies and management; the approval of the admission of

new members of the Organization and the election of the President and Vice-President of the Assembly; and the appointment of the Director-General, ad-hoc members of the Standing Committee, and the members of the Board of Advisors.

THE STANDING COMMITTEE provides the link between the Assembly, the Board of Advisors and the Director-General. It is comprised of the President of the Assembly, who shall be its chair, the Assembly's two Vice-Presidents, one representative from each of two Parties who shall be elected by the Assembly in alternate years each for a two-year term and the Chairman and Vice-Chairman of the Board of Advisors. The Standing Committee is in charge of monitoring the proper implementation of the budget and shall report on its implementation to the Assembly. 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. Meetings shall be called by the President at least three times annually at regular intervals or at the request of a member of the Standing Committee or the Director-General. The composition rules of the Standing Committee were amended at the 2012 Assembly of Parties of IDLO.

The IDLO Standing Committee in 2012 is composed of the representatives of: USA (President), Italy (Vice-President), Kuwait (Vice-President), Paraguay and Peru (*ad hoc* members); and Professor Jan Michiel Otto, Acting Chairman of the Board of Advisors.

THE BOARD OF ADVISORS is composed of between six and ten members elected by the Assembly each for a four-year term. The composition rules of the Board of Advisors were amended at the 2012 Assembly of Parties of IDLO, prior to this the Board of Advisors were composed of ten members. 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 core staff employed by the Organization was 51 as at December 31, 2012 (2011: 50).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of IDLO are prepared in accordance with the following accounting policies.

The financial statements of IDLO are composed of the balance sheets, the statements of revenues and expenses, 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 for the Standing Committee purposes.

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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. Grants not restricted to specific programs but earmarked for a general purpose are deemed to be earned and are reported as revenues when expenditures are incurred.

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. Assets and liabilities denominated in currencies other than Euro are translated in Euro using year-end exchange rates. Realized and unrealized foreign exchange gains and losses 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, such as governance, fundraising, program development and communication.

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 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 Revenues and Expenses, grants recognized as revenue are classified as either unrestricted grants, earmarked 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.

Revenue and expenses

Revenue and expenses are recorded on an accrual basis.

3 CASH

Cash balance is determined by cash held in IDLO bank accounts and petty cash funds and these amount to €9,369,127 as at 31 December 2012 (2011: €14,792,397).

The cash and deposits are restricted for the use in programs and for Provident Fund commitments as shown in the following table.

(expressed in Euros)	2012	2011
Cash at bank	9,369,127	14,792,397
Deposits (see Note 4)	-	1,772,857
	9,369,127	16,565,255
Less:		
Deferred Program and Earmarked Revenue	7,355,532	13,560,856
Provident Fund commitment (see Note 10)	1,388,516	1,225,572
	8,744,048	14,786,428
Unrestricted Cash and Deposits	625,079	1,778,827

4 DEPOSITS

At December 31, 2011, IDLO invested funds in three short-term instruments:

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- Euro 1 million from the regular account in two short-term deposits of €500,000 each, one for one month and the other for two months.
- Euro 772,857 (USD 1 million) from the USD Provident Fund account for one month. (See Note 8)

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, 2012	5,768,868	1,834,917	7,603,785
Additions	5,550	36,128	41,678
Disposals	0	0	0
Balance as of December 31, 2012	5,774,418	1,871,046	7,645,463
ACCUMULATED AMORTIZATION			
Balance as of January 1, 2012	3,826,845	1,598,265	5,425,111
Depreciation		111,297	111,297
Amortization	297,972		297,972
Balance as of December 31, 2012	4,124,817	1,709,562	5,834,380
NET BOOK VALUE			
Balance as of December 31, 2012	1,649,600	161,483	1,811,084
Balance as of December 31, 2011	1,942,022	236,652	2,178,674

The additions of the period are related to the costs for improvements, refurbishments and equipment purchases for the headquarters building in Rome; there were no disposals of leasehold improvements or fixtures, furniture, ICT or equipment in 2012 (2011: €48,607).

6 INVESTMENT PORTFOLIO AND ENDOWMENT FUNDS

UBS, the organization's third party investment advisor, has managed the investments in accordance with IDLO's Investment Policy which 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 2012 and 2011 is reflected in the following table.

Investment Portfolio by Asset Class
(expressed in Euros)

	As at 31.12.12		As at 31.12.11		Variance	
	Value	Value %	Value	Value %	Change in Value	Value % of TOT
Liquidity	121,728	5.92%	95,942	4.89%	25,786	1.02%
Bonds	1,438,403	69.93%	1,307,591	66.71%	130,812	3.22%
Equities	266,859	12.97%	271,798	13.87%	(4,939)	(0.89%)
Real Estate	230,004	11.18%	284,842	14.53%	(54,838)	(3.35%)
Total Asset Value	2,056,994	100.00%	1,960,173	100.00%	96,821	

The investment portfolio at year end December 31, 2012 had a value of €2,056,994 (2011: €1,960,173), and represents the

principal together with changes in market value during the year, 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.

The movement in the investment portfolio in 2012 and 2011 consisted of:

Investment Portfolio Movement
(expressed in Euros)

	2012	2011
Balance beginning of year	1,960,173	4,993,898
Realized & unrealized Gain or (Loss)	96,821	(39,073)
Outflows		(2,994,651)
Balance end of year	2,056,994	1,960,173
Comprised of:		
Regular Investments	1,388,075	1,318,080
Arab Fund	402,779	386,626
Kuwait Fund	266,140	255,467

The Donor Endowment Funds form part of the investment portfolio. The 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") represent restricted endowments. The principal in these Donor Endowment Funds represents funds subject to restrictions requiring that unless otherwise agreed with the donors, the principal be retained and invested for the long term.

7 DEFERRED REVENUE AND GRANTS RECEIVED IN ADVANCE

The deferred revenue balance of €7,415,434 (2011: €14,480,607) includes grants for projects - €6,788,823 (2011: 13,230,629) and earmarked activities - €566,709 (2011: €330,227) received in 2012 and prior years but not utilized as at December 31, 2012. The total deferred revenue also includes unrestricted grants of €59,902 (2011: €919,751) received advance.

8 PROVIDENT FUND

All eligible staff participate in the IDLO provident fund, which is a defined contribution plan. The balance is 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 balance of funds in the Provident Fund are either held in a bank account with Banca Popolare di Sondrio (BPS) or invested with BNP Paribas. The movement in the value of Provident Fund holdings reflects the contributions described above, withdrawals, and changes in the market value of investments.

Provident Fund Holdings
(expressed in Euros)

	2012	2011
Banca Popolare di Sondrio (BPS):		
Bank account holdings	1,036,191	452,715
Cash in Transit	352,325	
Deposit (USD 1 million)		772,857
Total BPS	1,388,516	1,225,572
BNP Paribas	1,117,934	1,127,908
Total Provident Fund Holdings	2,506,451	2,353,480

9 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".

10 LEASE COMMITMENTS

IDLO has leases for office space and teaching facilities. These leases are accounted for as operating leases with rental payments being expensed directly to the Statement of Revenues and Expenses.

In 2011, IDLO terminated the leases for the residence facility and part of the office space not required. As of December 31, 2012 the future rental minimum payments for all headquarters leases is as follows:

2013: € 370,000

2014: € 381,100

2015: € 392,533

2016: € 404,309

2017: € 416,438

In total thereafter: 1,187,350

Corporate office lease commitments in New York are as follows:

2013: € 35,477

2014: € 36,541

2015: € 18,540

11 SUBSEQUENT EVENTS

In 2012, IDLO submitted a proposal to the Bureau for International Narcotics and Law Enforcement (INL) of the US Department of State for a major program in Afghanistan; 'Completing the Transition in Afghanistan – Justice Training Transition Program (JTTP)'. The contract was awarded in December 2012 with a total value of USD 47,759,796 and implementation will commence in March 2013 for a period of 30 months.