

***GLOBAL FINANCIAL INTEGRITY***

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2013



**Halt Buzas &  
Powell, LTD**

CERTIFIED PUBLIC ACCOUNTANTS • MANAGEMENT CONSULTANTS

**GLOBAL FINANCIAL INTEGRITY**  
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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Global Financial Integrity  
Washington, D.C.

We have audited the accompanying financial statements of Global Financial Integrity (GFI), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the period from May 1, 2013 (inception) to December 31, 2013, 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, 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 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 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 the auditors' 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 GFI as of December 31, 2013, and the changes in its net assets and its cash flows for the period from May 1, 2013 (inception) to December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

*Halt, Buzas & Powell, Ltd.*

Alexandria, Virginia

March 25, 2014

**GLOBAL FINANCIAL INTEGRITY**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2013**

**ASSETS**

Cash	\$ 615,000
Grants and accounts receivable	78,035
Prepaid expenses and security deposit	<u>28,931</u>
Total assets	<u>\$ 721,966</u>

**LIABILITIES AND NET ASSETS**

Accounts payable and accrued expenses	\$ 26,307
Deferred revenue	<u>531,763</u>
Total liabilities	558,070
Unrestricted net assets	<u>163,896</u>
Total liabilities and net assets	<u>\$ 721,966</u>

See accompanying notes to financial statements.

## GLOBAL FINANCIAL INTEGRITY

### STATEMENT OF ACTIVITIES

FOR THE PERIOD FROM MAY 1, 2013 (INCEPTION) TO DECEMBER 31, 2013

#### Revenues:

Contractual services	\$ 2,027,294
Grants	350,852
Advocacy	37,450
Contributions and other	<u>8,405</u>
Total revenues	<u>2,424,001</u>

#### Expenses:

##### Program services:

Research	1,588,251
Advocacy	<u>549,355</u>

Total program services 2,137,606

##### Support services:

Management and general	118,357
Fundraising	<u>4,142</u>

Total support services 122,499

Total expenses 2,260,105

**Increase in net assets** 163,896

**Net assets, May 1, 2013** -

**Net assets, December 31, 2013** \$ 163,896

See accompanying notes to financial statements.

## GLOBAL FINANCIAL INTEGRITY

### STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM MAY 1, 2013 (INCEPTION) TO DECEMBER 31, 2013

<b>Cash flows from operating activities:</b>	
Increase in net assets	\$ <u>163,896</u>
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Decrease (increase) in assets:	
Grants and accounts receivable	(78,035)
Prepaid expenses and security deposit	(28,931)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	26,207
Deferred revenue	<u>531,763</u>
Total adjustments	<u>451,004</u>
Net cash provided by operating activities	<u>614,900</u>
<b>Cash flows from financing activities:</b>	
Proceeds from non interest loan	100,000
Payments of non interest loans	<u>(100,000)</u>
Net cash used in financing activities	<u>-</u>
<b>Net increase in cash</b>	614,900
<b>Cash, May 1, 2013</b>	<u>100</u>
<b>Cash, December 31, 2103</b>	\$ <u><u>615,000</u></u>

See accompanying notes to financial statements.

**GLOBAL FINANCIAL INTEGRITY**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

**1. Organization**

Global Financial Integrity, Inc. (GFI) was organized as a District of Columbia nonprofit corporation for the purpose of researching and analyzing the cross-border flow of illegal money and promoting national and multilateral policies, safeguards, and agreements aimed at curtailing such illicit activity. GFI is qualified as a tax exempt educational organization under section 501(c)(3) of the Internal Revenue Code (IRC). The mission of GFI is to put forward solutions, facilitate strategic partnerships, and conduct groundbreaking research to lead the way in efforts to curtail illicit financial flows and enhance global development and security. The programs and activities of the organization include research and advocacy.

**2. Summary of significant accounting policies**

Basis of presentation

The financial statements are presented in accordance with *U.S. Generally Accepted Accounting Principles* for nonprofit organizations. Under those principles, GFI is required to report information regarding its financial position and activities according to three classes of net assets:

*Unrestricted net assets* represent resources that are not subject to donor imposed stipulations and are available for operations at management's discretion.

*Temporarily Restricted net assets* represent resources restricted by donors as to purpose or by the passage of time.

*Permanently Restricted net assets* represent resources whose use by GFI is limited by donor imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by action of GFI. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

GFI has no temporarily or permanently restricted net assets at December 31, 2013.

**GLOBAL FINANCIAL INTEGRITY**  
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Basis of accounting

The financial statements are prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses when obligations are incurred.

Presentation of financial statements

These financial statements reflect the financial results of GFI's activities beginning May 1, 2013, which is when GFI commenced operations as a stand-alone entity, and through December 31, 2013.

Use of estimates

The preparation of financial statements in conformity with *U.S. Generally Accepted Accounting Principles* requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses and their functional allocation during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For financial statement purposes, GFI considers highly liquid investments with an original maturity of three months or less as cash equivalents. Cash amounts are held by GFI in non-interest bearing checking accounts used to fund operations and program activities. Certain grant monies totaling \$30,134 were held in a separate non-interest checking account as required by the grant agreement.

**GLOBAL FINANCIAL INTEGRITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

Grants and accounts receivable

Receivables consist primarily of travel expenses to be reimbursed by foreign governments and other entities, which are all due in less than one year and are stated at their net realizable value. Receivables considered delinquent, based on periodic reviews by management and determined to be uncollectible, will be reserved, as a result of individual credit evaluation and specific circumstances. At December 31, 2013, management estimates that all receivables are fully collectible. Therefore, no allowance for doubtful accounts was recognized at December 31, 2013.

Property and equipment

Property and equipment acquisitions are recorded in the financial statements at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Computer equipment and software	3 years
Furniture and fixtures	5 years
Leasehold improvements	Life of lease

GFI's policy is to capitalize major additions and improvements over \$3,000. Repairs and maintenance which do not significantly add to the value of assets are expensed as incurred.

GFI held no depreciable property and equipment at December 31, 2013.

Income taxes

GFI is exempt from federal and local income taxes under Section 501(c)(3) of the Internal Revenue Code on any net income derived from activities related to its exempt purpose. This code section enables GFI to accept donations that qualify as charitable contributions to the donor. GFI is subject to tax on net income from unrelated business activities. For the period from May 1 to December 31, 2013, GFI did not recognize income tax expense in the accompanying financial statements as there was no unrelated business taxable income.

**GLOBAL FINANCIAL INTEGRITY**  
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GFI is not aware of any activities that would jeopardize its tax-exempt status that would require recognition in the accompanying financial statements, pursuant to *Accounting Standards Codification (ASC) for Income Taxes*. Generally, tax returns are subject to examination by taxing authorities for up to three years from the date a completed return is filed. If there are material omissions of income, tax returns may be subject to examination for up to six years. It is GFI's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2013, GFI had no accruals for interest and/or penalties.

Revenue recognition

*Grants and contracts*

Grants and contract revenue are reported as exchange transactions and recognized when the qualifying costs are incurred. Amounts received in advance of qualifying costs incurred are reported as deferred revenue.

*Contributions and other*

Contributions are recognized as revenue when received or promised as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Revenue from all other sources is recognized in the period earned.

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 activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Foreign currency transactions

Transactions denominated in foreign currency are converted into GFI's reporting currency, the U.S. dollar, on the date of the transaction. Transaction gains or losses are included in the statement of activities and were not significant for the period from May 1, 2013 to December 31, 2013.

**GLOBAL FINANCIAL INTEGRITY**  
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**3. Concentration of credit risk**

GFI maintains bank deposits that, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) limits. At December 31, 2013, deposits in excess of FDIC limits totaled \$400,113.

**4. Deferred revenue**

Deferred revenue at December 31, 2013 was comprised of the following:

Ford Foundation	\$ 172,264
InterAmerican Development Bank	36,022
DANIDA	53,960
FACT Coalition	25,000
Government of Spain	191,140
Research Council of Norway	23,243
Danish Embassy of Ghana	<u>30,134</u>
Total deferred revenue	<u>\$ 531,763</u>

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**5. Grants and contracts revenue**

Grants and contracts revenue recognized for the period from May 1, 2013 to December 31, 2013 were derived from the following sources:

Norway Ministry of Finance	\$ 261,487
Ford Foundation	53,365
DANIDA	29,279
Government of Spain	<u>6,721</u>
Total grants revenue	<u>\$ 350,852</u>
Central Bank of Nigeria	\$ 1,945,000
Research Council of Norway	56,293
InterAmerican Development Bank	11,834
African Development Bank	6,051
United Nations Development Program	<u>8,116</u>
Total contracts revenue	<u>\$ 2,027,294</u>

**6. Defined contribution plan**

GFI sponsors a single-employer defined-contribution plan called the 403(b) Thrift Plan for Global Financial Integrity (the Plan). There are no eligibility requirements for salary reduction agreements. To participate in employer contributions, an employee must have been employed for a minimum of two years of continuous service with GFI, which includes service to the Center for International Policy immediately preceding May 1, 2013.

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GFI makes contributions to the Plan for its employees hired on May 1, 2013, matching eligible employee contributions at 100% up to 6% of employee compensation up to the maximum limits allowed by law. GFI makes contributions to the Plan for its employees hired after May 1, 2013, matching eligible employee contributions at 100% up to 3% of employee compensation up to the maximum limits allowed by law.

Employer contributions totaled \$7,697 for the period from May 1, 2013 to December 31, 2013.

**7. Commitment**

Operating lease

GFI made lease payments for the office space where it resides on a month-to-month basis during the period from May 1, 2013 to December 31, 2013. Total rent expense incurred under the office space lease was \$34,501.

On December 20, 2013 GFI signed a six year lease for the office space where it resides. The lease expires on December 31, 2019. Future minimum lease payments, exclusive of additional operating costs, are as follows for the years ending December 31:

2014	\$ 123,174
2015	126,253
2016	129,410
2017	132,645
2018	135,961
2019	<u>139,360</u>
Total	\$ <u>786,803</u>

**GLOBAL FINANCIAL INTEGRITY**  
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**8. Related party transactions**

GFI obtained from its President a \$100,000 no-interest loan on May 1, 2013 to fund operations during GFI's transition as a stand-alone entity plus \$2,949 that paid the May 2013 employee medical insurance premiums and \$16,819 that paid legal fees related to organizational start-up and obtaining tax exempt status. These amounts were fully repaid June 28, 2013, July 14, 2013, and July 25, 2013, respectively.

GFI paid a subcontractor \$25,000 for services rendered during the period ended December 31, 2013, where the spouse of GFI's President held the position of president emeritus.

Prior to May 1, 2013, GFI was a program of the Center for International Policy (CIP). On May 1, 2013, GFI transitioned into a stand-alone entity. Amounts related to an office lease in the name of CIP totaling \$34,501 were paid by GFI to CIP and recognized as rent expense in the accompanying statement of activities. Additionally, on December 20, 2013, GFI signed an asset transfer agreement that allowed GFI to receive certain grant funds totaling \$225,813 from CIP that were recorded as deferred revenue in the accompanying statement of financial position. GFI also paid amounts to CIP representing legal fees, program costs, and other expenses totaling \$78,298 that were reported as program and support services in the accompanying statement of activities.

**9. Subsequent events**

In preparing the financial statements, GFI has evaluated events and transactions for potential recognition or disclosure through March 25, 2014, which is the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, these financial statements.