

GLOBAL FINANCIAL INTEGRITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2014 AND 2013



**Halt Buzas &
Powell, LTD**

CERTIFIED PUBLIC ACCOUNTANTS • MANAGEMENT CONSULTANTS

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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 (the Organization), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the year ended December 31, 2014 and 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 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 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 the Organization as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the year ended December 31, 2014 and 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 12, 2015

GLOBAL FINANCIAL INTEGRITY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash	\$ 123,943	\$ 615,000
Grants and accounts receivable	280,224	78,035
Prepaid expenses	21,408	6,303
Property and equipment, net	26,884	-
Security deposit	22,628	22,628
 Total assets	 \$ 475,087	 \$ 721,966
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 28,597	\$ 26,307
Deferred revenue	370,172	531,763
Total liabilities	398,769	558,070
 Unrestricted net assets	 76,318	 163,896
 Total liabilities and net assets	 \$ 475,087	 \$ 721,966

See accompanying notes to financial statements.

GLOBAL FINANCIAL INTEGRITY
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014 AND THE PERIOD
FROM MAY 1, 2013 (INCEPTION) TO DECEMBER 31, 2013

	<u>2014</u>	<u>2013</u>
Revenues:		
Grants	\$ 674,787	\$ 350,852
Contractual services	480,613	2,027,294
Donated services	35,000	-
Advocacy	9,314	37,450
Contributions and other	<u>23,571</u>	<u>8,405</u>
Total revenues	<u>1,223,285</u>	<u>2,424,001</u>
Expenses:		
Program services:		
Advocacy	752,073	549,355
Research	<u>420,158</u>	<u>1,588,251</u>
Total program services	<u>1,172,231</u>	<u>2,137,606</u>
Support services:		
Management and general	80,703	118,357
Fundraising	<u>57,929</u>	<u>4,142</u>
Total support services	<u>138,632</u>	<u>122,499</u>
Total expenses	<u>1,310,863</u>	<u>2,260,105</u>
Change in net assets	(87,578)	163,896
Net assets, beginning of year	<u>163,896</u>	<u>-</u>
Net assets, end of year	<u>\$ 76,318</u>	<u>\$ 163,896</u>

See accompanying notes to financial statements.

GLOBAL FINANCIAL INTEGRITY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014 AND THE PERIOD
FROM MAY 1, 2013 (INCEPTION) TO DECEMBER 31, 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>(87,578)</u>	\$ <u>163,896</u>
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	3,360	-
Decrease (increase) in assets:		
Grants and accounts receivable	(202,189)	(78,035)
Prepaid expenses	(15,105)	(6,303)
Security deposit	-	(22,628)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	2,290	26,207
Deferred revenue	<u>(161,591)</u>	<u>531,763</u>
Total adjustments	<u>(373,235)</u>	<u>451,004</u>
Net cash (used in) provided by operating activities	<u>(460,813)</u>	<u>614,900</u>
Cash flows from financing activities:		
Purchases of property and equipment	(30,244)	-
Proceeds from non-interest loan	-	100,000
Repayments of non-interest loan	<u>-</u>	<u>(100,000)</u>
Net cash used in financing activities	<u>(30,244)</u>	<u>-</u>
Net (decrease) increase in cash	(491,057)	614,900
Cash, beginning of year	<u>615,000</u>	<u>100</u>
Cash, end of year	<u>\$ 123,943</u>	<u>\$ 615,000</u>

See accompanying notes to financial statements.

GLOBAL FINANCIAL INTEGRITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

1. Organization

Global Financial Integrity (GFI) was organized as a District of Columbia not-for-profit 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. GFI's programs and activities 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 not-for-profit 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 had no temporarily or permanently restricted net assets at December 31, 2014 and 2013.

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.

GLOBAL FINANCIAL INTEGRITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

Presentation of financial statements

These financial statements reflect the financial results of GFI's activities for the year ended December 31, 2014 and the period beginning May 1, 2013, which is when GFI commenced operations as a stand-alone entity, 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 bearing checking account as required by the grant agreement at December 31, 2013.

Grants and accounts receivable

Receivables consist primarily of amounts billed to various governments and other organizations for services performed under contracts and grants, 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, 2014 and 2013, management estimates that all receivables were fully collectible. Therefore, no allowance for doubtful accounts has been recognized at December 31, 2014 and 2013.

GLOBAL FINANCIAL INTEGRITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

Property and equipment, net

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.

At December 31, 2014 GFI held depreciable property consisting of computer software totaling \$30,244 and accumulated depreciation totaling \$3,360. 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 year ended December 31, 2014 and for the period from May 1, 2013 to December 31, 2013, GFI did not recognize income tax expense in the accompanying financial statements as there was no unrelated business taxable income.

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, 2014 and 2013, GFI did not recognize a liability as there were no uncertain tax positions.

GLOBAL FINANCIAL INTEGRITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

Revenue recognition

Grants and contractual services

Grants and contractual services revenues 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.

Donated services

Donated services are recorded at fair value if the donated services create or enhance a nonfinancial asset or require specialized skills that the providers possess and that normally would have to be purchased. Donated services for the year ended December 31, 2014 included executive services and were reflected in the accompanying statements of activities as donated services.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements 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 and losses are included in the statements of activities and were not significant for the year ended December 31, 2014 and for the period from May 1, 2013 to December 31, 2013.

Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

GLOBAL FINANCIAL INTEGRITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

3. Concentrations of credit risk

GFI maintains bank deposits that, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) limits. At December 31, 2014 and 2013 deposits in excess of FDIC limits totaled \$0 and \$400,113, respectively.

4. Deferred Revenue

Deferred revenue at December 31, 2014 and 2013 was comprised of the following:

	<u>2014</u>	<u>2013</u>
Ford Foundation	\$ 220,141	\$ 172,264
InterAmerican Development Bank	-	36,022
DANIDA	-	53,960
FACT Coalition	-	25,000
Government of Spain	150,031	191,140
Research Council of Norway	-	23,243
Denmark Ministry of Foreign Affairs	-	30,134
Total Deferred Revenue	<u>\$ 370,172</u>	<u>\$ 531,763</u>

GLOBAL FINANCIAL INTEGRITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

5. Grants and Contractual Services Revenues

Grants and contractual services revenues recognized for the year ended December 31, 2014 and the period from May 1, 2013 to December 31, 2013 were derived from the following sources:

	<u>2014</u>	<u>2013</u>
<u>Grant Revenue</u>		
Norway Ministry of Foreign Affairs	\$ 222,503	\$ 261,487
Ford Foundation	177,123	53,365
DANIDA	87,141	29,279
Government of Spain	41,108	6,721
Denmark Embassy of Ghana	96,912	-
FACT Coalition	50,000	-
	<u>674,787</u>	<u>350,852</u>
Total Grants Revenue	\$ <u>674,787</u>	\$ <u>350,852</u>
<u>Contractual Services Revenue</u>		
African Development Bank	\$ -	\$ 6,051
Research Council of Norway	95,838	56,293
InterAmerican Development Bank	67,926	11,834
United Nations Development Program	26,884	8,116
Central Bank of Nigeria	-	1,945,000
Nigeria Ministry of Finance	275,000	-
Ethical Research Institute	9,965	-
Core Labs	5,000	-
	<u>480,613</u>	<u>2,027,294</u>
Total Contractual Services Revenue	\$ <u>480,613</u>	\$ <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.

GLOBAL FINANCIAL INTEGRITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

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 \$19,500 and \$7,697 for the year ended December 31, 2014 and for the period from May 1, 2013 to December 31, 2013, respectively.

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.

On December 20, 2013, GFI signed a 6 year lease for the office space where it resides. The lease expires December 31, 2019 and future minimum lease payments, exclusive of additional operating costs, are as follows:

2015	\$	126,253
2016		129,410
2017		132,645
2018		135,961
2019		<u>139,360</u>
Total	\$	<u><u>663,629</u></u>

Total rent expense incurred under operating leases was \$136,409 and \$34,501 for the year ended December 31, 2014 and the period from May 1, 2013 to December 31, 2013, respectively.

GLOBAL FINANCIAL INTEGRITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

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 on 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 as 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 statements of activities for the period from May 1, 2013 to December 31, 2013. 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 statements of financial position as of December 31, 2013. 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 expense in the accompanying statements of activities for the period from May 1, 2013 to December 31, 2013.

9. Subsequent events

In preparing the financial statements, GFI has evaluated events and transactions for potential recognition or disclosure through March 12, 2015, 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.