

REVENUE WATCH INSTITUTE

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2011 AND 2010

REVENUE WATCH INSTITUTE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Revenue Watch Institute

We have audited the accompanying statements of financial position of Revenue Watch Institute (a not-for-profit corporation) as of December 31, 2011 and 2010, 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 Organization. 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 Revenue Watch Institute as of December 31, 2011 and 2010, and the changes in its net assets 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
July 16, 2012

REVENUE WATCH INSTITUTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010 *</u>
Assets		
Cash and cash equivalents (Notes 1b and 2)	\$1,621,770	\$4,545,383
Contributions receivable (Notes 1c and 4)		
Unrestricted	873,795	-
Restricted for future periods and programs	4,851,439	3,562,212
Accounts receivable	137,603	-
Prepaid expenses	72,658	68,082
Property and equipment, at cost (net of accumulated depreciation) (Notes 1d and 5)	378,263	217,357
Security deposits	10,400	7,646
	<u> </u>	<u> </u>
Total Assets	<u><u>\$7,945,928</u></u>	<u><u>\$8,400,680</u></u>
Liabilities and Net Assets		
Liabilities		
Accrued expenses	\$ 796,983	\$ 482,184
Due to third parties (Note 6)	1,032,216	835,990
Grants payable (Notes 1e and 9)	131,451	785,857
Refundable grant	123,147	36,386
Total Liabilities	<u>2,083,797</u>	<u>2,140,417</u>
Commitments (Note 8)		
Net Assets		
Unrestricted	376	1,500,580
Temporarily restricted (Note 3)	5,861,755	4,759,683
Total Net Assets	<u>5,862,131</u>	<u>6,260,263</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u><u>\$7,945,928</u></u>	<u><u>\$8,400,680</u></u>

* Certain amounts have been reclassified for comparative purposes.

See notes to financial statements.

REVENUE WATCH INSTITUTE

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011			2010 *		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Changes in Net Assets						
Revenue and Support						
Contributions (Note 1a)						
Non-governmental organization and foundations	\$ 4,500,000	\$ 4,880,971	\$ 9,380,971	\$ 4,500,000	\$ 3,813,971	\$ 8,313,971
United States governmental development agencies	-	1,699,981	1,699,981	-	-	-
Foreign governmental development agencies	-	1,299,005	1,299,005	-	1,188,573	1,188,573
International organizations	-	481,237	481,237	-	1,029,645	1,029,645
Refundable grant	-	(123,147)	(123,147)	-	(36,386)	(36,386)
Consulting income	224,303	-	224,303	62,500	-	62,500
Interest and other income	2,642	334	2,976	11,344	1,042	12,386
	<u>4,726,945</u>	<u>8,238,381</u>	<u>12,965,326</u>	<u>4,573,844</u>	<u>5,996,845</u>	<u>10,570,689</u>
Net assets released from restrictions						
Satisfaction of program restrictions	<u>7,136,309</u>	<u>(7,136,309)</u>	<u>-</u>	<u>6,060,500</u>	<u>(6,060,500)</u>	<u>-</u>
	<u>11,863,254</u>	<u>1,102,072</u>	<u>12,965,326</u>	<u>10,634,344</u>	<u>(63,655)</u>	<u>10,570,689</u>
Expenses						
Program Services						
Training and capacity building	3,499,023	-	3,499,023	4,379,447	-	4,379,447
Research	1,198,711	-	1,198,711	1,185,584	-	1,185,584
Monitoring	2,554,883	-	2,554,883	1,785,455	-	1,785,455
Advocacy	1,705,473	-	1,705,473	1,170,400	-	1,170,400
Technical assistance	1,343,375	-	1,343,375	667,726	-	667,726
Total Program Services	<u>10,301,465</u>	<u>-</u>	<u>10,301,465</u>	<u>9,188,612</u>	<u>-</u>	<u>9,188,612</u>
Supporting Services						
Administration	2,908,322	-	2,908,322	1,423,570	-	1,423,570
Fundraising	153,671	-	153,671	80,072	-	80,072
Total Supporting Services	<u>3,061,993</u>	<u>-</u>	<u>3,061,993</u>	<u>1,503,642</u>	<u>-</u>	<u>1,503,642</u>
	<u>13,363,458</u>	<u>-</u>	<u>13,363,458</u>	<u>10,692,254</u>	<u>-</u>	<u>10,692,254</u>
Increase (decrease) in net assets	(1,500,204)	1,102,072	(398,132)	(57,910)	(63,655)	(121,565)
Net assets, beginning of year	<u>1,500,580</u>	<u>4,759,683</u>	<u>6,260,263</u>	<u>1,558,490</u>	<u>4,823,338</u>	<u>6,381,828</u>
	<u>\$ 376</u>	<u>\$ 5,861,755</u>	<u>\$ 5,862,131</u>	<u>\$ 1,500,580</u>	<u>\$ 4,759,683</u>	<u>\$ 6,260,263</u>
Net Assets, End of Year						

* Certain amounts have been reclassified for comparative purposes.

See notes to financial statements.

REVENUE WATCH INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities		
Decrease in net assets	\$ (398,132)	\$ (121,565)
Adjustments to reconcile decrease in net assets to net cash (used) provided by operations:		
Depreciation	76,526	56,684
Gain on sale of equipment	-	(1,973)
(Increase) decrease in:		
Contributions receivable	(2,163,022)	330,623
Accounts receivable	(137,603)	-
Prepaid expenses	(4,576)	(57,313)
Security deposits	(2,754)	(7,646)
Increase (decrease) in:		
Accrued expenses	314,799	80,075
Due to third parties	196,226	397,502
Grants payable	(654,406)	686,468
Refundable grant	86,761	36,386
Net Cash (Used) Provided By Operating Activities	<u>(2,686,181)</u>	<u>1,399,241</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(237,432)	(94,485)
Proceeds from sale of equipment	-	13,875
Net Cash Used By Investing Activities	<u>(237,432)</u>	<u>(80,610)</u>
Net (decrease) increase in cash and cash equivalents	(2,923,613)	1,318,631
Cash and cash equivalents, beginning of year	<u>4,545,383</u>	<u>3,226,752</u>
Cash and Cash Equivalents, End of Year	<u><u>\$1,621,770</u></u>	<u><u>\$4,545,383</u></u>

See notes to financial statements.

REVENUE WATCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 1 - Organization and Summary of Significant Accounting Policies

a - Organization

Revenue Watch Institute ("RWI") was incorporated as a District of Columbia non-profit corporation on March 2, 2006. RWI engages in activities directed to the promotion of sustainable development, good governance and poverty reduction in natural resource-dependent countries through improvement of public finance transparency and accountability. Specifically, RWI shall support efforts to increase the transparency, accountability and effectiveness of resource revenue management and public expenditures by conducting research; publishing reports; providing information, training and funding to individuals and organizations that monitor or seek to monitor government revenues and expenditures; and facilitating technical assistance to journalists, non-governmental organizations ("NGOs"), policy-makers and government officials.

Consistent with its mission, RWI applies similar standards of transparency to its internal operations. RWI is committed to maintaining best practices in financial reporting. Additional information regarding governance and internal controls is available on our IRS Form 990.

RWI has three core donors that have been providing continuous and consistent institutional support since 2006. In addition, RWI receives project-based support from a diverse group of foundations, U.S. and foreign government development agencies and international financial institutions. RWI received 77% of its contributions from two foundations and one foreign governmental development agency in 2011 and 87% of its contributions from two foundations, one international organization and one foreign governmental development agency in 2010.

b - Cash and Cash Equivalents

For purposes of the statement of cash flows, RWI considers all unrestricted highly liquid investments, purchased with a maturity of three months or less, to be cash equivalents.

c - Contributions

Contributions are recognized when the donor makes a promise to give to RWI, 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.

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

REVENUE WATCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

d - Property and Equipment

Property and equipment consist primarily of website costs and equipment recorded at cost. Equipment is depreciated using the straight-line method over the estimated useful life of the related asset.

e - Grants Awarded

Grants awarded are recognized as expenses in the period the award is made. Grants payable later than one year from the end of a fiscal year are discounted to present value using a discount rate of 3%. At December 31, 2011 and 2010, all grants are expected to be paid within one year.

f - Financial Statement Presentation

RWI 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

RWI is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been designated as an organization which is not a private foundation. Management has evaluated all income tax positions and concluded that no disclosures relating to uncertain tax positions are required in the financial statements. RWI's tax returns for years prior to 2008 are no longer subject to examination by tax authorities.

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.

i - Subsequent Events

RWI has evaluated subsequent events through July 16, 2012, the date that the financial statements are considered available to be issued.

Note 2 - Concentration of Credit Risk

Cash balances in the United States, which comprise the majority of RWI's cash balances, are maintained in one financial institution. The balance, at times, may exceed federally insured limits. RWI also maintain bank accounts in Ghana. There is no loss insurance on these accounts. The balance of these accounts at December 31, 2011 and 2010 was approximately \$149,000 and \$23,000, respectively.

REVENUE WATCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 3 - Restrictions on Net Assets

Temporarily restricted net assets at December 31 are restricted as follows:

	<u>2011</u>	<u>2010</u>
Future periods	\$2,316,785	\$2,009,670
Future programs	<u>3,544,970</u>	<u>2,750,013</u>
	<u>\$5,861,755</u>	<u>\$4,759,683</u>

Note 4 - Contributions Receivable

Contributions receivable are due as follows:

	<u>2011</u>	<u>2010</u>
Due in one year	\$5,725,234	\$3,466,073
Due in two years	<u>-</u>	<u>100,000</u>
	5,725,234	3,566,073
Less: Discount	<u>-</u>	<u>(3,861)</u>
	<u>\$5,725,234</u>	<u>\$3,562,212</u>

Uncollectible contributions receivable are expected to be insignificant. Contributions due after one year are discounted to present value using a discount rate of 3%.

During 2011, RWI received a grant from the United States Agency for International Development ("USAID") in the amount of \$2,989,007 of which \$700,000 is obligated to be paid to RWI by USAID. The balance of \$2,289,007 is contingent upon available funding and other requirements, therefore, it has not been reflected in these financial statements.

During 2010, RWI received a grant from the Norwegian Agency for Development Cooperation in the amount of approximately \$3,050,000, which is conditional on the utilization of funds. RWI received approximately \$1,010,000 in 2011 and \$1,017,000 in 2010. The conditional balance of approximately \$1,023,000 has not been reflected in these financial statements.

REVENUE WATCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 5 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2011</u>	<u>2010</u>
Furniture and equipment	10 years	\$ 57,965	\$ 56,270
Computer equipment	5 years	84,663	64,032
Other office equipment	7 years	8,886	5,988
Website	5 years	<u>424,259</u>	<u>212,051</u>
		575,773	338,341
Less: Accumulated depreciation		<u>(197,510)</u>	<u>(120,984)</u>
		<u>\$378,263</u>	<u>\$217,357</u>

Depreciation expense for the years ended December 31, 2011 and 2010 was \$76,526 and \$56,684, respectively.

Note 6 - Due to Third Parties

RWI has service agreements with the Open Society institute (“OSI”) and the Open Society Foundation London (“OSF”) whereby OSI and OSF agree to provide certain services to RWI. Pursuant to the agreements, OSI and OSF maintain on their payrolls and benefit plans certain employees who provide services to RWI and paid certain administrative expenses which amounted to \$4,604,825 and \$3,545,082 for the years ended December 31, 2011 and 2010, respectively. Amounts owed to OSI and OSF for the payment of these services amounted to \$1,032,216 and \$835,990 at December 31, 2011 and 2010, respectively.

Note 7 - Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

REVENUE WATCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 8 - Commitments

RWI leases office space in New York for its main office and in Ghana, United Kingdom, and Lebanon for its branch offices. The leases provide for minimum annual payments as follows:

<u>Year Ending December 31,</u>	
2012	\$100,393
2013	93,435
2014	105,887
2015	97,087
2016	79,487
Thereafter, through March 31, 2017	16,560

Rent expense for the years ended December 31, 2011 and 2010 was \$272,436 and \$256,498, respectively.

Note 9 - Grants Payable

Grants payable to individuals and organizations as of December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Organizational grants	\$131,147	\$785,857
Individuals	<u>304</u>	<u>-</u>
Total Grants Payable	<u>\$131,451</u>	<u>\$785,857</u>

RWI discloses all grant recipients, the descriptions of its grant programs and the amounts of each grant online. For detailed information on RWI complete grants portfolio, please refer to our website at: <http://www.revenuwatch.org/grants>.

SUPPLEMENTARY INFORMATION



LUTZ AND CARR

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**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

To the Board of Directors of
Revenue Watch Institute

We have audited the financial statements of Revenue Watch Institute as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated July 16, 2012, which contained an unqualified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended December 31, 2011 with comparative totals for 2010 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lutz + Carr, LLP

New York, New York
July 16, 2012

REVENUE WATCH INSTITUTE

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2011 WITH COMPARATIVE TOTALS FOR 2010

	Program Services					Supporting Services			2011	2010 *	
	Training and Capacity Building	Research	Monitoring	Advocacy	Technical Assistance	Total	Administration	Fundraising	Total	Total Expenses	Total Expenses
Salaries, payroll taxes and fringe benefits, including third party reimbursements	\$ 593,660	\$ 459,010	\$ 210,979	\$ 588,625	\$ 564,277	\$ 2,416,551	\$ 1,161,152	\$ 82,728	\$1,243,880	\$ 3,660,431	\$ 2,663,969
Grants	1,108,092	71,056	1,903,790	294,592	-	3,377,530	-	-	-	3,377,530	3,680,648
Consultant fees and related expenses	1,045,370	524,434	224,326	393,508	444,828	2,632,466	475,083	-	475,083	3,107,549	1,872,231
Travel, meals and lodging	387,076	29,517	139,593	181,267	150,668	888,121	450,013	-	450,013	1,338,134	960,537
Conferences and meetings	200,652	5,176	15,649	42,776	13,402	277,655	99,401	51,847	151,248	428,903	241,760
Office expenses	70,519	24,304	27,903	61,014	43,177	226,917	167,531	5,412	172,943	399,860	358,899
Printing and publications	5,165	22,785	-	42,740	5,638	76,328	53,813	-	53,813	130,141	140,290
Postage, shipping and delivery	499	-	177	3,384	-	4,060	25,017	-	25,017	29,077	25,406
Occupancy	51,009	38,001	17,736	61,154	51,449	219,349	84,771	8,769	93,540	312,889	311,456
Maintenance	11,434	7,815	4,750	10,204	9,594	43,797	17,390	1,799	19,189	62,986	46,524
Subscriptions and memberships	85	499	210	3,865	47	4,706	68,246	-	68,246	72,952	8,992
Legal and accounting	1,708	-	-	1,923	-	3,631	180,074	-	180,074	183,705	169,189
Insurance	4,313	3,504	1,617	4,582	4,313	18,329	7,817	808	8,625	26,954	20,040
Advertising	-	-	-	-	120	120	3,068	-	3,068	3,188	5,350
Professional development	-	-	-	-	29	29	1,520	-	1,520	1,549	6,023
Miscellaneous	6,854	2,610	3,537	2,762	44,203	59,966	91,118	-	91,118	151,084	124,256
Total expenses before depreciation	3,486,436	1,188,711	2,550,267	1,692,396	1,331,745	10,249,555	2,886,014	151,363	3,037,377	13,286,932	10,635,570
Depreciation	12,587	10,000	4,616	13,077	11,630	51,910	22,308	2,308	24,616	76,526	56,684
Total Expenses, 2011	<u>\$ 3,499,023</u>	<u>\$1,198,711</u>	<u>\$2,554,883</u>	<u>\$1,705,473</u>	<u>\$1,343,375</u>	<u>\$10,301,465</u>	<u>\$ 2,908,322</u>	<u>\$ 153,671</u>	<u>\$3,061,993</u>	<u>\$13,363,458</u>	
Total Expenses, 2010	<u>\$ 4,379,447</u>	<u>\$1,185,584</u>	<u>\$1,785,455</u>	<u>\$1,170,400</u>	<u>\$ 667,726</u>	<u>\$ 9,188,612</u>	<u>\$ 1,423,570</u>	<u>\$ 80,072</u>	<u>\$1,503,642</u>		<u>\$10,692,254</u>

* Certain amounts have been reclassified for comparative purposes.

See independent auditors' report on supplementary information.