

REVENUE WATCH INSTITUTE

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2012 AND 2011

REVENUE WATCH INSTITUTE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Revenue Watch Institute

We have audited the accompanying financial statements of Revenue Watch Institute (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, 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 of 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 Revenue Watch Institute as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lotz + Carr, LLP

New York, New York
August 1, 2013

REVENUE WATCH INSTITUTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|--|---------------------------|---------------------------|
| Assets | | |
| Cash and cash equivalents (Notes 1b and 2) | \$1,690,137 | \$1,621,770 |
| Contributions receivable (Notes 1c and 4) | | |
| Unrestricted | 3,113,504 | 873,795 |
| Restricted for future periods | 1,055,379 | 4,851,439 |
| Accounts receivable | 187,254 | 137,603 |
| Prepaid expenses | 106,516 | 72,658 |
| Property and equipment, at cost (net of accumulated depreciation) (Notes 1d and 5) | 354,089 | 378,263 |
| Security deposits | <u>64,057</u> | <u>10,400</u> |
| | | |
| Total Assets | <u><u>\$6,570,936</u></u> | <u><u>\$7,945,928</u></u> |
| | | |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accrued expenses | \$ 809,259 | \$ 796,983 |
| Due to third parties (Note 6) | 2,314,043 | 1,032,216 |
| Grants payable (Notes 1e and 9) | 689,013 | 131,451 |
| Refundable grant | <u>123,147</u> | <u>123,147</u> |
| Total Liabilities | <u><u>3,935,462</u></u> | <u><u>2,083,797</u></u> |
| | | |
| Commitments (Note 8) | | |
| | | |
| Net Assets | | |
| Unrestricted net assets | 864,293 | 376 |
| Temporarily restricted (Note 3) | <u>1,771,181</u> | <u>5,861,755</u> |
| Total Net Assets | <u><u>2,635,474</u></u> | <u><u>5,862,131</u></u> |
| | | |
| Total Liabilities and Net Assets | <u><u>\$6,570,936</u></u> | <u><u>\$7,945,928</u></u> |

See notes to financial statements.

REVENUE WATCH INSTITUTE

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2012 AND 2011

| | 2012 | | | 2011 | | |
|---|-------------------|------------------------|---------------------|-------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Changes in Net Assets | | | | | | |
| Revenue and Support | | | | | | |
| Contributions (Note 1a) | | | | | | |
| Non-governmental organization and foundations | \$ 5,805,000 | \$1,300,898 | \$ 7,105,898 | \$ 4,500,000 | \$4,880,971 | \$ 9,380,971 |
| United States governmental development agencies | - | 345,756 | 345,756 | - | 1,699,981 | 1,699,981 |
| Foreign governmental development agencies | 73,171 | 2,215,640 | 2,288,811 | - | 1,299,005 | 1,299,005 |
| International organizations | - | 390,670 | 390,670 | - | 481,237 | 481,237 |
| Refundable grant | - | - | - | - | (123,147) | (123,147) |
| Consulting income | 450,545 | - | 450,545 | 224,303 | - | 224,303 |
| Interest and other income | 713 | - | 713 | 2,642 | 334 | 2,976 |
| | <u>6,329,429</u> | <u>4,252,964</u> | <u>10,582,393</u> | <u>4,726,945</u> | <u>8,238,381</u> | <u>12,965,326</u> |
| Net assets released from restrictions | | | | | | |
| Satisfaction of program restrictions | <u>8,343,538</u> | <u>(8,343,538)</u> | <u>-</u> | <u>7,136,309</u> | <u>(7,136,309)</u> | <u>-</u> |
| | <u>14,672,967</u> | <u>(4,090,574)</u> | <u>10,582,393</u> | <u>11,863,254</u> | <u>1,102,072</u> | <u>12,965,326</u> |
| Expenses | | | | | | |
| Program Services | | | | | | |
| Training and capacity building | 3,738,637 | - | 3,738,637 | 3,499,023 | - | 3,499,023 |
| Research | 1,273,775 | - | 1,273,775 | 1,198,711 | - | 1,198,711 |
| Monitoring | 1,794,439 | - | 1,794,439 | 2,554,883 | - | 2,554,883 |
| International advocacy | 1,637,743 | - | 1,637,743 | 1,705,473 | - | 1,705,473 |
| Technical assistance | 1,179,803 | - | 1,179,803 | 1,343,375 | - | 1,343,375 |
| Total Program Services | <u>9,624,397</u> | <u>-</u> | <u>9,624,397</u> | <u>10,301,465</u> | <u>-</u> | <u>10,301,465</u> |
| Supporting Services | | | | | | |
| Administration | 3,646,454 | - | 3,646,454 | 2,908,322 | - | 2,908,322 |
| Fundraising | 538,199 | - | 538,199 | 153,671 | - | 153,671 |
| Total Supporting Services | <u>4,184,653</u> | <u>-</u> | <u>4,184,653</u> | <u>3,061,993</u> | <u>-</u> | <u>3,061,993</u> |
| | <u>13,809,050</u> | <u>-</u> | <u>13,809,050</u> | <u>13,363,458</u> | <u>-</u> | <u>13,363,458</u> |
| Increase (decrease) in net assets | 863,917 | (4,090,574) | (3,226,657) | (1,500,204) | 1,102,072 | (398,132) |
| Net assets, beginning of year | <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> |
| | <u>\$ 864,293</u> | <u>\$1,771,181</u> | <u>\$ 2,635,474</u> | <u>\$ 376</u> | <u>\$ 5,861,755</u> | <u>\$ 5,862,131</u> |
| Net Assets, End of Year | | | | | | |

See notes to financial statements.

REVENUE WATCH INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|--|----------------------------|---------------------------|
| Cash Flows From Operating Activities | | |
| Decrease in net assets | \$(3,226,657) | \$ (398,132) |
| Adjustments to reconcile decrease in net assets to net cash provided (used) by operations: | | |
| Depreciation | 120,553 | 76,526 |
| (Increase) decrease in: | | |
| Contributions receivable | 1,556,351 | (2,163,022) |
| Accounts receivable | (49,651) | (137,603) |
| Prepaid expenses | (33,858) | (4,576) |
| Security deposits | (53,657) | (2,754) |
| Increase (decrease) in: | | |
| Accrued expenses | 12,276 | 314,799 |
| Due to third parties | 1,281,827 | 196,226 |
| Grants payable | 557,562 | (654,406) |
| Refundable grant | - | 86,761 |
| Net Cash Provided (Used) By Operating Activities | <u>164,746</u> | <u>(2,686,181)</u> |
| Cash Flows From Investing Activities | | |
| Acquisition of property and equipment | <u>(96,379)</u> | <u>(237,432)</u> |
| Net increase (decrease) in cash and cash equivalents | 68,367 | (2,923,613) |
| Cash and cash equivalents, beginning of year | <u>1,621,770</u> | <u>4,545,383</u> |
| Cash and Cash Equivalents, End of Year | <u><u>\$ 1,690,137</u></u> | <u><u>\$1,621,770</u></u> |

See notes to financial statements.

REVENUE WATCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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; and building a body of literature on best practices; 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 (available for download on our website).

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 67% of its contributions from one foundation and one foreign governmental development agency in 2012 and 77% of its contributions from two foundations and one foreign governmental development agency in 2011. A full list of RWI's donors can be found on our website.

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.

REVENUE WATCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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

c - Contributions (continued)

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

d - Property and Equipment

Property and equipment consist primarily of website costs and equipment recorded at cost. The website and equipment are 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, 2012 and 2011, 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 2009 are generally 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 August 1, 2013, the date that the financial statements are considered available to be issued.

REVENUE WATCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 2 - Concentration of Credit Risk

Cash balances in the United States, which comprise the majority of the 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, 2012 and 2011 was approximately \$90,000 and \$149,000, respectively.

Note 3 - Restrictions on Net Assets

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

| | <u>2012</u> | <u>2011</u> |
|-----------------|--------------------|--------------------|
| Future periods | \$ 12,325 | \$2,316,785 |
| Future programs | <u>1,758,856</u> | <u>3,544,970</u> |
| | <u>\$1,771,181</u> | <u>\$5,861,755</u> |

Future periods consist of contributions restricted by the donor for expenditure during a specified timeline. Future programs consist of contributions restricted by the donor for expenditure on specific programming objectives and/or deliverables.

During 2012, RWI was awarded approximately \$1,562,000 in grants from four donors for the Natural Resource Charter project (the "Project"). Total expenditures related to the Project were approximately \$1,049,000. All activity is reflected within the accompanying financial statements.

Note 4 - Contributions Receivable

Contributions receivable at December 31, 2012 and 2011 are due within one year. Uncollectible contributions receivable are expected to be insignificant.

During 2012, RWI received three grants from the UK Department for International Development ("DFID"). Approximately \$1,039,000 of these grants is contingent upon expenditure and other requirements, therefore, it has not been reflected in these financial statements.

REVENUE WATCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 4 - Contributions Receivable (continued)

During 2011, RWI received a three-year grant from the United States Agency for International Development (“USAID”) in the amount of \$2,989,007 of which approximately \$1,046,000 was expended. The balance is contingent upon available funding and the satisfaction of programming requirements in 2013 and 2014, therefore, it is not reflected in these financial statements at December 31, 2012.

Note 5 - Property and Equipment

Property and equipment consist of the following:

| | <u>Life</u> | <u>2012</u> | <u>2011</u> |
|--------------------------------|-------------|------------------|------------------|
| Furniture and equipment | 10 years | \$ 60,430 | \$ 57,965 |
| Computer equipment | 5 years | 116,829 | 84,663 |
| Other office equipment | 7 years | 8,886 | 8,886 |
| Website | 5 years | 436,333 | 424,259 |
| Leasehold improvements | 5 years | <u>49,674</u> | <u>-</u> |
| | | 672,152 | 575,773 |
| Less: Accumulated depreciation | | <u>(318,063)</u> | <u>(197,510)</u> |
| | | <u>\$354,089</u> | <u>\$378,263</u> |

Depreciation expense for the years ended December 31, 2012 and 2011 was \$120,553 and \$76,526, 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 back-office services to RWI, including but not limited to human resources, finance and accounting, facilities management and IT systems. Pursuant to the agreements, OSI and OSF maintain on their payrolls and benefit plans employees who provide all services to RWI and paid certain other expenses which amounted to \$4,735,325 and \$4,604,825 for the years ended December 31, 2012 and 2011, respectively. These services provided are invoiced and paid on a quarterly basis as a result of timing of OSI and OSF’s billing cycles. Amounts owed to OSI and OSF for the payment of these services amounted to \$2,314,036 and \$1,032,216 at December 31, 2012 and 2011, respectively.

REVENUE WATCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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. RWI's primary programming areas are categorized as Training and Capacity Building, Research, Monitoring, International Advocacy and Technical Assistance. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

Note 8 - Commitments

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

| <u>Year Ending December 31,</u> | |
|--|-----------|
| 2013 | \$184,635 |
| 2014 | 105,887 |
| 2015 | 97,087 |
| 2016 | 79,487 |
| Through March 31, 2017 | 16,560 |

Rent expense for the years ended December 31, 2012 and 2011 was \$341,339 and \$272,436, respectively.

Note 9 - Grants Payable

Grants payable to individuals and organizations as of December 31, 2012 and 2011 are as follows:

| | <u>2012</u> | <u>2011</u> |
|-----------------------|-------------------------|-------------------------|
| Organizational grants | \$688,631 | \$131,147 |
| Individuals | <u>382</u> | <u>304</u> |
| Total Grants Payable | <u>\$689,013</u> | <u>\$131,451</u> |

RWI discloses all grant recipients, the descriptions of its grant programs and the amounts of each grant online. For detailed information on RWI's complete grants portfolio, please refer to our website at: <http://www.revenuewatch.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, 2012 and 2011, and our report thereon dated August 1, 2013, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted 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, 2012 with comparative totals for 2011 is presented for 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
August 1, 2013

REVENUE WATCH INSTITUTE

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012 WITH COMPARATIVE TOTALS FOR 2011

| | Program Services | | | | | Supporting Services | | | 2012 | 2011 | |
|---|--------------------------------|--------------------|--------------------|------------------------|----------------------|---------------------|---------------------|-------------------|--------------------|---------------------|---------------------|
| | Training and Capacity Building | Research | Monitoring | International Advocacy | Technical Assistance | Total | Administration | Fundraising | Total | Total Expenses | Total Expenses |
| Salaries, payroll taxes and fringe benefits, including third party reimbursements | \$ 522,560 | \$ 415,704 | \$ 156,852 | \$ 557,882 | \$ 505,505 | \$ 2,158,503 | \$ 1,458,345 | \$ 398,009 | \$1,856,354 | \$ 4,014,857 | \$ 3,660,431 |
| Grants | 809,388 | 140,805 | 1,339,189 | 357,897 | 20,000 | 2,667,279 | - | - | - | 2,667,279 | 3,377,530 |
| Consultant fees and related expenses | 1,364,345 | 598,647 | 181,119 | 354,226 | 410,501 | 2,908,838 | 888,795 | - | 888,795 | 3,797,633 | 3,107,549 |
| Travel, meals and lodging | 616,568 | 10,677 | 50,387 | 192,656 | 118,203 | 988,491 | 320,982 | 40,000 | 360,982 | 1,349,473 | 1,338,134 |
| Conferences and meetings | 242,361 | 162 | 23,456 | 7,673 | 6,798 | 280,450 | 30,864 | - | 30,864 | 311,314 | 428,903 |
| Office expenses | 47,185 | 24,213 | 11,977 | 41,731 | 29,532 | 154,638 | 232,558 | 26,030 | 258,588 | 413,226 | 399,860 |
| Printing and publications | 37,241 | 12,029 | - | 20,124 | 7,557 | 76,951 | 52,595 | - | 52,595 | 129,546 | 130,141 |
| Postage, shipping and delivery | 609 | - | 1,417 | 104 | - | 2,130 | 22,249 | - | 22,249 | 24,379 | 29,077 |
| Occupancy | 56,411 | 45,277 | 20,227 | 64,129 | 50,198 | 236,242 | 142,221 | 48,690 | 190,911 | 427,153 | 312,889 |
| Maintenance | 10,294 | 7,290 | 2,779 | 10,314 | 8,073 | 38,750 | 22,874 | 7,831 | 30,705 | 69,455 | 62,986 |
| Subscriptions and memberships | 2,493 | 64 | 33 | 6,584 | 250 | 9,424 | 67,463 | - | 67,463 | 76,887 | 72,952 |
| Legal and accounting | 79 | - | - | - | 5,000 | 5,079 | 213,202 | - | 213,202 | 218,281 | 183,705 |
| Insurance | 4,366 | 3,504 | 1,256 | 4,963 | 3,885 | 17,974 | 11,007 | 3,768 | 14,775 | 32,749 | 26,954 |
| Recruiting | - | - | - | 1,190 | - | 1,190 | 48,472 | - | 48,472 | 49,662 | 3,188 |
| Professional development | - | - | - | - | - | - | - | - | - | - | 1,549 |
| Miscellaneous | 8,666 | 2,504 | 1,123 | - | - | 12,293 | 94,310 | - | 94,310 | 106,603 | 151,084 |
| Total expenses before depreciation | 3,722,566 | 1,260,876 | 1,789,815 | 1,619,473 | 1,165,502 | 9,558,232 | 3,605,937 | 524,328 | 4,130,265 | 13,688,497 | 13,286,932 |
| Depreciation | 16,071 | 12,899 | 4,624 | 18,270 | 14,301 | 66,165 | 40,517 | 13,871 | 54,388 | 120,553 | 76,526 |
| Total Expenses, 2012 | <u>\$ 3,738,637</u> | <u>\$1,273,775</u> | <u>\$1,794,439</u> | <u>\$ 1,637,743</u> | <u>\$1,179,803</u> | <u>\$ 9,624,397</u> | <u>\$ 3,646,454</u> | <u>\$ 538,199</u> | <u>\$4,184,653</u> | <u>\$13,809,050</u> | |
| 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> |

See independent auditors' report on supplementary information.