

**FINANCIAL STATEMENTS**

**TRANSPARENCY INTERNATIONAL-  
USA, INC.**

**FOR THE YEARS ENDED  
DECEMBER 31, 2010 AND 2009**

**TRANSPARENCY INTERNATIONAL-USA, INC.**

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**GELMAN, ROSENBERG & FREEDMAN**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Transparency International-USA, Inc.  
Washington, D.C.

We have audited the accompanying statements of financial position of Transparency International-USA, Inc. (TI-USA) as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of TI-USA's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TI-USA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 TI-USA as of December 31, 2010 and 2009, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Gelman Rosenberg & Freedman*

August 4, 2011

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## TRANSPARENCY INTERNATIONAL-USA, INC.

STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 856,978	\$ 347,984
Investments (Notes 2 and 8)	-	499,990
Bequest receivable, current portion (Note 3)	171,540	171,540
Contributions and other receivables	61,871	87,627
Prepaid expenses	<u>10,532</u>	<u>8,885</u>
Total current assets	<u>1,100,921</u>	<u>1,116,026</u>
<b>FURNITURE AND EQUIPMENT</b>		
Furniture and equipment	10,407	10,407
Computer equipment	<u>21,970</u>	<u>20,040</u>
	32,377	30,447
Less: Accumulated depreciation	<u>(30,086)</u>	<u>(30,447)</u>
Net furniture and equipment	<u>2,291</u>	<u>-</u>
<b>NONCURRENT ASSETS</b>		
Bequest receivable, long-term portion (Note 3)	-	171,540
Security deposit	<u>4,895</u>	<u>4,895</u>
Total noncurrent assets	<u>4,895</u>	<u>176,435</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,108,107</u></b>	<b><u>\$ 1,292,461</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 75,800	\$ 108,795
<b>NONCURRENT LIABILITIES</b>		
Grants payable	<u>32,673</u>	<u>32,673</u>
Total liabilities	<u>108,473</u>	<u>141,468</u>
<b>NET ASSETS</b>		
Unrestricted	936,372	1,133,855
Temporarily restricted (Note 4)	<u>63,262</u>	<u>17,138</u>
Total net assets	<u>999,634</u>	<u>1,150,993</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,108,107</u></b>	<b><u>\$ 1,292,461</u></b>

See accompanying notes to financial statements.

**TRANSPARENCY INTERNATIONAL-USA, INC.**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<b>2010</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>REVENUE</b>			
Contributions	\$ 516,930	\$ 71,000	\$ 587,930
Special event, net of expenses	163,929	-	163,929
Bequest (Note 3)	-	-	-
Interest and investment income	90	-	90
In-kind contributions	314,886	-	314,886
Other income	-	-	-
Net assets released from donor restrictions (Note 5)	<u>24,876</u>	<u>(24,876)</u>	<u>-</u>
Total revenue	<u>1,020,711</u>	<u>46,124</u>	<u>1,066,835</u>
<b>EXPENSES</b>			
Program Services	835,837	-	835,837
Management and General	237,657	-	237,657
Fundraising	<u>144,700</u>	<u>-</u>	<u>144,700</u>
Total expenses	<u>1,218,194</u>	<u>-</u>	<u>1,218,194</u>
Changes in net assets (Note 3)	(197,483)	46,124	(151,359)
Net assets at beginning of year	<u>1,133,855</u>	<u>17,138</u>	<u>1,150,993</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 936,372</u></b>	<b><u>\$ 63,262</u></b>	<b><u>\$ 999,634</u></b>

See accompanying notes to financial statements.

<b>2009</b>		
<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
\$ 648,869	\$ 33,469	\$ 682,338
-	-	-
27,037	-	27,037
568	-	568
223,662	-	223,662
2,504	-	2,504
<u>19,522</u>	<u>(19,522)</u>	<u>-</u>
<u>922,162</u>	<u>13,947</u>	<u>936,109</u>
869,909	-	869,909
104,130	-	104,130
<u>46,348</u>	<u>-</u>	<u>46,348</u>
<u>1,020,387</u>	<u>-</u>	<u>1,020,387</u>
(98,225)	13,947	(84,278)
<u>1,232,080</u>	<u>3,191</u>	<u>1,235,271</u>
<b><u>\$ 1,133,855</u></b>	<b><u>\$ 17,138</u></b>	<b><u>\$ 1,150,993</u></b>

See accompanying notes to financial statements.

## TRANSPARENCY INTERNATIONAL-USA, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 429,513	\$ 125,908	\$ 77,759	\$ 633,180
Benefits and payroll taxes (Note 7)	44,463	13,352	8,296	66,111
Printing and production	2,648	729	450	3,827
Consultants and temporary staff	8,588	2,595	1,602	12,785
Occupancy (Note 6)	48,981	14,798	9,139	72,918
Accounting and audit	16,813	5,535	3,137	25,485
Insurance	2,662	804	497	3,963
Depreciation	140	43	26	209
Telecommunications	5,985	1,733	1,070	8,788
Travel and entertainment	47,233	2,160	967	50,360
Postage and delivery	2,742	260	161	3,163
Supplies	5,467	1,573	971	8,011
Equipment and repairs	1,383	418	258	2,059
Other	9,046	2,252	1,151	12,449
In-kind professional services	<u>210,173</u>	<u>65,497</u>	<u>39,216</u>	<u>314,886</u>
<b>TOTAL</b>	<b><u>\$ 835,837</u></b>	<b><u>\$ 237,657</u></b>	<b><u>\$ 144,700</u></b>	<b><u>\$ 1,218,194</u></b>

See accompanying notes to financial statements.

## TRANSPARENCY INTERNATIONAL-USA, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 501,251	\$ 61,346	\$ 28,758	\$ 591,355
Benefits and payroll taxes (Note 7)	55,330	9,522	3,393	68,245
Printing and production	2,168	252	90	2,510
Consultants and temporary staff	4,096	(1,291)	1,010	3,815
Occupancy (Note 6)	56,894	9,791	3,489	70,174
Accounting and audit	15,565	2,679	955	19,199
Insurance	4,540	781	278	5,599
Depreciation	90	15	6	111
Telecommunications	7,464	2,505	422	10,391
Travel and entertainment	11,452	613	218	12,283
Postage and delivery	320	15	911	1,246
Supplies	4,123	609	594	5,326
Equipment and repairs	1,004	173	62	1,239
Other	4,419	555	258	5,232
In-kind professional services	<u>201,193</u>	<u>16,565</u>	<u>5,904</u>	<u>223,662</u>
<b>TOTAL</b>	<b><u>\$ 869,909</u></b>	<b><u>\$ 104,130</u></b>	<b><u>\$ 46,348</u></b>	<b><u>\$ 1,020,387</u></b>



**TRANSPARENCY INTERNATIONAL-USA, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (151,359)	\$ (84,278)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	209	111
Unrealized gain on investments	(10)	(348)
(Increase) decrease in:		
Bequest receivable	171,540	171,540
Contributions and other receivables	25,756	(67,937)
Prepaid expenses	(1,647)	(77)
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>(32,995)</u>	<u>89,428</u>
Net cash provided by operating activities	<u>11,494</u>	<u>108,439</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of furniture and equipment	(2,500)	-
Purchases of investments	-	(2,999,647)
Proceeds from sales of investments	<u>500,000</u>	<u>3,000,000</u>
Net cash provided by investing activities	<u>497,500</u>	<u>353</u>
Net increase in cash and cash equivalents	508,994	108,792
Cash and cash equivalents at beginning of year	<u>347,984</u>	<u>239,192</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 856,978</u></b>	<b><u>\$ 347,984</u></b>

See accompanying notes to financial statements.

## TRANSPARENCY INTERNATIONAL-USA, INC.

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

##### Organization -

Transparency International-USA, Inc. (TI-USA) is a non-profit organization, incorporated in the Commonwealth of Virginia in 1993 and located in Washington, D.C. TI-USA was organized for the charitable and educational purpose of educating the public, companies and governmental agencies as to the prevalence of corruption and extortion in international business transactions and mobilizing reform efforts. TI-USA encourages the adoption of international business standards of conduct, supports multilateral governmental initiatives to reduce corruption, and works with other chapters to promote reform. TI-USA is affiliated with Transparency International, with its headquarters in Berlin, Germany, as part of a growing worldwide network of separately organized and run organizations having a common goal of ending corruption. TI-USA provides expertise and raises funds to support Transparency International worldwide.

##### Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

##### Recently issued accounting standards -

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 105, *Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, TI-USA has updated references to GAAP in its financial statements issued for the years ended December 31, 2010 and 2009. The adoption of FASB ASC 105 did not impact TI-USA's financial position or results of operations.

##### Cash and cash equivalents -

TI-USA considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

At times during the year, TI-USA maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

##### Investments -

Investments are recorded at readily determinable fair value, with unrealized gains and losses included in investment income. Investments donated to TI-USA are recorded at market value as of the date of the donation.

##### Contributions and other receivables -

Contributions and other receivables approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

##### Furniture and equipment -

Furniture and equipment are stated at cost. Furniture and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally five to seven years. The cost of maintenance and repairs is recorded as expenses are incurred.

## TRANSPARENCY INTERNATIONAL-USA, INC.

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

##### Income taxes -

TI-USA is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. TI-USA is not a private foundation.

##### Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the years ended December 31, 2010 and 2009, TI-USA has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

##### Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the general operations of TI-USA
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of TI-USA and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

##### In-kind contributions -

In-kind contributions consist of time donated by attorneys and other professionals who provide expertise related to TI-USA's programmatic purpose. These services are reported at their actual value, based on the number of donated hours and billing rates of professional services rendered. The value of contributed services provided for TI-USA has been reported as "other professional services" in the accompanying Statement of Functional Expenses, and totaled \$314,886 and \$223,662 during the years ended December 31, 2010 and 2009, respectively.

##### Use of estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

##### 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 and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

TRANSPARENCY INTERNATIONAL-USA, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**  
(Continued)

Fair value measurements -

TI-USA adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. TI-USA accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

2. **INVESTMENTS**

During 2008, TI-USA purchased a U.S. Government Treasury bill. The original acquisition value of the Treasury bill was \$499,642 and, as of December 31, 2009, the market value totaled \$499,990. During 2010, TI-USA liquidated its investment in the Treasury bill and transferred the funds into cash (invested in sweep account funds).

3. **BEQUEST**

During 2007, TI-USA received a bequest with a total estimated value of \$1,107,700; accordingly, this bequest was recorded as revenue during 2007. As the bequest was provided to TI-USA without any time or purpose restrictions, the entire value was recorded as unrestricted revenue and therefore included in unrestricted net assets as of December 31, 2007. As TI-USA plans to draw on these unrestricted funds (in furtherance of its mission) as it receives each installment, the current unrestricted change in net assets will reflect a loss as this revenue was initially recorded in 2007.

The bequest includes two notes receivable totaling \$857,700 and other assets with an estimated value of \$250,000. As of December 31, 2010, TI-USA received four installments of the bequest and the final installment is expected to be received in 2011. In addition, the total value of other assets that were actually received during 2008 totaled \$335,835; therefore, the additional \$85,835 was recorded during 2008 as current revenue. During 2009, an additional \$27,037 was also received under this bequest. The value of the notes receivable which have not been received as of December 31, 2010 and 2009, have been recorded as a bequest receivable in the accompanying Statements of Financial Position.

During the year ended December 31, 2011, TI-USA expects to collect the remaining balance of the bequest, totaling \$171,540.

4. **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at December 31, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
SME Toolkit	\$ -	\$ 3,294
CIPE - APEC Transparency Monitoring	-	13,844
GE Foundation - APEC	<u>63,262</u>	<u>-</u>
	<u>\$ 63,262</u>	<u>\$ 17,138</u>

TRANSPARENCY INTERNATIONAL-USA, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

5. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors:

	<u>2010</u>	<u>2009</u>
SME Toolkit	\$ 3,294	\$ 177
World Bank - Procurement Manual	-	8
CIPE - APEC Transparency Monitoring	9,844	19,337
GE Foundation - APEC	<u>11,738</u>	<u>-</u>
	<u>\$ 24,876</u>	<u>\$ 19,522</u>

6. LEASE COMMITMENT

TI-USA rents its principal office space in Washington, D.C. under a lease which expires on September 30, 2012. The lease includes a 2.5% annual escalation clause, and TI-USA is responsible for its proportionate share of the building's real estate taxes and operating expenses.

Future minimum annual rental payments required under this lease are as follows:

<u>Year Ended December 31,</u>	
2011	\$ 72,486
2012	<u>55,377</u>
	<u>\$ 127,863</u>

Occupancy expense during the years ended December 31, 2010 and 2009 totaled \$72,918 and \$70,174, respectively.

7. RETIREMENT PLANS

TI-USA has a retirement plan under Section 401(k) of the Internal Revenue Code (formerly a 403(b) plan in 2008). The plan covers all employees who are at least 21 years of age and with at least two years of service. Employees may make contributions to the plan up to the maximum allowed by the Internal Revenue Code. The plan does not provide for TI-USA to make any mandatory contributions. However, TI-USA may make contributions to the plan if approved by the Board of Directors. During 2010 and 2009, contributions of \$21,405 and \$27,108, respectively, were made to the retirement plan.

TI-USA adopted a defined contribution retirement plan effective January 1, 1999. The plan covers all employees who are at least 21 years of age and with at least 24 months of service. Employer contributions to the plan are discretionary. The plan does not provide for any employee contributions. Employees are 100% vested in the employer contribution upon entering the plan. There were no contributions made in 2010 or 2009.

8. FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, TI-USA has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

**TRANSPARENCY INTERNATIONAL-USA, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**8. FAIR VALUE MEASUREMENTS (Continued)**

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1.** These are investments where values are based on unadjusted quoted prices for identical assets in an active market that TI-USA has the ability to access.

**Level 2.** These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments.

**Level 3.** These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

Financial assets recorded in the Statements of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended December 31, 2010:

	<b>2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Asset Category:</b>				
<b>U.S. Government Treasury Bill</b>	\$ -	\$ -	\$ -	\$ -

Financial assets recorded in the Statements of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended December 31, 2009:

	<b>2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Asset Category:</b>				
<b>U.S. Government Treasury Bill</b>	\$ <b>499,990</b>	\$ -	\$ -	\$ <b>499,990</b>

**9. SUBSEQUENT EVENTS**

In preparing these financial statements, TI-USA has evaluated events and transactions for potential recognition or disclosure through August 4, 2011, the date the financial statements were issued.