

**FINANCIAL STATEMENTS**

**TRANSPARENCY INTERNATIONAL-  
USA, INC.**

**FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006**

**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. as of December 31, 2007 and 2006, 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 Transparency International-USA, Inc.'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 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 Transparency International-USA, Inc. as of December 31, 2007 and 2006, 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*

February 19, 2008

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

## TRANSPARENCY INTERNATIONAL-USA, INC.

STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2007 AND 2006

## ASSETS

	<u>2007</u>	<u>2006</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 377,993	\$ 310,040
Bequest receivable (Note 2)	421,540	-
Contributions receivable	57,700	60,000
Other receivables	12,409	14,617
Prepaid expenses	<u>8,923</u>	<u>3,424</u>
Total current assets	<u>878,565</u>	<u>388,081</u>
<b>FURNITURE AND EQUIPMENT</b>		
Furniture and equipment	10,407	10,407
Computer equipment	<u>20,040</u>	<u>20,040</u>
	30,447	30,447
Less: Accumulated depreciation	<u>(29,648)</u>	<u>(26,310)</u>
Net furniture and equipment	<u>799</u>	<u>4,137</u>
<b>NONCURRENT ASSETS</b>		
Bequest receivable, net of current portion (Note 2)	514,620	-
Security deposit	<u>4,895</u>	<u>4,895</u>
Total noncurrent assets	<u>519,515</u>	<u>4,895</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,398,879</u></b>	<b><u>\$ 397,113</u></b>

## LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ <u>20,778</u>	\$ <u>475</u>
<b>NONCURRENT LIABILITIES</b>		
Grants payable	<u>32,673</u>	<u>32,673</u>
Total liabilities	<u>53,451</u>	<u>33,148</u>
<b>NET ASSETS</b>		
Unrestricted	1,324,477	323,070
Temporarily restricted (Note 3)	<u>20,951</u>	<u>40,895</u>
Total net assets	<u>1,345,428</u>	<u>363,965</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,398,879</u></b>	<b><u>\$ 397,113</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, 2007 AND 2006**

	<b>2007</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>REVENUE</b>			
Contributions	\$ 642,521	\$ -	\$ 642,521
Bequest (Note 2)	1,107,700	-	1,107,700
Investment income	13,227	-	13,227
In-kind contributions	23,064	-	23,064
Other income	-	-	-
Net assets released from donor restrictions (Note 4)	<u>19,944</u>	<u>(19,944)</u>	<u>-</u>
Total revenue	<u>1,806,456</u>	<u>(19,944)</u>	<u>1,786,512</u>
<b>EXPENSES</b>			
Program Services	554,628	-	554,628
Management and General	123,229	-	123,229
Fundraising	<u>77,192</u>	<u>-</u>	<u>77,192</u>
Total expenses	<u>755,049</u>	<u>-</u>	<u>755,049</u>
Changes in net assets before other item	1,051,407	(19,944)	1,031,463
<b>OTHER ITEM</b>			
Uncollectible pledge	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
Changes in net assets	1,001,407	(19,944)	981,463
Net assets at beginning of year	<u>323,070</u>	<u>40,895</u>	<u>363,965</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 1,324,477</u></b>	<b><u>\$ 20,951</u></b>	<b><u>\$ 1,345,428</u></b>

See accompanying notes to financial statements.

<b>2006</b>		
<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
\$ 594,002	\$ 60,000	\$ 654,002
-	-	-
4,364	-	4,364
4,452	-	4,452
1,430	-	1,430
<u>35,424</u>	<u>(35,424)</u>	<u>-</u>
<u>639,672</u>	<u>24,576</u>	<u>664,248</u>
423,162	-	423,162
127,784	-	127,784
<u>95,249</u>	<u>-</u>	<u>95,249</u>
<u>646,195</u>	<u>-</u>	<u>646,195</u>
(6,523)	24,576	18,053
<u>-</u>	<u>-</u>	<u>-</u>
(6,523)	24,576	18,053
<u>329,593</u>	<u>16,319</u>	<u>345,912</u>
<b><u>\$ 323,070</u></b>	<b><u>\$ 40,895</u></b>	<b><u>\$ 363,965</u></b>

See accompanying notes to financial statements.

## TRANSPARENCY INTERNATIONAL-USA, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 386,786	\$ 75,714	\$ 56,569	\$ 519,069
Benefits and payroll taxes (Note 6)	19,829	3,902	2,903	26,634
Printing and production	536	98	73	707
Legal fees	12,465	9,029	-	21,494
Consultants and temporary staff	31,655	6,960	5,179	43,794
Occupancy (Note 5)	51,790	10,191	7,583	69,564
Accounting and audit	13,649	2,686	1,998	18,333
Insurance	-	3,925	-	3,925
Depreciation	2,485	489	364	3,338
Telecommunications	6,171	1,109	826	8,106
Travel and entertainment	7,362	6,119	-	13,481
Postage and delivery	2,662	473	449	3,584
Supplies	4,275	841	626	5,742
Grants	9,325	-	-	9,325
Other	<u>5,638</u>	<u>1,693</u>	<u>622</u>	<u>7,953</u>
<b>TOTAL</b>	<b><u>\$ 554,628</u></b>	<b><u>\$ 123,229</u></b>	<b><u>\$ 77,192</u></b>	<b><u>\$ 755,049</u></b>

See accompanying notes to financial statements.

## TRANSPARENCY INTERNATIONAL-USA, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 323,507	\$ 43,342	\$ 71,900	\$ 438,749
Benefits and payroll taxes (Note 6)	33,079	7,880	10,576	51,535
Printing and production	104	1,383	57	1,544
Legal fees	-	4,452	-	4,452
Consultants and temporary staff	5,130	-	-	5,130
Occupancy (Note 5)	38,470	9,603	11,571	59,644
Accounting and audit	-	20,640	-	20,640
Insurance	-	3,778	-	3,778
Depreciation	3,660	1,726	288	5,674
Telecommunications	-	1,117	-	1,117
Travel and entertainment	9,567	10,441	-	20,008
Postage and delivery	220	2,937	121	3,278
Supplies	1,332	17,860	736	19,928
Grants	8,093	-	-	8,093
Other	-	2,625	-	2,625
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL</b>	<b><u>\$ 423,162</u></b>	<b><u>\$ 127,784</u></b>	<b><u>\$ 95,249</u></b>	<b><u>\$ 646,195</u></b>

See accompanying notes to financial statements.

**TRANSPARENCY INTERNATIONAL-USA, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 981,463	\$ 18,053
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	3,338	5,674
Uncollectible pledge	50,000	-
(Increase) decrease in:		
Bequest receivable	(936,160)	-
Contributions receivable	(47,700)	(9,000)
Other receivables	2,208	(11,443)
Prepaid expenses	(5,499)	3,263
Increase (decrease) in:		
Accounts payable and accrued expenses	20,303	(26,157)
Grants payable	<u>-</u>	<u>(14,600)</u>
Net cash provided (used) by operating activities	<u>67,953</u>	<u>(34,210)</u>
Net increase (decrease) in cash and cash equivalents	67,953	(34,210)
Cash and cash equivalents at beginning of year	<u>310,040</u>	<u>344,250</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 377,993</u></b>	<b><u>\$ 310,040</u></b>

## TRANSPARENCY INTERNATIONAL-USA, INC.

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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

##### Organization -

Transparency International-USA, Inc. is a nonprofit organization, incorporated in the Commonwealth of Virginia in 1993 and located in Washington, D.C. Transparency International-USA, Inc. 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 the international business transactions and mobilizing reform efforts. Transparency International-USA, Inc. encourages the adoption of international business standards of conduct, supports multilateral governmental initiatives to reduce corruption, and works with other chapters to promote reform. Transparency International-USA, Inc. 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. Transparency International-USA, Inc. 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 Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations".

##### Cash and cash equivalents -

Transparency International-USA, Inc. 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, Transparency International-USA, Inc. 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.

##### 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.

##### Income taxes -

Transparency International-USA, Inc. 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. Transparency International-USA, Inc. is not a private foundation.

##### In-kind contributions -

In-kind contributions consist of time donated by attorneys at Weil, Gotshal & Manges and Covington & Burling who provide services for Transparency International-USA, Inc. and the TI Secretariat. These services from Weil, Gotshal & Manges are reported at actual value based on the number of donated hours and billing rates of legal services rendered.

TRANSPARENCY INTERNATIONAL-USA, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

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

In-kind contributions (continued) -

The value of contributed legal services from Weil, Gotshal & Manges provided for Transparency International-USA, Inc. totaled \$12,465 and \$4,452 for the years ended December 31, 2007 and 2006, respectively.

In addition, Burston Marsteller provided professional services in connection with Transparency International-USA, Inc.'s website. These services are reported at actual value based on the number of donated hours and billing rates of respective professional services rendered. The value of contributed professional services from Burston Marsteller provided for Transparency International-USA, Inc. totaled \$10,599 for the year ended December 31, 2007.

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 Transparency International-USA, Inc.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Transparency International-USA, Inc. 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.

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, 2007 AND 2006**

**2. BEQUEST**

During 2007, Transparency International-USA, Inc. received a bequest with a total estimated value of \$1,107,700. The bequest includes two notes receivable totaling \$857,700 and other assets with an estimated value of \$250,000. During 2007, Transparency International-USA, Inc. received the first installment of the bequest with the balance to be received over the next four years. Accordingly, the total bequest has been recorded in the accompanying Statements of Activities and Changes in Net Assets as current year revenue. The value of the notes receivable and other assets which have not been received as of December 31, 2007 have been recorded in the accompanying Statements of Financial Position.

Following is a schedule of expected receipts under the bequest:

<u>Year Ended December 31,</u>	<u>Notes</u>	<u>Other Assets</u>	<u>Total</u>
2008	\$ 171,540	\$ 250,000	\$ 421,540
2009	171,540	-	171,540
2010	171,540	-	171,540
2011	<u>171,540</u>	<u>-</u>	<u>171,540</u>
	<b><u>\$ 686,160</u></b>	<b><u>\$ 250,000</u></b>	<b><u>\$ 936,160</u></b>

**3. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at December 31, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
SME Toolkit	\$ 20,951	\$ 30,895
Restricted for Time: General Support	<u>-</u>	<u>10,000</u>
	<b><u>\$ 20,951</u></b>	<b><u>\$ 40,895</u></b>

**4. 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>2007</u>	<u>2006</u>
SME Toolkit	\$ 9,944	\$ 35,424
Passage of time: General Support	<u>10,000</u>	<u>-</u>
	<b><u>\$ 19,944</u></b>	<b><u>\$ 35,424</u></b>

TRANSPARENCY INTERNATIONAL-USA, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

5. LEASE COMMITMENT

On September 1, 2004, Transparency International-USA, Inc. entered into a lease for office space located in Washington, D.C. The lease provides for an annual base rental of \$58,744, with a 2.5% increase starting in the second year based on the existing lease amount, plus a proportionate share of the increase in real estate taxes and operating expenses.

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

Year Ended December 31,

2008	\$ 63,785
2009	<u>59,484</u>
	<u>\$ 123,269</u>

Occupancy expense for the years ended December 31, 2007 and 2006 was \$69,564 and \$59,644, respectively.

6. RETIREMENT PLANS

Transparency International-USA, Inc. has a retirement plan under Section 403(b) of the Internal Revenue Code. The plan covers all employees who are at least 21 years of age and with at least 19 months 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 Transparency International-USA, Inc. to make any mandatory contributions. However, Transparency International-USA, Inc. may make contributions to the plan if approved by the Board of Directors. During 2007 and 2006, contributions of \$20,122 and \$19,053, respectively, were made to the plan.

Transparency International-USA, Inc. 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 2007 or 2006.