

**REVENUE WATCH INSTITUTE**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2006**



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Revenue Watch Institute

We have audited the accompanying statement of financial position of Revenue Watch Institute (a not-for-profit corporation) as of December 31, 2006, and the related statements of activities and cash flows for the period from March 2, 2006 (inception) through December 31, 2006. 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 audit.

We conducted our audit 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 audit provides 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, 2006, and the results of its operations and its cash flows for the period March 2, 2006 (inception) through December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

*Lutz + Carr, LLP*

New York, New York  
October 25, 2007

**REVENUE WATCH INSTITUTE**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2006**

**Assets**

Cash (Note 2)	\$2,388,085
Contributions receivable (Notes 1b and 4)	
Unrestricted	62,540
Restricted for future programs	800,112
Prepaid expenses	27,401
Property and equipment, at cost (net of accumulated depreciation) (Notes 1c and 5)	<u>2,420</u>

**Total Assets****\$3,280,558****Liabilities and Net Assets**

Liabilities	
Accrued expenses	\$ 84,722
Due to Open Society Institute (Note 7)	497,133
Grants payable (Note 1d)	405,000
Refundable contribution (Note 6)	<u>43,358</u>
Total Liabilities	1,030,213

Commitment (Note 7)

## Net Assets

Temporarily restricted (Note 3)	<u>2,250,345</u>
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**Total Liabilities and Net Assets****\$3,280,558**

**See notes to financial statements.**

## REVENUE WATCH INSTITUTE

## STATEMENT OF ACTIVITIES

FOR THE PERIOD FROM MARCH 2, 2006 (INCEPTION)  
THROUGH DECEMBER 31, 2006

**Change in Temporarily Restricted Net Assets**

Revenue	
Contributions (Notes 1a and 1b)	\$4,080,078
Net assets released from restrictions	
Satisfaction of program restrictions	<u>(1,829,733)</u>
Increase in Temporarily Restricted Net Assets	<u>2,250,345</u>

**Change in Unrestricted Restricted Net Assets**

Revenue	
Net assets released from restrictions	<u>1,829,733</u>
Expenses	
Program Services	1,463,630
Management and general	<u>366,103</u>
Total Expenses	<u>1,829,733</u>
Change in Unrestricted Net Assets	<u>-</u>
Change in net assets	2,250,345
Net assets, beginning of period	<u>-</u>
<b>Net Assets, End of Period</b>	<u><u>\$2,250,345</u></u>

See notes to financial statements.

**REVENUE WATCH INSTITUTE**  
**STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD FROM MARCH 2, 2006 (INCEPTION)**  
**THROUGH DECEMBER 31, 2006**

**Cash Flows From Operating Activities**

Change in net assets	\$2,250,345
Adjustments to reconcile change in net assets to net cash provided by operations:	
Depreciation	127
Increase in contributions receivable	(862,652)
Increase in prepaid expenses	(27,401)
Increase in accrued expenses	84,722
Increase in due to Open Society Institute	497,133
Increase in grants payable	405,000
Increase in refundable contribution	43,358
Net Cash Provided By Operating Activities	<u>2,390,632</u>

**Cash Flows From Investing Activities**

Acquisition of property and equipment	<u>(2,547)</u>
Net increase in cash	2,388,085
Cash, beginning of period	<u>-</u>

**Cash, End of Period**

\$2,388,085

**REVENUE WATCH INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**Note 1 - Organization and Summary of Significant Accounting Policies**

a - Organization

The Revenue Watch Institute ("Revenue Watch") was incorporated as a District of Columbia non-profit corporation on March 2, 2006. Revenue Watch 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, Revenue Watch 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.

During the period, Revenue Watch received 100% of its contributions from three foundations, The Open Society Institute, William and Flora Hewlett Foundation, Oil for Development Program NORAD; and two government agencies, World Bank & Dutch Ministry of Foreign Affairs.

b - Contributions

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

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

c - Property and Equipment

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

d - Grants Awarded

Grants awarded are recognized as expenses in the period the award is made at fair value. Grants payable later than one year from the end of a fiscal year are discounted to present value using a discount rate of 5%. At December 31, 2006, all grants are expected to be paid within one year.

**REVENUE WATCH INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

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

e - Financial Statement Presentation

Revenue Watch 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.

f - Tax Status

Revenue Watch 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, within the meaning of Section 509(a) of the IRC, under an advance ruling period which expires December 31, 2010.

g - 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.

**Note 2 - Concentration of Credit Risk**

Revenue Watch maintains its cash balances in one financial institution. The balance is insured by the Federal Deposit Insurance Corporation up to \$100,000.

**Note 3 - Restrictions on Net Assets**

Temporarily restricted net assets are restricted for future periods and programs.

**Note 4 - Contributions Receivable**

Contributions receivable are due in one year.

Revenue Watch received an award from the Norwegian Government in the amount of \$3,000,000. \$804,456 had been received as of December 31, 2006 and is included in temporarily restricted net assets. The balance of the award is not reflected in these financial statements since it is conditional upon the utilization of these funds.

**REVENUE WATCH INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**Note 5 - Property and Equipment**

Property and equipment consist of the following:

	<u>Life</u>	<u>Amount</u>
Furniture and equipment	10 years	\$2,547
Less: Accumulated depreciation		<u>(127)</u>
		<u>\$2,420</u>

Depreciation for the period ended December 31, 2006 was \$127.

**Note 6 - Refundable Contribution**

During the period, Revenue Watch received a grant in the amount of \$225,000 from the World Bank to support the Extractive Industries Transparency Initiative (EITI) capacity building for civil society groups, with an emphasis on Africa. Revenue Watch was unable to fulfill the terms of the grant agreement and thus returned \$43,358 to the World Bank in 2007.

**Note 7 - Commitment**

Revenue Watch has a service agreement with the Open Society Institute ("OSI") whereby OSI agreed to provide certain services to Revenue Watch. Pursuant to the agreement, OSI maintains on its payroll and benefit plans certain employees who provide services to Revenue Watch and paid certain administrative expenses. Revenue Watch accrued \$497,133 for the period ended December 31, 2006 to reimburse OSI for these expenses. This amount is also reflected as a liability in the accompanying financial statements.