PUBLIC MEMORANDUM FROM THE BOARD OF DIRECTORS

July 29 2014

Global Integrity has carried an unrestricted net asset deficit for a number of years. Management and the board have been aware of this – we’ve discussed it with our auditors during the course of our annual audits – but its size and persistence indicated to us the need to take more explicit corrective action in FY14. As such, we began an in-depth review with the board and our auditors to identify actionable steps we could take to reduce the deficit.

During the course of that review, we discovered that we had been significantly under-releasing unrestricted funds for the past several years. The release of core support funds each year can be done either in block tranches (e.g. releasing $100,000 each year from a three-year $300,000 core support grant) or via a direct expense method (e.g. assigning particular incurred expenses to a core support grant). Both are GAAP-compliant and fully acceptable methods of releasing unrestricted funds. The direct expense method, which Global Integrity had employed, is the more conservative method but can result in fewer unrestricted dollars being released each year. After several years of using this conservative accounting method, we discovered that we had inadvertently “hoarded” core support dollars on the books while allowing the net unrestricted deficit to artificially balloon in a way that didn’t accurately reflect the organization’s overall financial health.

Acting on the advice of our auditors, we have changed our methods for releasing core support to the “block tranche” method for FY13 and have restated our FY12 financials using that method. Readers of our FY14 financial statements will find this restatement transparently noted and discussed. At the end of FY13 our net unrestricted deficit now stands at a much more modest $170,288, down from $1,430,927 as previously reported in our original FY12 financial statements.

In addition, we are taking the following measures to continue to drive our net unrestricted asset deficit down to zero (or a surplus) and prevent deficits from recurring in the future:

- We are employing more sophisticated program-by-program budget development and tracking procedures.

- We are bolstering our human capital to provide additional oversight to our financial management functions through the creation of a new director of operations position.

- Our board is fully engaged on the issue. Our audit committee has been very actively involved during the past several months with both management and our auditors in understanding the drivers of the net unrestricted asset deficit and identifying appropriate actions (including adding more financial planning resources to the management team).

Factoring in all of these course corrections, we’re confident moving ahead that our net unrestricted asset balance will shortly become a non-issue.