

**Earth Innovation Institute**  
**Audited Financial Statements**  
**Year Ended June 30, 2015**

# Earth Innovation Institute

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CERTIFIED PUBLIC ACCOUNTANTS

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Partners

Daniel J. Harrington, CPA

Bruce J. Wright, CPA

Michael J. Ellingson, CPA

Principal

Mitchell Richstone, CPA

## INDEPENDENT AUDITOR'S REPORT

### Board of Directors

Earth Innovation Institute

We have audited the accompanying financial statements of Earth Innovation Institute (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2015, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year 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.

### Auditor's Responsibility

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 from 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 auditor's 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

INDEPENDENT AUDITOR'S REPORT  
(Continued)

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 Earth Innovation Institute as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited Earth Innovation Institute's 2014 financial statements, and our report dated November 26, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent in all material respects, with the audited financial statements from which it has been derived.



South San Francisco, California  
November 20, 2015

**Earth Innovation Institute**  
**Statement of Financial Position**  
June 30, 2015  
(With Comparative Totals at June 30, 2014)

	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 361,739	\$ 618,426
Cash Held for Temporary Restrictions	834,772	792,449
Grants Receivable	2,221,857	2,656,446
Accounts Receivable	53,182	177,885
Prepaid Expenses	42,400	40,923
Other Assets	120,613	213,062
<b>Total Current Assets</b>	<b>3,634,563</b>	<b>4,499,191</b>
<b>NONCURRENT ASSETS</b>		
Grants Receivable	175,000	-
Construction in Process	45,000	-
Deposits	13,500	4,740
<b>Total Noncurrent Assets</b>	<b>233,500</b>	<b>4,740</b>
<b>Total Assets</b>	<b>\$ 3,868,063</b>	<b>\$ 4,503,931</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 198,985	\$ 240,490
Grants, Direct/Assistance Payable	302,622	437,137
Accrued Vacation	41,821	45,412
Accrued Expenses	34,902	33,568
Deferred Revenue	132,813	177,049
<b>Total Liabilities</b>	<b>711,143</b>	<b>933,656</b>
<b>NET ASSETS</b>		
Unrestricted	664,938	407,507
Temporarily Restricted	2,491,982	3,162,768
<b>Total Net Assets</b>	<b>3,156,920</b>	<b>3,570,275</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,868,063</b>	<b>\$ 4,503,931</b>

**Earth Innovation Institute**  
**Statement of Activities**  
**Year Ended June 30, 2015**  
(With Comparative Totals at June 30, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2015</u>	<u>Total 2014</u>
<b>REVENUE AND GAINS</b>				
Grants and Contributions	\$ 112,203	\$ 4,055,860	\$ 4,168,063	\$ 5,457,355
Contracts	864,748	-	864,748	660,843
Refund on Grants, Direct/Assistance	-	-	-	63,456
In-Kind Donations	1,070	-	1,070	14,815
Other Income	3,545	-	3,545	14,158
Interest Income	1,238	-	1,238	1,394
Foreign Currency Translation Gain (Loss)	(379)	(73,977)	(74,356)	(25,031)
	<u>982,425</u>	<u>3,981,883</u>	<u>4,964,308</u>	<u>6,186,990</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>				
Satisfaction of Program Restrictions	<u>4,652,669</u>	<u>(4,652,669)</u>	<u>-</u>	<u>-</u>
Total Revenue and Gains	<u>5,635,094</u>	<u>(670,786)</u>	<u>4,964,308</u>	<u>6,186,990</u>
<b>EXPENSES AND GAINS</b>				
Program Services	5,310,765	-	5,310,765	4,624,801
Supporting Services				
Management & General	28,071	-	28,071	245,736
Fund Raising	<u>38,827</u>	<u>-</u>	<u>38,827</u>	<u>13,987</u>
Total Expenses	<u>5,377,663</u>	<u>-</u>	<u>5,377,663</u>	<u>4,884,524</u>
<b>CHANGE IN NET ASSETS</b>	257,431	(670,786)	(413,355)	1,302,466
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>407,507</u>	<u>3,162,768</u>	<u>3,570,275</u>	<u>2,267,809</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 664,938</u>	<u>\$ 2,491,982</u>	<u>\$ 3,156,920</u>	<u>\$ 3,570,275</u>

**Earth Innovation Institute**  
**Statement of Functional Expenses**  
Year Ended June 30, 2015  
(With Comparative Totals at June 30, 2014)

<b>Program Services</b>					
	<b>Small- holders</b>	<b>Science</b>	<b>Policy</b>	<b>Commodities</b>	<b>Total Program Services</b>
Grants, Direct/Assistance	\$ 26,174	\$ 107,583	\$ 679,843	\$ 1,146,925	\$ 1,960,525
Personnel Expenses	116,641	11,498	815,543	502,323	1,446,005
Contract Services	7,986	7,138	116,113	593,245	724,482
Operations	35,366	14,923	177,070	237,910	465,269
Professional Services	-	-	6,613	12,328	18,941
Other Program Implementation	13,136	-	90,438	40,988	144,562
Facilities and Equipment	-	-	697	5,334	6,031
Business Expenses	-	-	6	12,105	12,111
Miscellaneous Expenses	-	-	-	216	216
Allocated Overhead	39,415	19,692	244,106	229,410	532,623
<b>Total Expenses</b>	<b>\$ 238,718</b>	<b>\$ 160,834</b>	<b>\$ 2,130,429</b>	<b>\$ 2,780,784</b>	<b>\$ 5,310,765</b>

<b>Supporting Services</b>					
	<b>Management &amp; General</b>	<b>Fundraising</b>	<b>Total Supporting Services</b>	<b>Total 2015</b>	<b>Total 2014</b>
Grants, Direct/Assistance	\$ -	\$ -	\$ -	\$ 1,960,525	\$ 1,675,539
Personnel Expenses	177,499	20,634	198,133	1,644,138	1,259,886
Contract Services	40,919	-	40,919	765,401	1,027,401
Operations	116,408	11,110	127,518	592,787	537,655
Professional Services	146,999	-	146,999	165,940	173,132
Other Program Implementation	-	-	-	144,562	104,198
Facilities and Equipment	85,091	-	85,091	91,122	96,200
Business Expenses	402	-	402	12,513	10,327
Miscellaneous Expenses	459	-	459	675	186
Allocated Overhead	(539,706)	7,083	(532,623)	-	-
<b>Total Expenses</b>	<b>\$ 28,071</b>	<b>\$ 38,827</b>	<b>\$ 66,898</b>	<b>\$ 5,377,663</b>	<b>\$ 4,884,524</b>

**Earth Innovation Institute**  
**Statement of Cash Flows**  
**Year Ended June 30, 2015**  
(With Comparative Totals at June 30, 2014)

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (413,355)	\$ 1,302,466
(Increase) Decrease in Operating Assets		
Grants Receivable	259,589	(1,228,846)
Accounts Receivable	124,703	(17,813)
Prepaid Expenses	(1,477)	(263)
Other Assets	92,449	(148,128)
Deposits	(8,760)	-
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(41,505)	(64,166)
Grants, Direct/Assistance Payable	(272,088)	49,945
Accrued Vacation	(3,591)	9,139
Accrued Expenses	138,907	(19,152)
Deferred Revenue	(44,236)	177,049
Net Cash Provided (Used) by Operating Activities	<u>(169,364)</u>	<u>60,231</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for Construction in Process	<u>(45,000)</u>	-
Net Cash (Used) by Investing Activities	<u>(45,000)</u>	-
<b>NET INCREASE (DECREASE) IN CASH</b>	(214,364)	60,231
<b>CASH, BEGINNING OF YEAR</b>	<u>1,410,875</u>	<u>1,350,644</u>
<b>CASH, END OF YEAR</b>	<u>\$ 1,196,511</u>	<u>\$ 1,410,875</u>



**Earth Innovation Institute**  
Notes to Financial Statements  
June 30, 2015

1. **Organization**

Earth Innovation Institute, a California Public Benefit Corporation, pursues the goals of slowing climate change, conserving tropical forests and fisheries, and improving rural livelihoods by promoting sustainable rural development through a blend of research, consensus-building, policy analysis and reform, and private sector engagement.

**Key Program Areas:**

**Commodities:** Expansion of cropland and pastures for the production of agricultural commodities such as palm oil, soy beans, beef and timber is an important driver of forest clearing and degradation, especially in the tropics. Earth Innovation Institute, together with partners, seeks to reduce the negative impacts of expanding commodity production by supporting regional dialogues among agriculture leaders, government and civil society to establish regional (“territorial”) milestones for reducing deforestation and greenhouse gas emissions, increasing productivity, and eliminating chemical contamination. Our strategy strives to support and strengthen existing initiatives, such as commodity roundtable sustainability standards, by developing incentives for supporting the transition to sustainable production—especially among smallholders.

**Policy:** Sound public policy is critical to confronting humanity’s most urgent environmental challenges: climate change, forest loss, and the scarcity of arable land. Earth Innovation Institute works to achieve transformative change at all levels of government, internationally and in the regions where we and our partners work.

We encourage governments and international institutions to adopt, enforce, and strengthen policies that promote responsible natural resource management and improved livelihoods for local communities. We provide support and technical analyses to decision-makers and stakeholders. We seek smarter solutions to the major challenges, seizing opportunities to align policies, market forces, finance, and local governance to achieve the sustainable management of natural resources before they are depleted.

**Smallholders:** The expansion of commercial logging, agriculture, and fishing has led to land conflicts and depletion of forest and fisheries resources for the developing world’s 1.5 billion smallholder households. Simultaneously, unclear land tenure and limited access to technical assistance, credit, and quality inputs make it difficult for most smallholders to meet increasingly rigorous production standards and access modern markets.

**Earth Innovation Institute**  
Notes to Financial Statements  
June 30, 2015  
(Continued)

1. **Organization (continued)**

Commercial partnerships between smallholders and agribusinesses can provide the assistance that smallholders need. Earth Innovation Institute is working to develop regional governance conditions that ensure equitable contract arrangements as the basis for an inclusive rural development strategy in which integration into sustainable supply chains drives low-emission rural development.

**Science:** At Earth Innovation Institute, we believe that rigorously established evidence and broad dissemination of information is the basis for good policy-making and progressive social change. Our Science program focuses on designing and conducting research and analysis driven by the environmental and socioeconomic challenges tropical nations face.

Together with our partners, we study diverse elements of these challenges including the nature of contract arrangements between smallholders and logging and agriculture companies, the impacts of fire and drought on rainforest ecology, the financial and policy barriers to sustainable land-use, the impacts of deforestation on hydropower generation, and methods for assessing fisheries and forest stocks at community levels.

2. **Summary of Significant Accounting Policies**

**Basis of Accounting** – The financial statements of Earth Innovation Institute have been prepared using the accrual method of accounting, which involves the recognition of revenues and gains when earned and expenses and losses when incurred.

**Basis of Presentation** – Earth Innovation Institute is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted net assets, and permanently restricted net assets. The Organization has no permanently restricted net assets.

**Cash and Cash Equivalents** – For purposes of the Statement of Cash Flows, Earth Innovation Institute considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**Earth Innovation Institute**  
Notes to Financial Statements  
June 30, 2015  
(Continued)

2. **Summary of Significant Accounting Policies (continued)**

**Grants and Accounts Receivable** – Grants and Accounts Receivable relate primarily to governmental entities, nonprofits, and private foundations. Based on receivable support, confirmations and subsequent collections, management has determined that no allowance for receivables is considered necessary. Unconditional receivables are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional receivables are recorded at net realizable value.

**Grants and Contributions Receivable** – Unconditional receivables are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional receivables are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year.

**Fixed Assets and Depreciation** – Earth Innovation Institute records acquisitions of items with a cost of \$5,000 or more as fixed assets. Fixed assets are recorded at cost when purchased or at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the fixed assets. As of June 30, 2015, there was \$45,000 in construction in progress related to leasehold improvements. Construction in progress is reflected at cost and no depreciation was recognized. Upon completion the property will be placed into service and depreciated.

**Grants, Direct/Assistance** – Payments to entities in and outside the United States by Earth Innovation Institute are only made upon execution of a written agreement signed by the two parties outlining the terms and conditions of use of the funds. Terms require the recipient to submit periodic accounting of use of funds and reporting on activities and progress made under the purpose as defined in the agreement. Additional monitoring requirements are implemented when pertinent, such as expanded financial reports, external project audit reports, copies or receipts and site visits. Earth Innovation Institute's program and administrative staff monitor adherence to the terms and no subsequent payments are made until the recipient has demonstrated compliance with terms.

**Earth Innovation Institute**  
Notes to Financial Statements  
June 30, 2015  
(Continued)

2. **Summary of Significant Accounting Policies (continued)**

**Restricted and Unrestricted Revenue** – Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a donor-specified restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as Net Assets Released from Restrictions.

**Donated Services** – Earth Innovation Institute recognizes donated services and goods in-kind when (a) the services required specialized knowledge or skill and (b) if the services or goods were not donated, Earth Innovation Institute would have purchased the services at fair market value. Earth Innovation Institute received \$600 of in-kind services in accounting support during the year ended June 30, 2015.

**Fair Value of Financial Instruments** – The carrying amount of cash, grants receivable, accounts receivable, prepaid expenses, other assets, deposit, accounts payable, grants, direct/assistance payable, accrued liabilities, and deferred revenue, none of which are held for trading purposes, approximate the fair value due to the short-term maturities of those instruments.

**Allocation of Functional Expenses** – Salaries are allocated to supporting and program services based on employees timekeeping by activity. Common costs are allocated based primarily on the ratio of salary costs of each activity to total salary costs.

**Estimates** – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of asset and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**Earth Innovation Institute**  
**Notes to Financial Statements**  
**June 30, 2015**  
**(Continued)**

**2. Summary of Significant Accounting Policies (continued)**

**Income Taxes** – Earth Innovation Institute is exempt from income taxes under Internal Revenue Section 501(c)(3). Earth Innovation Institute qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Earth Innovation Institute recognizes the effect of income tax positions only if those positions are more than not to be sustained. Management continuously evaluates tax positions reflected in the Earth Innovation Institute's tax filings and does not believe that any material uncertain tax positions exist.

The Organization's federal and state income tax returns are generally subject to examination by federal and state taxing authorities for three and four years, respectively, after filing.

**3. Concentration of Credit Risk**

Earth Innovation Institute maintains cash balances at one financial institution. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2015, the Organization's uninsured cash balance totaled \$946,579. Earth Innovation Institute does not believe that it is exposed to any significant risk in connection with these cash balances.

At June 30, 2015, approximately 75% of Earth Innovation Institute's grants revenue and 70% of the grants receivable were from the Norwegian Agency for Development Cooperation (Norad).

**Earth Innovation Institute**  
**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**4. Grants Receivable**

Grants Receivable includes the following unconditional promises to give:

Total Temporarily Restricted Promises to Give	\$ <u>2,396,857</u>
Total unconditional promises to give	
Due in less than one year	\$ 2,221,857
Due in two to five years	<u>175,000</u>
	\$ <u>2,396,857</u>

**5. Temporarily Restricted Net Assets**

Restricted as to purpose:

Commodities	\$ 1,303,306
Policy	606,937
Smallholders	<u>581,739</u>
	\$ <u>2,491,982</u>

**6. Operating Leases**

Earth Innovation Institute leased office space under a non-cancelable operating lease that expired in June 2015. For the year ending June 30, 2015, rent paid under this operating lease was \$60,974. In May 2015, Earth Innovation Institute signed a lease for office space under a non-cancelable operating lease expiring in May 2020. The office space will be ready starting March 2016, with rent payments commencing in fiscal year 2017.

Minimum future lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	
2016	\$ 49,733
2017	135,703
2018	139,095
2019	142,573
2020	<u>139,902</u>
	\$ <u>607,006</u>