

Earth Innovation Institute

Financial Statements

Year Ended June 30, 2014

Earth Innovation Institute

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CERTIFIED PUBLIC ACCOUNTANTS

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, 2014, 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, 2014, 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 2013 financial statements, and our report dated November 14, 2013, 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, 2013, is consistent in all material respects, with the audited financial statements from which it has been derived.



South San Francisco, California
November 26, 2014

Earth Innovation Institute
Statement of Financial Position
June 30, 2014
(With Comparative Totals at June 30, 2013)

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash	\$ 618,426	\$ 916,260
Cash Held for Temporary Restrictions	792,449	434,384
Grants Receivable	2,656,446	1,427,600
Accounts Receivable	177,885	160,072
Prepaid Expenses	40,923	40,660
Other Assets	213,062	64,934
Total Current Assets	4,499,191	3,043,910
NONCURRENT ASSETS		
Deposits	4,740	4,740
Total Noncurrent Assets	4,740	4,740
Total Assets	\$ 4,503,931	\$ 3,048,650
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 240,490	\$ 304,656
Grants, Direct/Assistance Payable	437,137	387,192
Accrued Vacation	45,412	36,273
Accrued Expenses	33,568	52,720
Deferred Revenue	177,049	-
Total Liabilities	933,656	780,841
NET ASSETS		
Unrestricted	407,507	193,034
Temporarily Restricted	3,162,768	2,074,775
Total Net Assets	3,570,275	2,267,809
Total Liabilities and Net Assets	\$ 4,503,931	\$ 3,048,650

Earth Innovation Institute
Statement of Activities
Year Ended June 30, 2014
(With Comparative Totals at June 30, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2014</u>	<u>Total 2013</u>
REVENUE AND GAINS				
Grants and Contributions	\$ 150,245	\$ 5,307,110	\$ 5,457,355	\$ 1,707,801
Contracts	660,843	-	660,843	326,456
Refund on Grants, Direct/Assistance	-	63,456	63,456	263,134
In-Kind Donations	14,815	-	14,815	14,250
Other Income	14,158	-	14,158	2,270
Interest Income	772	622	1,394	3,060
Foreign Currency Translation Gain (Loss)	<u>(2,647)</u>	<u>(22,384)</u>	<u>(25,031)</u>	<u>6,182</u>
	838,186	5,348,804	6,186,990	2,323,153
NET ASSETS RELEASED FROM RESTRICTIONS				
Satisfaction of Program Restrictions	<u>4,260,811</u>	<u>(4,260,811)</u>	<u>-</u>	<u>-</u>
Total Revenue and Gains	<u>5,098,997</u>	<u>1,087,993</u>	<u>6,186,990</u>	<u>2,323,153</u>
EXPENSES AND GAINS				
Program Services	4,624,801	-	4,624,801	4,536,616
Supporting Services				
Management & General	245,736	-	245,736	97,096
Fund Raising	<u>13,987</u>	<u>-</u>	<u>13,987</u>	<u>50,465</u>
Total Expenses	<u>4,884,524</u>	<u>-</u>	<u>4,884,524</u>	<u>4,684,177</u>
CHANGE IN NET ASSETS	214,473	1,087,993	1,302,466	(2,361,024)
NET ASSETS, BEGINNING OF YEAR	<u>193,034</u>	<u>2,074,775</u>	<u>2,267,809</u>	<u>4,628,833</u>
NET ASSETS, END OF YEAR	<u>\$ 407,507</u>	<u>\$ 3,162,768</u>	<u>\$ 3,570,275</u>	<u>\$ 2,267,809</u>

Earth Innovation Institute
Statement of Functional Expenses
Year Ended June 30, 2014
(With Comparative Totals at June 30, 2013)

	Program Services				
	Brazil Low Emissions Strategy	Int'l Low Emission Development	Outreach & Capacity Building	Program - Other	Total Program Services
Grants, Direct/Assistance	\$ 88,201	\$ 824,657	\$ 757,651	\$ 30	\$ 1,670,539
Personnel Expenses	89,853	532,272	418,829	-	1,040,954
Contract Services	100,227	749,485	47,139	6,891	903,742
Operations	19,487	288,109	95,814	13,582	416,992
Professional Services	-	16,157	5,165	1,028	22,350
Other Program Implementation	-	67,180	33,938	3,080	104,198
Facilities and Equipment	-	13,768	-	4,568	18,336
Business Expenses	-	9,402	-	-	9,402
Miscellaneous Expenses	-	-	-	120	120
Allocated Overhead	44,886	260,366	128,633	4,283	438,168
Total Expenses	\$ 342,654	\$ 2,761,396	\$ 1,487,169	\$ 33,582	\$ 4,624,801

	Supporting Services				
	Management & General	Fundraising	Total Supporting Services	Total 2014	Total 2013
Grants, Direct/Assistance	\$ 5,000	\$ -	\$ 5,000	\$ 1,675,539	\$ 2,032,071
Personnel Expenses	207,405	11,527	218,932	1,259,886	905,000
Contract Services	123,659	-	123,659	1,027,401	590,270
Operations	120,341	322	120,663	537,655	494,701
Professional Services	150,782	-	150,782	173,132	176,481
Other Program Implementation	-	-	-	104,198	412,559
Facilities and Equipment	77,864	-	77,864	96,200	66,846
Business Expenses	925	-	925	10,327	5,395
Miscellaneous Expenses	66	-	66	186	854
Allocated Overhead	(440,306)	2,138	(438,168)	-	-
Total Expenses	\$ 245,736	\$ 13,987	\$ 259,723	\$ 4,884,524	\$ 4,684,177

Earth Innovation Institute
Statement of Cash Flows
Year Ended June 30, 2014
(With Comparative Totals at June 30, 2013)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,302,466	\$ (2,361,024)
(Increase) Decrease in Operating Assets		
Grants Receivable	(1,228,845)	2,689,098
Accounts Receivable	(17,814)	(159,942)
Prepaid Expenses	(263)	(11,862)
Other Assets	(148,128)	49,559
Deposits	-	(4,740)
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(64,166)	226,086
Grants, Direct/Assistance Payable	49,945	(809,245)
Accrued Vacation	9,139	15,170
Accrued Expenses	(19,152)	39,720
Deferred Revenue	177,049	(24,641)
Net Cash Provided (Used) by Operating Activities	<u>60,231</u>	<u>(351,821)</u>
NET INCREASE (DECREASE) IN CASH	60,231	(351,821)
CASH, BEGINNING OF YEAR	<u>1,350,644</u>	<u>1,702,465</u>
CASH, END OF YEAR	<u>\$ 1,410,875</u>	<u>\$ 1,350,644</u>

Earth Innovation Institute
Notes to Financial Statements
June 30, 2014

1. Organization

In the Spring of 2013, the Board of Directors underwent a discernment strategy process which resulted in a change of name for the Organization from IPAM International Program, Inc. to Earth Innovation Institute. The board unanimously adopted Earth Innovation Institute as the new name of the Corporation on September 19, 2013.

Earth Innovation Institute, a California Public Benefit Corporation, catalyzes innovative, large-scale transitions to low-emissions rural development in tropical regions by promoting policies, market transformation, and sustainable farming, forestry, and fisheries systems that improve rural livelihoods and enhance the capacity of the planet to support life. Through targeted, regional interventions, we seek globally significant increases in farm production, forest cover, fisheries yields, and rural household wellbeing while decreasing emissions of heat-trapping gas.

Born in the Brazilian Amazon with a staff that has been working in unruly forest frontiers while designing and testing sustainable farming, forestry and fisheries management systems for decades, Earth Innovation Institute drives the transition to low-emission rural development through cutting-edge research that identifies potential synergies among policies, market trends, and rural sectors, by designing regional transition strategies that are supported by businesses, governments at multiple levels, communities and civil society, by creating novel alliances among institutions, and by building local institutional capacity. We are now working with local partners to design and/or implement transitional strategies for low-emission rural development in Brazil (Mato Grosso, Pará, Acre, São Paulo States, national), Indonesia (Central Kalimantan, West Papua), Colombia (national), Mexico (Chiapas State), Peru (the Pachitea Watershed), Kenya (the central montane region), Paraguay, and Ghana.

Key Program Areas:

Brazil Low Emissions Strategy Program: Brazil has taken on the world's most ambitious target for reducing greenhouse gas (GHG) emissions. Approximately two thirds of these emissions reductions would be achieved through changes in land use, including an 80% reduction in deforestation in the Amazon region and a 40% reduction in deforestation in the Cerrado. The challenge for achieving this goal is the tremendous economic importance of Brazil's agricultural sector, which could grow substantially in the near future, making the emissions reduction targets difficult to achieve. Earth Innovation Institute provides integrated analyses of future agricultural scenarios and associated GHG emissions and presents these findings to agricultural sectors, government, and civil society.

Earth Innovation Institute
Notes to Financial Statements
June 30, 2014
(Continued)

1. **Organization (continued)**

International Low Emissions Development Program: Land use is responsible for approximately one third of global greenhouse gas (GHG) emissions. Many of these emissions could be avoided through changes in agricultural practices and by re-directing the expansion of agricultural frontiers away from remaining forests and savannas and onto lands that are already cleared, but below their productive potential. This program seeks to provide analysis, convening, and to design innovative finance mechanisms for lowering GHG emissions from land-use by forging linkages between REDD+ and initiatives underway to transform agricultural commodity supply chains, most notably, the agricultural commodity roundtables.

Capacity Building and Outreach Program: For low-emission rural development to grow to scale, and become a new paradigm for rural development around the world, strong institutions will be necessary to support this transition. Earth Innovation Institute seeks to build capacity in developing nations in support of this transition through its outreach and capacity building program working with developing country civil society and government institutions to advance low-emission rural development in the tropics.

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 unrestricted 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, 2014
(Continued)

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

Grants and Accounts Receivable – Grants and Accounts Receivable relate primarily to governmental and nonprofit entities. Based on receivable support, confirmations and subsequent collections, management has determined that no allowance for receivables is considered necessary.

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.

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.

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.

Earth Innovation Institute
Notes to Financial Statements
June 30, 2014
(Continued)

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

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 \$14,815 of in-kind services in accounting support in fiscal year 2014.

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.

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.

Earth Innovation Institute
Notes to Financial Statements
June 30, 2014
(Continued)

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, 2014, the Organization's uninsured cash balance totaled \$1,160,723. Earth Innovation Institute does not believe that it is exposed to any significant risk in connection with these cash balances.

At June 30, 2014, approximately 93% of Earth Innovation Institute's grants revenue and 100% of the grants receivable were from the Norwegian Agency for Development Cooperation (Norad).

4. Grants Receivable

Grants Receivable includes the following unconditional promises to give:

Total Temporarily Restricted Promises to Give	\$ <u>2,656,446</u>
Total unconditional promises to give Receivable in less than one year	\$ <u>2,656,446</u>

5. Temporarily Restricted Net Assets

Restricted as to purpose and time:	
Int'l Low Emission Development	\$ 1,723,763
Outreach & Capacity Building	1,420,274
Institutional Strategic Development	<u>18,731</u>
Total	\$ <u>3,162,778</u>

Earth Innovation Institute
Notes to Financial Statements
June 30, 2014
(Continued)

6. Operating Leases

Earth Innovation Institute leases office space under a non-cancelable operating lease expiring June 2015. For the year ending June 30, 2014, rent paid under this operating lease was \$59,198.

During the fiscal year, Earth Innovation Institute subleased office space to Solidaridad North America for \$7,856 under a sublease agreement which expired March 2014.

Minimum future lease payments are as follows:

<u>Fiscal Year Ending June 30,</u> 2015	<u>\$ 60,794</u>
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7. Pension Plan

Effective July 1, 2012, Earth Innovation Institute established a Simplified Employee Pension (SEP) Plan under Section 408(k) of the Internal Revenue Code. With this plan, the employer agrees to provide discretionary contributions in each calendar year to the individual retirement account or individual retirement annuity (IRA) of all employees who are at least 21 years old and have performed at least one year of service. The Organization's contribution equals 10% of eligible employees' salary. The related expense for fiscal year 2014 was \$63,704.

Earth Innovation Institute
Notes to Financial Statements
June 30, 2014
(Continued)

8. Related Party

Earth Innovation Institute is separate but related to the Instituto de Pesquisa Ambiental da Amazônia, a nonprofit organization located in Brazil. Seven of Earth Innovation Institute's ten board directors were serving on the board of Instituto de Pesquisa Ambiental da Amazônia as of June 30, 2014.

To assist with the implementation of shared projects, Earth Innovation Institute entered into grant agreements to the Instituto de Pesquisa Ambiental da Amazônia in the amount of \$69,011 during the fiscal year ending June 30, 2014. In addition Earth Innovation Institute executed contracts to Instituto de Pesquisa Ambiental da Amazônia totaling \$66,135 and recognized contract revenue in the amount of \$30,938 during the same period. Earth Innovation Institute had \$39,447 due in payables and \$13,071 advanced to Instituto de Pesquisa Ambiental da Amazônia as of June 30, 2014.

9. Subsequent Events

Earth Innovation Institute received in the fiscal year ended June 30, 2014 a grant award from the Norwegian Agency for Development Cooperation (Norad) of which NOK 17,500,000 (USD 2,853,940) is determined conditional as of the fiscal year ended June 30, 2014. Earth Innovation Institute expects to fulfill the terms of the conditional contribution within one year.

A separate award from Norad, received in the fiscal year ended June 30, 2013 also included NOK 8,000,000 (USD 1,304,660) that is determined conditional as of the fiscal year ended June 30, 2014. Earth Innovation Institute expects to fulfill the terms of the conditional contribution within one year.

Management has evaluated subsequent events through November 26, 2014, the date which the financial statements were available to be issued and determined that no other reportable events occurred.