



**FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 AND 2014**

**EARTHWATCH INSTITUTE, INC.**

Contents  
September 30, 2015 and 2014

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Independent Auditor's Report

To the Board of Directors of  
Earthwatch Institute, Inc.:

**Report on the Financial Statements**

We have audited the accompanying financial statements of Earthwatch Institute, Inc. (a Massachusetts corporation, not for profit) which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities, changes in net assets, cash flows and functional expenses for the years 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 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 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 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 Earthwatch Institute, Inc. as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

  
Boston, Massachusetts  
March 28, 2016

**EARTHWATCH INSTITUTE, INC.**

Statements of Financial Position  
September 30, 2015 and 2014

Assets	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Current Assets:</b>								
Cash and cash equivalents	\$ -	\$ 156,602	\$ -	\$ 156,602	\$ -	\$ 276,822	\$ -	\$ 276,822
Short-term investments	-	884,155	-	884,155	-	912,249	-	912,249
Current portion of grants, pledges and other receivable, net	55,596	1,834,848	-	1,890,444	91,532	1,515,410	-	1,606,942
Prepaid field grant expense, net	70,476	-	-	70,476	102,716	-	-	102,716
Prepaid expenses	191,895	-	-	191,895	86,116	-	-	86,116
Due from affiliates	57,448	-	-	57,448	37,705	-	-	37,705
Due (to) from	(449,468)	403,819	45,649	-	(98,525)	137,873	(39,348)	-
Total current assets	<u>(74,053)</u>	<u>3,279,424</u>	<u>45,649</u>	<u>3,251,020</u>	<u>219,544</u>	<u>2,842,354</u>	<u>(39,348)</u>	<u>3,022,550</u>
Investments	-	185,071	1,507,721	1,692,792	-	293,168	1,625,858	1,919,026
Grants, Pledges and Other Receivable, net of current portion and discount	-	439,361	-	439,361	-	729,010	-	729,010
Property and Equipment, net	14,317	-	-	14,317	10,793	-	-	10,793
<b>Other Assets:</b>								
Interest in insurance policy contracts	414,951	-	-	414,951	429,298	-	-	429,298
Deposits	32,379	-	-	32,379	25,000	-	-	25,000
Intangible assets	66,895	-	-	66,895	66,895	-	-	66,895
Total other assets	<u>514,225</u>	<u>-</u>	<u>-</u>	<u>514,225</u>	<u>521,193</u>	<u>-</u>	<u>-</u>	<u>521,193</u>
Total assets	<u>\$ 454,489</u>	<u>\$ 3,903,856</u>	<u>\$ 1,553,370</u>	<u>\$ 5,911,715</u>	<u>\$ 751,530</u>	<u>\$ 3,864,532</u>	<u>\$ 1,586,510</u>	<u>\$ 6,202,572</u>
<b>Liabilities and Net Assets</b>								
<b>Current Liabilities:</b>								
Note payable to a bank	\$ 200,000	\$ -	\$ -	\$ 200,000	\$ 300,000	\$ -	\$ -	\$ 300,000
Accounts payable and accrued expenses	365,902	-	-	365,902	333,281	-	-	333,281
Due to affiliate	260,547	-	-	260,547	120,434	-	-	120,434
Deferred expedition income	617,197	-	-	617,197	475,856	-	-	475,856
Total current liabilities	<u>1,443,646</u>	<u>-</u>	<u>-</u>	<u>1,443,646</u>	<u>1,229,571</u>	<u>-</u>	<u>-</u>	<u>1,229,571</u>
<b>Net Assets:</b>								
<b>Unrestricted:</b>								
Property and equipment and intangibles	81,212	-	-	81,212	77,688	-	-	77,688
Operating	(1,070,369)	-	-	(1,070,369)	(555,729)	-	-	(555,729)
Total unrestricted	<u>(989,157)</u>	<u>-</u>	<u>-</u>	<u>(989,157)</u>	<u>(478,041)</u>	<u>-</u>	<u>-</u>	<u>(478,041)</u>
Temporarily restricted	-	3,903,856	-	3,903,856	-	3,864,532	-	3,864,532
Permanently restricted	-	-	1,553,370	1,553,370	-	-	1,586,510	1,586,510
Total net assets	<u>(989,157)</u>	<u>3,903,856</u>	<u>1,553,370</u>	<u>4,468,069</u>	<u>(478,041)</u>	<u>3,864,532</u>	<u>1,586,510</u>	<u>4,973,001</u>
Total liabilities and net assets	<u>\$ 454,489</u>	<u>\$ 3,903,856</u>	<u>\$ 1,553,370</u>	<u>\$ 5,911,715</u>	<u>\$ 751,530</u>	<u>\$ 3,864,532</u>	<u>\$ 1,586,510</u>	<u>\$ 6,202,572</u>

EARTHWATCH INSTITUTE, INC.

Statements of Activities

For the Years Ended September 30, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Revenues and Support:</b>								
Gifts and grants	\$ 948,804	\$ 4,060,383	\$ -	\$ 5,009,187	\$ 746,682	\$ 3,617,120	\$ -	\$ 4,363,802
Contributions from domestic volunteers	2,576,134	-	-	2,576,134	3,201,037	-	-	3,201,037
Contributions from overseas volunteers	209,001	-	-	209,001	244,994	-	-	244,994
Donated advertising	116,525	-	-	116,525	109,769	-	-	109,769
Investment return designated for operations	7,966	62,787	-	70,753	6,988	54,730	-	61,718
Investment income	10,694	-	-	10,694	57,183	-	-	57,183
Other	824	-	-	824	3,217	-	-	3,217
Net assets released from purpose restrictions	3,875,749	(3,875,749)	-	-	3,725,781	(3,725,781)	-	-
Net assets released from time restrictions	-	-	-	-	60,000	(60,000)	-	-
<b>Total operating revenues and support</b>	<b>7,745,697</b>	<b>247,421</b>	<b>-</b>	<b>7,993,118</b>	<b>8,155,651</b>	<b>(113,931)</b>	<b>-</b>	<b>8,041,720</b>
<b>Operating Expenses:</b>								
Program	6,603,019	-	-	6,603,019	7,059,218	-	-	7,059,218
General and Administration	1,271,762	-	-	1,271,762	1,060,652	-	-	1,060,652
Fundraising	352,365	-	-	352,365	263,259	-	-	263,259
<b>Total operating expenses</b>	<b>8,227,146</b>	<b>-</b>	<b>-</b>	<b>8,227,146</b>	<b>8,383,129</b>	<b>-</b>	<b>-</b>	<b>8,383,129</b>
<b>Changes in net assets from operations</b>	<b>(481,449)</b>	<b>247,421</b>	<b>-</b>	<b>(234,028)</b>	<b>(227,478)</b>	<b>(113,931)</b>	<b>-</b>	<b>(341,409)</b>
<b>Non-operating Revenues (Expenses):</b>								
Donated property and equipment	15,525	-	-	15,525	-	-	-	-
Endowment contributions	-	-	-	-	-	-	200	200
Investment return designated for operations	-	(70,753)	-	(70,753)	-	(61,718)	-	(61,718)
Cancellation of grant	-	(100,000)	-	(100,000)	-	(35,000)	-	(35,000)
Investment return, net	(45,192)	(37,344)	(33,140)	(115,676)	26,548	109,364	7,157	143,069
<b>Total non-operating revenues (expenses)</b>	<b>(29,667)</b>	<b>(208,097)</b>	<b>(33,140)</b>	<b>(270,904)</b>	<b>26,548</b>	<b>12,646</b>	<b>7,357</b>	<b>46,551</b>
<b>Changes in net assets</b>	<b>\$ (511,116)</b>	<b>\$ 39,324</b>	<b>\$ (33,140)</b>	<b>\$ (504,932)</b>	<b>\$ (200,930)</b>	<b>\$ (101,285)</b>	<b>\$ 7,357</b>	<b>\$ (294,858)</b>

The accompanying notes are an integral part of these statements.

**EARTHWATCH INSTITUTE, INC.**

Statements of Changes in Net Assets  
For the Years Ended September 30, 2015 and 2014

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Net Assets</b> , September 30, 2013	\$ (277,111)	\$ 3,965,817	\$ 1,579,153	\$ 5,267,859
Changes in net assets	<u>(200,930)</u>	<u>(101,285)</u>	<u>7,357</u>	<u>(294,858)</u>
<b>Net Assets</b> , September 30, 2014	(478,041)	3,864,532	1,586,510	4,973,001
Changes in net assets	<u>(511,116)</u>	<u>39,324</u>	<u>(33,140)</u>	<u>(504,932)</u>
<b>Net Assets</b> , September 30, 2015	<u>\$ (989,157)</u>	<u>\$ 3,903,856</u>	<u>\$ 1,553,370</u>	<u>\$ 4,468,069</u>

The accompanying notes are an integral part of these statements.

**EARTHWATCH INSTITUTE, INC.**

Statements of Cash Flows  
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Changes in net assets	\$ (504,932)	\$ (294,858)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	12,001	22,035
Change in discount on grants and pledges receivable - operating	(3,392)	5,194
Donated property and equipment	(15,525)	-
Bad debts	-	67,500
Cancellation of grant	100,000	35,000
Investment return, net	115,676	(143,069)
Endowment contributions	-	(200)
Changes in operating assets and liabilities:		
Grants, pledges and other receivable	9,539	(40,697)
Prepaid field grant expense, net	32,240	(19,509)
Prepaid expenses	(105,779)	(25,746)
Due from affiliates	(19,743)	81,841
Deposits	(7,379)	-
Accounts payable and accrued expenses	32,621	(300,815)
Due to affiliates	140,113	120,434
Deferred expedition income	141,341	(244,116)
Accrued rent	-	(10,152)
	<u>(73,219)</u>	<u>(747,158)</u>
<b>Net cash used in operating activities</b>		
<b>Cash Flows from Investing Activities:</b>		
Change in interest in insurance policy contracts	14,347	3,810
Endowment contributions	-	150,200
Purchase of investments	(3,330,582)	(1,813,002)
Proceeds from sale of investments	3,469,234	1,729,797
	<u>152,999</u>	<u>70,805</u>
<b>Net cash provided by investing activities</b>		
<b>Cash Flows from Financing Activities:</b>		
Net proceeds from (payments on) note payable to a bank	(100,000)	300,000
Payment on cancellation of grant	(100,000)	-
	<u>(200,000)</u>	<u>300,000</u>
<b>Net cash provided by (used in) financing activities</b>		
<b>Net Change in Cash and Cash Equivalents</b>	(120,220)	(376,353)
<b>Cash and Cash Equivalents:</b>		
Beginning of year	<u>276,822</u>	<u>653,175</u>
End of year	<u>\$ 156,602</u>	<u>\$ 276,822</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	<u>\$ 3,602</u>	<u>\$ 1,485</u>

**EARTHWATCH INSTITUTE, INC.**

Statements of Functional Expenses  
For the Years Ended September 30, 2015 and 2014

	2015			2014				
	Program	General and Administration	Fundraising	Total Expenses	Program	General and Administration	Fundraising	Total Expenses
<b>Salary and Related:</b>								
Salaries	\$ 2,119,660	\$ 790,687	\$ 156,313	\$ 3,066,660	\$ 2,321,509	\$ 609,213	\$ 154,727	\$ 3,085,449
Payroll taxes	281,933	52,256	13,736	347,925	317,595	50,688	15,032	383,315
Fringe benefits	133,690	82,762	7,018	223,470	112,855	71,719	33,374	217,948
Total salary and related	2,535,283	925,705	177,067	3,638,055	2,751,959	731,620	203,133	3,686,712
<b>Field Grants</b>	1,889,799	-	-	1,889,799	2,528,307	-	-	2,528,307
<b>Other:</b>								
Program expenses	556,745	-	-	556,745	411,589	509	1,372	413,470
Travel, staff development, seminars and conferences	445,796	42,528	6,032	494,356	348,091	95,640	6,871	450,602
Consultants and temporary help	290,661	55,088	68,379	414,128	158,459	16,315	-	174,774
Meals and lodging	157,284	36,191	2,437	195,912	36,536	51,485	7,212	95,233
Printing and postage	101,190	12,667	66,131	179,988	94,888	13,979	28,375	137,242
Rent	121,872	28,876	9,582	160,330	116,771	26,828	7,365	150,964
Insurance	99,912	45,935	108	145,955	61,327	18,413	1,568	81,308
Advertising	117,295	-	12,360	129,655	182,489	4,518	-	187,007
Legal and accounting	58,489	61,910	-	120,399	48,981	66,289	-	115,270
Telephone	60,116	14,066	3,832	78,014	43,240	10,548	4,454	58,242
Bank fees and merchant fees	69,579	7,821	477	77,877	67,038	-	-	67,038
Program equipment grants	46,287	9,265	737	56,289	52,988	-	-	52,988
Facilities	21,677	5,897	1,704	29,278	20,930	5,276	1,320	27,526
Information technology	11,662	5,117	-	16,779	9,519	11,938	-	21,457
Dues and subscriptions	2,903	9,488	2,391	14,782	5,910	1,348	-	7,258
Miscellaneous	7,347	5,444	411	13,202	35,652	545	514	36,711
Depreciation	9,122	2,162	717	12,001	17,044	3,916	1,075	22,035
Interest	-	3,602	-	3,602	-	1,485	-	1,485
Bad debts	-	-	-	-	67,500	-	-	67,500
Total other	2,177,937	346,057	175,298	2,699,292	1,778,952	329,032	60,126	2,168,110
Total expenses	\$ 6,603,019	\$ 1,271,762	\$ 352,365	\$ 8,227,146	\$ 7,059,218	\$ 1,060,652	\$ 263,259	\$ 8,383,129

The accompanying notes are an integral part of these statements.



## **EARTHWATCH INSTITUTE, INC.**

Notes to Financial Statements  
September 30, 2015 and 2014

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### **1. OPERATIONS AND NONPROFIT STATUS**

Earthwatch Institute, Inc. (Earthwatch) is dedicated to building a healthy and sustainable planet. Earthwatch grants monetary and volunteer support to scientific field research and multi-cultural awareness efforts in our most threatened human and wildlife communities each year. Findings are used to teach local residents how to improve their lives and livelihoods through sustainable business and development, inform state and local policy makers, and educate our international volunteer force on their impact and responsibilities as global citizens. Innovative educational programs for teachers and students improve scientific literacy and environmental awareness in our next generation of leaders, while strategic academic, corporate and government partnerships engage all sectors in long-lasting protection of our natural and cultural resources.

Earthwatch is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). Earthwatch is also exempt from state income taxes. Donors may deduct contributions made to Earthwatch within IRC requirements.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

Earthwatch prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

#### **Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Earthwatch considers all highly liquid investments purchased with an initial maturity of three months or less to be cash and cash equivalents, except for money market accounts maintained as part of the investment portfolio (see Note 5). Cash and cash equivalents consist of checking and money market accounts in the accompanying financial statements.

#### **Allowance of Grants, Pledges and Other Receivable**

Earthwatch receives grants and pledges from various donors. The allowance for doubtful accounts, if any, is based on management's best estimate of amounts that may become uncollectible. There was no allowance as of September 30, 2015. Grants, pledges and other receivable in the accompanying 2014 statement of financial position are reported net of an allowance for doubtful accounts of \$62,892.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Prepaid Field Grants Expense**

Prepaid field grants expense represents advances to researchers who generally field expeditions within two months of receipt of the advance. Accrued field grants represent amounts due to researchers upon completion of a project and their filing specific reports. No such amounts were due at September 30, 2015 and 2014. These amounts, which are netted with prepaid field grants expense, are forfeited by the researcher if the reports are not submitted to Earthwatch by the date that is outlined in the contract. Field grant expenses are recognized when the expeditions are fielded.

**Investments and Return Allocations**

Investment income consists of interest and dividends. Interest income is recorded as earned and dividend income is recorded on the ex-dividend date. Realized gains and losses on investment transactions are recorded based on the average cost method. Unrealized gains and losses are based on fair value changes. These investments are not insured and are subject to ongoing market fluctuations (see Note 5).

Earthwatch follows the Massachusetts adopted version of the Uniform Prudent Management Institutional Funds Act (UPMIFA). Subject to the intent of a donor, Earthwatch may appropriate for expenditure or accumulate so much of an endowment fund as Earthwatch determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. The assets in an endowment fund are donor-restricted assets until appropriated for expenditure by Earthwatch. Earthwatch has adopted investment and spending policies for endowment assets that aim to safeguard the purchasing power of the endowment principal, generate an ongoing revenue source, and provide for growth of the investment principal in accordance with UPMIFA.

The Board of Directors of Earthwatch adopted a policy allowing for the use of a portion of total investment return on permanently restricted investments for operations each year. Annually, Earthwatch may appropriate for operations up to 5% of the average fair values of its permanently restricted investment portfolio over the previous three years, measured at the end of the third quarter of the fiscal year. Under Earthwatch's policy, in no event shall such distribution reduce the value of the permanently restricted endowment portfolio below the historical dollar value at the time of the distribution. During fiscal years 2015 and 2014, \$70,753 and \$61,718, respectively, was appropriated for operations (see Note 5).

Gains and losses and investment income on endowment funds are reflected as non-operating revenues (expenses) in the accompanying statements of activities.

**Property, Equipment and Depreciation**

Property and equipment are recorded at cost, if purchased, or at fair value at time of receipt, if donated. Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Software, equipment and other	3 - 7 years
Leasehold improvements	Lesser of 5 years or the life of lease

## EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements  
September 30, 2015 and 2014

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Deferred Expedition Income

Deferred expedition income includes volunteer payments for future research expeditions. Under certain circumstances, these payments may be refunded, less a handling fee, if the volunteer does not participate in an expedition within prescribed time frames. Earthwatch recognizes these contributions as revenue at the earlier of either the expedition or departure date.

#### Net Assets

Earthwatch's net assets include the following:

##### *Unrestricted*

**Property and equipment and intangibles** represent the net book value of Earthwatch's property and equipment and intangible assets, net of related debts, if any.

**Operating** represents the portion of net assets that is available for operations and does not have any donor imposed restrictions.

**Temporarily restricted** represents grants and contributions whose uses have been limited by donors to a specific time period or purpose, including for underwriting field research for teachers, students, and special projects. Temporarily restricted net assets also include appreciation on unspent earnings on permanently restricted endowment.

Temporarily restricted net assets consist of the following at September 30:

	<u>2015</u>	<u>2014</u>
Purpose restricted	\$ 3,708,785	\$ 3,561,364
Appreciation and unspent earnings on permanently restricted endowment	185,071	293,168
Time restricted	<u>10,000</u>	<u>10,000</u>
	<u>\$ 3,903,856</u>	<u>\$ 3,864,532</u>

**Permanently restricted** represents grants and contributions that have been restricted by donors to be maintained by Earthwatch in perpetuity (endowment funds). Generally, the investment income from these funds is to be used to provide educational grants and for other operating purposes, in accordance with Earthwatch's spending policy (see page 8). One donor has restricted the unrealized gains or losses to remain in permanently restricted net assets.

#### Revenue Recognition

Earthwatch recognizes contributions from domestic and overseas volunteers at the end of the month in which the volunteers participate in the research expeditions. Gifts of cash and other assets are recognized as temporarily restricted support if they are received or unconditionally pledged with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statements of activities as net assets released from restrictions.

**EARTHWATCH INSTITUTE, INC.**

Notes to Financial Statements  
September 30, 2015 and 2014

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue Recognition (Continued)**

Grants are recognized over the period covered by the grant as services are provided and costs are incurred. Unrestricted contributions are recognized when unconditionally pledged in writing or received. Donor restricted endowment contributions are recorded as permanently restricted revenue and net assets if they are received and committed with donor stipulations that the net assets be held in perpetuity. All other revenue is recognized as earned.

**Bequests**

Earthwatch may be named as a beneficiary in wills and trusts and periodically may receive distributions. Earthwatch reflects bequests and trust distributions as non-operating revenue when received or when amounts to be received are known.

**Donated Goods and Services**

Volunteers and other organizations contribute goods and services to Earthwatch in support of various aspects of its programs. These goods and services are reflected in the accompanying financial statements based upon the estimated value assigned to them by the donating volunteers, organization or by management.

The value of these goods and services are as follows:

	<u>2015</u>	<u>2014</u>
Advertising	\$ 116,525	\$ 109,769
Capitalized equipment	<u>15,525</u>	<u>-</u>
	<u>\$ 132,050</u>	<u>\$ 109,769</u>

**Expense Allocations**

Management allocates expenses related directly to a program to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

**Advertising Costs**

Earthwatch expenses advertising costs as they are incurred, or at the time of donation.

Donated advertising is valued at the estimated value assigned by the donating organization or by management.

**Cancellation of Grant**

As of September 30, 2015, cancellation of grant includes a refunded grant to a donor. As of September 30, 2014, cancellation of grant includes a reduced grant amount related to a change in the nature and scope of the related restricted program.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fair Value Measurements**

Earthwatch follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that Earthwatch would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

Earthwatch uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of Earthwatch. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

***Investments***

Earthwatch records its investments at fair value using Level 1 inputs. Reported fair values of shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year (see Note 5).

***Split-Interest Agreements***

Earthwatch participates in a Split Dollar and Collateral Assignment Agreement with Earthwatch's Founding Chairman and Board member (non-voting) who is the owner of the insurance policies (see page 14). The cash surrender value of these policies is valued using Level 2 inputs. The value was determined by the underwriting insurance company's valuation models, which take into account the passage of time, mortality tables, interest rates, cash values for paid-up additions and dividend accumulations. The cash surrender value represents the guaranteed value Earthwatch would receive upon surrender of these policies as of September 30, 2015 and 2014.

***All Other Assets and Liabilities***

The carrying value of all other qualifying assets and liabilities does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

## EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements  
September 30, 2015 and 2014

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Income Taxes

Earthwatch accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. Earthwatch has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at September 30, 2015 and 2014. Earthwatch's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

#### Subsequent Events

Subsequent events have been evaluated through March 28, 2016, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

### 3. RELATED PARTY TRANSACTIONS

Earthwatch has charitable affiliates internationally to extend its scientific and education programs abroad. Earthwatch Australia was established in Sydney, Australia in 1980. Conservation Education and Research Trust (a company limited by guarantee) (doing business as Earthwatch Institute Europe), operating from Oxford, England, was established in 1984. A memorandum of understanding dated January, 1994, was implemented to create an affiliate in Tokyo, Japan (Earthwatch Japan).

Earthwatch does not control these affiliates; therefore, their results of operations are not included in the accompanying financial statements. These affiliates share contributions from volunteers and derive staff support and subsidies from Earthwatch.

The following are the amounts due from affiliates as of September 30:

	<u>2015</u>	<u>2014</u>
Amounts due from:		
Earthwatch Australia	\$ 55,711	\$ 20,739
Earthwatch Japan	<u>1,737</u>	<u>16,966</u>
	<u>\$ 57,448</u>	<u>\$ 37,705</u>

Amounts due to affiliate as of September 30, 2015 and 2014, include \$260,547 and \$120,434, respectively, due to Earthwatch Europe.

**EARTHWATCH INSTITUTE, INC.**Notes to Financial Statements  
September 30, 2015 and 2014

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**3. RELATED PARTY TRANSACTIONS (Continued)**

The following revenue is derived from affiliates and is reflected as contributions from overseas volunteers in the accompanying statements of activities for the years ended September 30:

	<u>2015</u>	<u>2014</u>
Revenue derived from:		
Earthwatch Europe	\$ 106,820	\$ 104,126
Earthwatch Australia	83,079	103,132
Earthwatch Japan	<u>19,102</u>	<u>37,736</u>
	<u>\$ 209,001</u>	<u>\$ 244,994</u>

During fiscal years 2015 and 2014, Earthwatch received grants of \$879,071 and \$675,784, respectively, from Earthwatch Europe as part of a grant to Earthwatch Europe from HSBC. Earthwatch is participating as a sub-grantee in this global water quality research project. Earthwatch will be carrying out portions of the project in North and South America over five years. Earthwatch has received cumulative cash payments relating to the water project totaling \$2,048,460 and \$1,166,483, as of September 30, 2015 and 2014, respectively. The balance due related to this project at September 30, 2015 and 2014, is \$430,260 and \$433,166, respectively, and is included in grants, pledges and other receivable (see Note 4).

During fiscal years 2015 and 2014, Earthwatch also had other one-year grants with Earthwatch Europe with funding from HSBC. The funding totaled \$119,551 and \$58,791 for fiscal years 2015 and 2014, respectively. The balance due at September 30, 2015 was \$16,262. All balances were paid during fiscal year 2014.

The balance of temporarily restricted net assets from these related party grants is as follows as of September 30:

	<u>2015</u>	<u>2014</u>
HSBC Water Project	\$ 743,232	\$ 635,874
Other HSBC Projects	<u>44,457</u>	<u>213,201</u>
	<u>\$ 787,689</u>	<u>\$ 849,075</u>

On October 6, 2008, Earthwatch and Earthwatch Europe organized and incorporated Earthwatch International, Inc. (Earthwatch International) (a Delaware corporation, not for profit under IRC Section 501(c)(4)). Earthwatch International has no assets and had no activity as of and for the years ended September 30, 2015 and 2014. The Board of Directors of Earthwatch International consists of the Board members of each of the incorporators, with each incorporator having equal voting power. Earthwatch International's purpose is to provide internationally coordinated governance and administration for the benefit of organizations throughout the world that use Earthwatch trademarks and brand. Each party maintains its own independent governance and financial integrity. Costs relating to information technology staff serve both Earthwatch and Earthwatch Europe and costs are shared under a memorandum of agreement between the organizations.

## EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements  
September 30, 2015 and 2014

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### 3. RELATED PARTY TRANSACTIONS (Continued)

Earthwatch participates in a Split Dollar and Collateral Assignment Agreement with Earthwatch's Founding Chairman and Board member (non-voting) who is the owner of the insurance policies. Earthwatch made annual premium payments for the period November 1998 through December, 2010, as required under the agreement, totaling \$480,035. These policies are subject to termination upon certain defined circumstances. In the event of the split dollar policy cancellation, Earthwatch will receive an amount equal to the cash surrender value of the policy or the amount of premiums paid to date, whichever is less. In the event of death, Earthwatch will receive the cumulative amount of premium payments from the proceeds of the death benefit. The cash surrender values of the insurance policy contracts at September 30, 2015 and 2014, was \$414,951 and \$429,298, respectively. These amounts are reflected as interest in insurance policy contracts in the accompanying statements of financial position.

### 4. GRANTS, PLEDGES AND OTHER RECEIVABLE

Grants, pledges and other receivable consist of amounts committed to Earthwatch for both unrestricted and restricted purposes. These amounts are due as follows:

<u>Fiscal Year</u>	<u>2015</u>	<u>2014</u>
Less than one year	\$ 1,890,444	\$ 1,669,834
One to five years	<u>446,959</u>	<u>740,000</u>
	2,337,403	2,409,834
Less - discount	7,598	10,990
Less - allowance for doubtful accounts	<u>-</u>	<u>62,892</u>
	2,329,805	2,335,952
Less - current portion	<u>1,890,444</u>	<u>1,606,942</u>
Long-term grants, pledges and other receivable, net	<u>\$ 439,361</u>	<u>\$ 729,010</u>

The pledges have been discounted using a 1.0% rate for fiscal years 2015 and 2014.

Earthwatch Europe's (see Note 3) grant receivable balances as of September 30, 2015 and 2014, was \$446,522 and \$433,166, respectively. These amounts represent approximately 19% and 18% of the total outstanding grants and pledges balance as of September 30, 2015 and 2014, respectively. Three other donor balances represents approximately 71% of the outstanding grants and pledges balance as of September 30, 2015. One other donor's balance represents approximately 54% of the outstanding grants and pledges balance as of September 30, 2014.



**EARTHWATCH INSTITUTE, INC.**Notes to Financial Statements  
September 30, 2015 and 2014**5. INVESTMENTS**

All investments which are valued using Level 1 inputs (see Note 2) consist of the following at September 30:

	<u>2015</u>	<u>2014</u>
Money market	\$ 486,558	\$ 507,492
Fixed income:		
Intermediate term bond funds	239,657	517,076
Other bond funds	-	130,302
Mutual funds:		
Exchange traded funds	1,732,182	370,918
Large growth funds	96,406	274,978
Other funds	22,144	419,008
Large value funds	-	330,407
Large blend funds	-	281,094
	<u>\$ 2,576,947</u>	<u>\$ 2,831,275</u>

The following is a summary of the net investment return of the portfolio for the years ended September 30:

	<u>2015</u>	<u>2014</u>
Net realized gains on investments	\$ 145,603	\$ 146,906
Investment income, net of fees of \$10,172 and \$7,773 for the years ended September 30, 2015 and 2014, respectively	35,879	40,953
Unrealized losses on investments	<u>(297,158)</u>	<u>(44,790)</u>
Investment return, net	<u>\$ (115,676)</u>	<u>\$ 143,069</u>

The investments have been allocated among the unrestricted, temporarily restricted and permanently restricted net asset classes in the accompanying financial statements according to the absence or presence of donor restrictions.

Investments are reported in the accompanying statements of financial position as current or long-term assets based on management's intent with respect to the use of investments (see Note 9). To satisfy its long-term rate-of-return objectives, Earthwatch relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Investment Committee, advised by a third-party investment advisor, is responsible for selecting the investment manager of Earthwatch's portfolio.

Investment gains (losses) of \$(33,140) and \$7,157 for the years ended September 30, 2015 and 2014, respectively, at the request of a donor, are to remain in the endowment (see Note 9).

## EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements  
September 30, 2015 and 2014

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### 6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	<u>2015</u>	<u>2014</u>
Office equipment	\$ 229,914	\$ 229,914
Data processing equipment	149,211	133,686
Software	76,562	76,562
Other	52,507	52,507
Leasehold improvements	<u>30,083</u>	<u>30,083</u>
	538,277	522,752
Less - accumulated depreciation	<u>523,960</u>	<u>511,959</u>
	<u>\$ 14,317</u>	<u>\$ 10,793</u>

### 7. INTANGIBLE ASSETS

Intangible assets of \$66,895 as of September 30, 2015 and 2014, consist of costs incurred by Earthwatch to register its trademarks in foreign countries. These intangible assets are not amortized; rather they are tested for impairment on an annual basis to determine if the intangible assets are being carried on the statement of financial position at or above their implied value. An impairment exists when the implied fair value of the intangible assets is less than the corresponding carrying value of the intangible assets on the statement of financial position. Any impairment is recognized as a loss in the year the asset is determined to be impaired. There was no impairment loss at September 30, 2015 and 2014.

### 8. NOTE PAYABLE TO A BANK

Earthwatch has available up to \$500,000 under a line of credit agreement with a bank. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's base lending rate (3.25% at September 30, 2015 and 2014), plus 1%. The line of credit is secured by the pledge of a collateral account with marketable securities. This agreement expires on September 30, 2017. At September 30, 2015 and 2014, \$200,000 and \$300,000 was outstanding, respectively.

Earthwatch must comply with certain covenants, including maintaining certain financial ratios, as specified in the agreement. Earthwatch must, at all times, hold marketable securities, including corporate bonds, with an aggregate market value of no less than \$500,000. Earthwatch was not in compliance with all of their covenants as of September 30, 2015 and 2014, and obtained a waiver from the bank.

**EARTHWATCH INSTITUTE, INC.**Notes to Financial Statements  
September 30, 2015 and 2014**9. ENDOWMENT**

Changes in endowment net assets by class are as follows:

	<u>Donor-Restricted</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Endowment net assets, September 30, 2013	\$ 245,522	\$ 1,579,153	\$ 1,824,675
Investment return:			
Unrealized gains on investments	56,175	7,157	63,332
Investment income, net of fees	40,953	-	40,953
Net realized gains on investments	<u>12,236</u>	<u>-</u>	<u>12,236</u>
Total investment return	<u>109,364</u>	<u>7,157</u>	<u>116,521</u>
Contributions	<u>-</u>	<u>200</u>	<u>200</u>
Investment return designated for operations	<u>(61,718)</u>	<u>-</u>	<u>(61,718)</u>
Endowment net assets, September 30, 2014	<u>293,168</u>	<u>1,586,510</u>	<u>1,879,678</u>
Investment return:			
Unrealized losses on investments	(250,107)	(33,140)	(283,247)
Investment income, net of fees	35,879	-	35,879
Net realized gains on investments	<u>176,884</u>	<u>-</u>	<u>176,884</u>
Total investment return	<u>(37,344)</u>	<u>(33,140)</u>	<u>(70,484)</u>
Investment return designated for operations	<u>(70,753)</u>	<u>-</u>	<u>(70,753)</u>
Endowment net assets, September 30, 2015	<u>\$ 185,071</u>	<u>\$ 1,553,370</u>	<u>\$ 1,738,441</u>

**10. OPERATING LEASES**

Earthwatch has a lease agreement for office space in Allston, Massachusetts. During fiscal year 2015, this lease was extended through December 2017. Earthwatch is responsible for its proportionate share of any increase in operating costs and real estate taxes over a base year and must maintain specified insurance coverage.

Facility rent expense for the years ended September 30, 2015 and 2014, was \$160,330 and \$150,964, respectively.

Future minimum cash lease payments under non-cancelable operating leases are as follows:

2016	\$ 173,442
2017	\$ 173,442
2018	\$ 43,361

## **EARTHWATCH INSTITUTE, INC.**

Notes to Financial Statements  
September 30, 2015 and 2014

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### **11. EMPLOYMENT BENEFIT PLAN**

Earthwatch maintains a qualified salary reduction plan (an IRC Section 401(k) plan), whereby employees who are 21 years of age and have accumulated 500 hours of service are eligible to make elective tax deferred contributions to the plan up to the maximum allowed by law. Earthwatch may contribute to the plan at the discretion of the Board of Directors and may match a portion of employee contributions. These matching contributions vest over a five-year period. Earthwatch made contributions of \$47,831 and \$39,736 during fiscal years 2015 and 2014, respectively.

### **12. CONCENTRATIONS AND CONTINGENCIES**

Earthwatch maintains its cash balances in a Massachusetts bank and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, the cash balances exceeded the insured amount. Earthwatch has not experienced any losses in the accounts. Earthwatch's management believes Earthwatch is not exposed to any significant credit risk on cash and cash equivalents.

See Note 4 for concentrations in grants, pledges and other receivable.

In the ordinary course of Earthwatch's business, Earthwatch is, from time-to-time, involved in disputes concerning certain individual's employment with Earthwatch. While these employees are seeking damages in connection with these disputes, Earthwatch denies any wrongdoing in these cases and is taking the appropriate legal steps in defense of these disputes. It is Earthwatch's opinion that any potential settlement would not be material to the accompanying financial statements.

### **13. CONTINUING OPERATIONS**

Earthwatch incurred an unrestricted deficit from operations of \$(481,449) and \$(227,478) for the years ended September 30, 2015 and 2014, respectively. Temporarily restricted net assets from operations increased by \$247,421 for the year ended September 30, 2015 and decreased by \$113,931 for the year ended September 30, 2014. As of September 30, 2015, Earthwatch had a deficit unrestricted operating net assets balance of \$1,070,369 and unrestricted current liabilities exceeded unrestricted current assets by \$1,517,699.

Earthwatch has historically relied on cash flow from deferred expedition income and restricted funds to meet operating cash flow requirements.

During fiscal year 2015, Earthwatch's operating deficit was the net result of unexpected shortfalls in contributions from domestic and overseas volunteers and unrestricted income that was partially offset by management actions to contain program delivery and overhead costs. The improvement in costs and efficiency has continued into fiscal year 2016. Since September 30, 2015, Earthwatch has taken advantage of the resignations of its Chief Executive Officer, Human Resources Director and Chief Scientific Officer to combine these roles with internal staff who have taken on these responsibilities. In addition, the contracted Chief Development Officer was replaced in 2016 by an internal candidate. These reductions have made Earthwatch more efficient and are expected to reduce overall operating costs by approximately \$400,000. With these reductions along with an enhanced focus on fundraising and marketing initiatives management expects a modest surplus. With firm commitments and advance payments on most of the restricted grants to be delivered in fiscal year 2016, management believes that Earthwatch will generate sufficient cash flows to meet its program and operating commitments.