



**FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

EARTHWATCH INSTITUTE, INC.

Contents
September 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

AAFCPAs, Inc.

Boston, Massachusetts
March 30, 2021

EARTHWATCH INSTITUTE, INC.

Statements of Financial Position
September 30, 2020 and 2019

| Assets | 2020 | | | 2019 | | |
|--|----------------------------|-------------------------|---------------------|----------------------------|-------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Assets | | | | | | |
| Current Assets: | | | | | | |
| Cash and cash equivalents | \$ - | \$ 774,411 | \$ 774,411 | \$ - | \$ 120,209 | \$ 120,209 |
| Short-term investments | - | 908,872 | 908,872 | - | 846,564 | 846,564 |
| Grants, pledges and other receivables | 164,334 | 75,000 | 239,334 | 102,914 | 868,419 | 971,333 |
| Prepaid field grant expense | 59,128 | - | 59,128 | 60,542 | - | 60,542 |
| Prepaid expenses | 60,554 | - | 60,554 | 47,112 | - | 47,112 |
| Due from affiliates | 51,593 | - | 51,593 | 102,424 | - | 102,424 |
| Due (to) from | (880,599) | 880,599 | - | (327,230) | 327,230 | - |
| Total current assets | <u>(544,990)</u> | <u>2,638,882</u> | <u>2,093,892</u> | <u>(14,238)</u> | <u>2,162,422</u> | <u>2,148,184</u> |
| Investments | - | 1,881,111 | 1,881,111 | - | 1,829,208 | 1,829,208 |
| Property and Equipment, net | <u>30,761</u> | - | <u>30,761</u> | <u>43,056</u> | - | <u>43,056</u> |
| Other Assets: | | | | | | |
| Interest in insurance policy contracts | 480,035 | - | 480,035 | 480,035 | - | 480,035 |
| Intangible assets | <u>66,895</u> | - | <u>66,895</u> | <u>66,895</u> | - | <u>66,895</u> |
| Total other assets | <u>546,930</u> | - | <u>546,930</u> | <u>546,930</u> | - | <u>546,930</u> |
| Total assets | <u>\$ 32,701</u> | <u>\$ 4,519,993</u> | <u>\$ 4,552,694</u> | <u>\$ 575,748</u> | <u>\$ 3,991,630</u> | <u>\$ 4,567,378</u> |
| Liabilities and Net Assets | | | | | | |
| Current Liabilities: | | | | | | |
| Current portion of note payable | \$ 1,081 | \$ - | \$ 1,081 | \$ - | \$ - | \$ - |
| Note payable to a bank | - | - | - | 325,000 | - | 325,000 |
| Accounts payable and accrued expenses | 312,784 | - | 312,784 | 302,948 | - | 302,948 |
| Conditional advances | <u>209,177</u> | - | <u>209,177</u> | <u>658,416</u> | - | <u>658,416</u> |
| Total current liabilities | <u>523,042</u> | - | <u>523,042</u> | <u>1,286,364</u> | - | <u>1,286,364</u> |
| Note Payable, net of current portion | <u>148,919</u> | - | <u>148,919</u> | - | - | - |
| Total liabilities | <u>671,961</u> | - | <u>671,961</u> | <u>1,286,364</u> | - | <u>1,286,364</u> |
| Net Assets: | | | | | | |
| Without donor restrictions: | | | | | | |
| Property and equipment and intangibles | 97,656 | - | 97,656 | 109,951 | - | 109,951 |
| Operating | <u>(736,916)</u> | - | <u>(736,916)</u> | <u>(820,567)</u> | - | <u>(820,567)</u> |
| Total without donor restrictions | <u>(639,260)</u> | - | <u>(639,260)</u> | <u>(710,616)</u> | - | <u>(710,616)</u> |
| With donor restrictions | - | 4,519,993 | 4,519,993 | - | 3,991,630 | 3,991,630 |
| Total net assets | <u>(639,260)</u> | <u>4,519,993</u> | <u>3,880,733</u> | <u>(710,616)</u> | <u>3,991,630</u> | <u>3,281,014</u> |
| Total liabilities and net assets | <u>\$ 32,701</u> | <u>\$ 4,519,993</u> | <u>\$ 4,552,694</u> | <u>\$ 575,748</u> | <u>\$ 3,991,630</u> | <u>\$ 4,567,378</u> |

The accompanying notes are an integral part of these statements.

EARTHWATCH INSTITUTE, INC.

Statements of Activities

For the Years Ended September 30, 2020 and 2019

| | 2020 | | | 2019 | | |
|---|----------------------------|-------------------------|-------------------|----------------------------|-------------------------|-----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Operating Revenue and Support: | | | | | | |
| Gifts and grants | \$ 1,770,127 | \$ 2,161,098 | \$ 3,931,225 | \$ 669,398 | \$ 2,050,401 | \$ 2,719,799 |
| Contributions from domestic volunteers | 580,550 | - | 580,550 | 3,489,028 | - | 3,489,028 |
| Contributions from overseas volunteers | 145,272 | - | 145,272 | 206,233 | - | 206,233 |
| Investment return designated for operations | 8,332 | 77,460 | 85,792 | 8,203 | 78,454 | 86,657 |
| Donated advertising | 55,703 | - | 55,703 | 22,257 | - | 22,257 |
| Investment income | 20,578 | - | 20,578 | 16,167 | - | 16,167 |
| Other | 3,722 | - | 3,722 | 69,372 | - | 69,372 |
| Net assets released from purpose restrictions | 1,691,272 | (1,691,272) | - | 3,264,095 | (3,264,095) | - |
| Net assets released from time restrictions | 70,000 | (70,000) | - | 75,000 | (75,000) | - |
| Total operating revenue and support | 4,345,556 | 477,286 | 4,822,842 | 7,819,753 | (1,210,240) | 6,609,513 |
| Operating Expenses: | | | | | | |
| Program | 3,192,973 | - | 3,192,973 | 6,422,748 | - | 6,422,748 |
| General and administration | 852,763 | - | 852,763 | 971,399 | - | 971,399 |
| Fundraising | 265,674 | - | 265,674 | 280,979 | - | 280,979 |
| Total operating expenses | 4,311,410 | - | 4,311,410 | 7,675,126 | - | 7,675,126 |
| Changes in net assets from operations | 34,146 | 477,286 | 511,432 | 144,627 | (1,210,240) | (1,065,613) |
| Non-Operating Revenue (Expenses): | | | | | | |
| Investment return, net | 37,210 | 136,869 | 174,079 | (2,148) | 7,740 | 5,592 |
| Investment return designated for operations | - | (85,792) | (85,792) | - | (86,657) | (86,657) |
| Total non-operating revenue (expenses) | 37,210 | 51,077 | 88,287 | (2,148) | (78,917) | (81,065) |
| Changes in net assets | \$ 71,356 | \$ 528,363 | \$ 599,719 | \$ 142,479 | \$ (1,289,157) | \$ (1,146,678) |

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, 2020 and 2019

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---|--|----------------------------|
| Net Assets , September 30, 2018 | \$ (853,095) | \$ 5,280,787 | \$ 4,427,692 |
| Changes in net assets | <u>142,479</u> | <u>(1,289,157)</u> | <u>(1,146,678)</u> |
| Net Assets , September 30, 2019 | (710,616) | 3,991,630 | 3,281,014 |
| Changes in net assets | <u>71,356</u> | <u>528,363</u> | <u>599,719</u> |
| Net Assets , September 30, 2020 | <u><u>\$ (639,260)</u></u> | <u><u>\$ 4,519,993</u></u> | <u><u>\$ 3,880,733</u></u> |

EARTHWATCH INSTITUTE, INC.Statements of Cash Flows
For the Years Ended September 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------|
| Cash Flows from Operating Activities: | | |
| Changes in net assets | \$ 599,719 | \$ (1,146,678) |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 12,295 | 9,308 |
| Investment return, net | (174,079) | (5,592) |
| Changes in operating assets and liabilities: | | |
| Grants, pledges and other receivable | 731,999 | 1,022,635 |
| Prepaid field grant expense | 1,414 | 26,449 |
| Prepaid expenses | (13,442) | 32,128 |
| Due from affiliates | 50,831 | (46,871) |
| Deposits | - | 25,000 |
| Accounts payable and accrued expenses | 9,836 | (19,465) |
| Due to affiliates | - | (9,369) |
| Conditional advances | (449,239) | (25,049) |
| Net cash provided by (used in) operating activities | <u>769,334</u> | <u>(137,504)</u> |
| Cash Flows from Investing Activities: | | |
| Acquisition of property and equipment | - | (32,255) |
| Purchase of investments | (263,650) | (220,261) |
| Proceeds from sale of investments | <u>323,518</u> | <u>284,294</u> |
| Net cash provided by investing activities | <u>59,868</u> | <u>31,778</u> |
| Cash Flows from Financing Activities: | | |
| Proceeds on note payable | 150,000 | - |
| Payments on note payable to a bank | <u>(325,000)</u> | <u>150,000</u> |
| Net cash provided by (used in) financing activities | <u>(175,000)</u> | <u>150,000</u> |
| Net Change in Cash and Cash Equivalents | 654,202 | 44,274 |
| Cash and Cash Equivalents: | | |
| Beginning of year | <u>120,209</u> | <u>75,935</u> |
| End of year | <u>\$ 774,411</u> | <u>\$ 120,209</u> |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest | <u>\$ 7,460</u> | <u>\$ 12,228</u> |

EARTHWATCH INSTITUTE, INC.

 Statements of Functional Expenses
 For the Years Ended September 30, 2020 and 2019

| | 2020 | | | | 2019 | | | |
|---|--------------|----------------------------|-------------|----------------|--------------|----------------------------|-------------|----------------|
| | Program | General and Administration | Fundraising | Total Expenses | Program | General and Administration | Fundraising | Total Expenses |
| Personnel and Related: | | | | | | | | |
| Salaries | \$ 1,418,147 | \$ 516,582 | \$ 162,981 | \$ 2,097,710 | \$ 1,793,258 | \$ 601,433 | \$ 172,053 | \$ 2,566,744 |
| Fringe benefits | 207,061 | 60,852 | 13,423 | 281,336 | 254,902 | 85,250 | 17,524 | 357,676 |
| Payroll taxes | 143,795 | 71,226 | 12,523 | 227,544 | 147,426 | 38,871 | 14,001 | 200,298 |
| Total personnel and related | 1,769,003 | 648,660 | 188,927 | 2,606,590 | 2,195,586 | 725,554 | 203,578 | 3,124,718 |
| Field Grants | 638,405 | - | - | 638,405 | 2,781,688 | - | - | 2,781,688 |
| Other: | | | | | | | | |
| Consultants and temporary help | 188,979 | 9,859 | 19,721 | 218,559 | 254,173 | 16,111 | 8,493 | 278,777 |
| Occupancy | 146,024 | 30,215 | 13,219 | 189,458 | 149,235 | 31,010 | 13,567 | 193,812 |
| Insurance | 152,767 | 20,313 | 564 | 173,644 | 153,981 | 12,350 | 570 | 166,901 |
| Travel, staff development, seminars and conferences | 63,918 | 21,046 | 5,358 | 90,322 | 286,043 | 39,299 | 12,291 | 337,633 |
| Advertising | 58,425 | - | 6,383 | 64,808 | 29,908 | - | 3,163 | 33,071 |
| Maintenance and repairs | 32,397 | 29,563 | 2,667 | 64,627 | 39,033 | 25,575 | 3,234 | 67,842 |
| Professional fees | 690 | 58,339 | - | 59,029 | 240 | 73,652 | - | 73,892 |
| Printing and postage | 26,045 | 1,015 | 21,605 | 48,665 | 46,207 | 2,411 | 29,401 | 78,019 |
| Bank fees and merchant fees | 31,675 | 11,420 | 4,573 | 47,668 | 77,982 | 12,175 | 2,617 | 92,774 |
| Program expenses | 46,747 | - | - | 46,747 | 293,420 | - | - | 293,420 |
| Telephone | 14,602 | 6,432 | 973 | 22,007 | 14,008 | 8,062 | 1,191 | 23,261 |
| Supplies | 9,981 | 3,585 | 824 | 14,390 | 83,722 | 6,766 | 2,071 | 92,559 |
| Depreciation | 9,468 | 1,967 | 860 | 12,295 | 7,167 | 1,489 | 652 | 9,308 |
| Interest | - | 7,460 | - | 7,460 | - | 12,228 | - | 12,228 |
| Dues and subscriptions | 2,852 | 1,796 | - | 4,648 | 9,191 | 1,595 | 45 | 10,831 |
| Miscellaneous | 995 | 1,093 | - | 2,088 | 1,164 | 3,122 | 106 | 4,392 |
| Total other | 785,565 | 204,103 | 76,747 | 1,066,415 | 1,445,474 | 245,845 | 77,401 | 1,768,720 |
| Total expenses | \$ 3,192,973 | \$ 852,763 | \$ 265,674 | \$ 4,311,410 | \$ 6,422,748 | \$ 971,399 | \$ 280,979 | \$ 7,675,126 |

The accompanying notes are an integral part of these statements.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2020 and 2019

1. OPERATIONS AND NONPROFIT STATUS

Earthwatch Institute, Inc. (Earthwatch) connects citizens with scientists to improve the health and sustainability of the planet. Since its founding in 1971, Earthwatch has empowered over 100,000 volunteers from all walks of life to join leading scientists on research expeditions that tackle critical environmental challenges around the globe—from climate change to ocean health to human-wildlife conflict. Earthwatch works with all sectors of society, including corporations, teachers, students and community leaders. This research is 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.

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).

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers

On October 1, 2019, Earthwatch adopted FASB's Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method applied to those contracts which were not completed as of October 1, 2019 (the practical expedient elected). Results for reporting periods beginning after October 1, 2019, are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with Earthwatch's historic accounting under Topic 605. There were no material changes in the timing of recognition of revenue and, therefore, there was no adjustment to the opening balance of net assets as a result of adopting Topic 606.

Contributions Received and Contributions Made

During fiscal year 2020, Earthwatch also adopted FASB's ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU assists organizations in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. Earthwatch adopted ASU No. 2018-08 using the full retrospective method. As a result of this adoption, the fiscal year 2019 financial statements were not restated and there was no cumulative effect on net assets as of October 1, 2019.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 for Grants, Pledges and Other Receivable

Earthwatch receives grants and pledges from various donors. An 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, 2020 and 2019.

Prepaid Field Grants Expense

Prepaid field grants expense represents advances to researchers who generally field expeditions within two months of receipt of the advance. 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 endowment investments for operations each year. Annually, Earthwatch may appropriate for operations up to 5% of the average fair values of its endowment 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 endowment portfolio below the historical dollar value at the time of the distribution. During fiscal years 2020 and 2019, \$85,792 and \$86,657, respectively, were appropriated for operations (see page 10).

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

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and 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 |

Net Assets

Earthwatch's net assets include the following:

Without Donor Restrictions:

- *Property and equipment and intangibles* represent the net book value of Earthwatch's property and equipment and intangible assets.
- *Operating* represents the portion of net assets that is available for operations and does not have any donor-imposed restrictions.

With Donor Restrictions:

Net assets with donor restrictions represent 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. It also includes amounts received from donors with the stipulation that the principal will be held in perpetuity (endowment funds) and only the related appreciation and unspent earnings of these 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 held in perpetuity.

Net assets with donor restrictions consist of the following at September 30:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Purpose restricted | \$ 2,499,411 | \$ 1,949,257 |
| Endowment | 1,680,623 | 1,672,955 |
| Appreciation and unspent earnings on endowment | 339,959 | 299,418 |
| Time restricted | <u>-</u> | <u>70,000</u> |
| | <u>\$ 4,519,993</u> | <u>\$ 3,991,630</u> |

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

With Donor Restrictions: (Continued)

A reconciliation of endowment activity for fiscal years 2020 and 2019 is as follows:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Endowment net assets , beginning of year | \$ 1,972,373 | \$ 2,051,290 |
| Investment return | 134,001 | 7,740 |
| Investment return designated for operations | <u>(85,792)</u> | <u>(86,657)</u> |
| Endowment net assets , end of year | <u>\$ 2,020,582</u> | <u>\$ 1,972,373</u> |

Revenue Recognition

In accordance with Topic 958, Earthwatch must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that Earthwatch should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met. See Note 12 for Earthwatch's conditional grants and advances.

Earthwatch recognizes contributions from domestic and overseas volunteers and payments for field research when the expedition commences. Earthwatch recognizes these contributions in accordance with Topic 958, as the public benefit exceeds the value to the volunteer. Amounts received during the fiscal year, for expeditions that occur subsequent to year-end, are recorded as conditional advances (see Note 12).

Gifts of cash and other assets are recognized as donor 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Grants are recognized over the period covered by the grant as services are provided and costs are incurred. Contributions are recognized when unconditionally pledged in writing or received. Donor-restricted endowment contributions are recorded as revenue and net assets with donor restrictions 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 grant and contribution revenue when received. During fiscal years 2020 and 2019, Earthwatch received bequests of approximately \$293,000 and \$100,000, respectively, which are included in gifts and grants in the accompanying statements of activities.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Donated advertising totaled \$55,703 and \$22,257 for the years ended September 30, 2020 and 2019, respectively.

Statements of Activities

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenues and support and operating expenses in the accompanying statements of activities. Non-operating revenue (expenses) include endowment and investment activity.

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.

The financial statements contain certain categories of expenses that are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and depreciation, which are allocated based on square-footage. Additional expenses that are allocated include salaries, payroll taxes and fringe benefits, which are allocated based on estimates of time and effort spent on each program or support function.

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 (see above).

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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 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, 2020 and 2019.

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.

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, 2020 and 2019. Earthwatch's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through March 30, 2021, which is the date the financial statements were available to be issued. See Notes 12 and 14 for events that met the criteria for disclosure in the financial statements.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2020 and 2019

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>2020</u> | <u>2019</u> |
|----------------------|------------------|-------------------|
| Amounts due from: | | |
| Earthwatch Australia | \$ 51,593 | \$ 44,640 |
| Earthwatch Europe | - | 56,079 |
| Earthwatch Japan | - | 1,705 |
| | <u>\$ 51,593</u> | <u>\$ 102,424</u> |

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>2020</u> | <u>2019</u> |
|-----------------------|-------------------|-------------------|
| Revenue derived from: | | |
| Earthwatch Europe | \$ 75,425 | \$ 113,132 |
| Earthwatch Australia | 51,847 | 55,827 |
| Earthwatch Japan | 18,000 | 37,274 |
| | <u>\$ 145,272</u> | <u>\$ 206,233</u> |

Since fiscal year 2017, Earthwatch received grants totaling approximately \$2,000,000 from Earthwatch Europe as part of a grant to Earthwatch Europe from HSBC. Earthwatch was participating as a sub-grantee in this global sustainability training program and carried out portions of the project in North and South America. There was no cash payments relating to these grants in fiscal year 2020. Earthwatch received cash payments relating to these grants totaling \$588,502 during fiscal year 2019.

During fiscal year 2019, Earthwatch also had a sustainability leadership program with Earthwatch Europe with funding from HSBC, totaling \$108,111.

The balance of net assets with donor restrictions from these related party grants is as follows as of September 30:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------|-----------------|-------------------|
| Sustainability training program | \$ 5,000 | \$ 282,047 |
| Sustainability leadership program | - | 4,147 |
| | <u>\$ 5,000</u> | <u>\$ 286,194</u> |

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2020 and 2019

3. RELATED PARTY TRANSACTIONS (Continued)

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, 2020 and 2019. 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 participates in a Split Dollar and Collateral Assignment Agreement with Earthwatch's Founding Chairman and Board member (resigned in November 2017) 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, 2020 and 2019, were \$547,378 and \$515,724, respectively. The lesser of the cash surrender value and the total premiums paid amounts are reflected as interest in insurance policy contracts in the accompanying statements of financial position.

4. GRANTS, PLEDGES AND OTHER RECEIVABLES

Grants, pledges and other receivables consist of amounts committed to Earthwatch for both without and with donor restricted purposes. All amounts due at September 30, 2020 and 2019, are due in the next fiscal year.

Approximately 31% and 100% of outstanding grants, pledges and other receivable at September 30, 2020 and 2019, were due from two and four donors, respectively.

5. INVESTMENTS

Investments consist of the following at September 30:

| | <u>2020</u> | <u>2019</u> |
|------------------------------|---------------------|---------------------|
| Money market | \$ 226,889 | \$ 220,653 |
| Mutual funds: | | |
| Intermediate term bond funds | 279,066 | 292,706 |
| Exchange traded funds | 862,014 | 757,629 |
| Stock index funds | <u>1,422,014</u> | <u>1,404,784</u> |
| | <u>\$ 2,789,983</u> | <u>\$ 2,675,772</u> |

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. 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.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2020 and 2019

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

| | <u>2020</u> | <u>2019</u> |
|---------------------------------|------------------|------------------|
| Data processing equipment | \$ 134,342 | \$ 134,342 |
| Software | 53,498 | 53,498 |
| Office equipment | 27,825 | 27,825 |
| Other | 18,507 | 18,507 |
| Leasehold improvements | <u>16,645</u> | <u>16,645</u> |
| | 250,817 | 250,817 |
| Less - accumulated depreciation | <u>220,056</u> | <u>207,761</u> |
| | <u>\$ 30,761</u> | <u>\$ 43,056</u> |

7. INTANGIBLE ASSETS

Intangible assets of \$66,895 as of September 30, 2020 and 2019, consists 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 statements 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, 2020 or 2019.

8. NOTE PAYABLE

During fiscal year 2020, Earthwatch received a \$150,000 Economic Injury Disaster Loan through the Small Business Administration. The loan bears interest at 2.75% and requires monthly payments of principal and interest of \$641 beginning in May 2021 through May 2050 (maturity). The loan is secured by all business assets.

Maturities of the note payable over the next five years are as follows:

| | |
|------|----------|
| 2021 | \$ 1,081 |
| 2022 | \$ 3,315 |
| 2023 | \$ 3,412 |
| 2024 | \$ 3,512 |
| 2025 | \$ 3,615 |

9. NOTE PAYABLE TO A BANK

Earthwatch has available under a demand note with a bank up to the lesser of \$500,000 or 90% of the value or the pledged marketable securities collateral account. The note is secured by the pledge of a collateral account with marketable securities. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's base lending rate (3.25% and 5% at September 30, 2020 and 2019, respectively), minus 25 basis points. At September 30, 2020, there was no amount outstanding. As of September 30, 2019, \$325,000 was outstanding. Earthwatch must comply with certain covenants. Earthwatch was not in compliance with their covenants as of September 30, 2020 and 2019, and received a waiver from bank.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2020 and 2019

10. OPERATING LEASE

Earthwatch has a lease agreement for its location in Brighton, Massachusetts through August 31, 2023, with an option to extend for an additional five years. Earthwatch secured a letter of credit for \$28,229, in accordance with the security agreement for the lease. The letter of credit had an initial expiration date of January 31, 2020. The letter of credit automatically renews annually with sixty-days' notice with a final expiration date of October 31, 2023. Earthwatch is responsible for its proportionate share of any increase in operating costs and real estate taxes over a base year and maintain specified insurance coverage.

During fiscal year 2020, Earthwatch entered into an agreement to amend the lease, whereby the landlord abated April 2020 rent and July and August rent was payable at 33%, with the remaining 67% being amortized on a straight-line basis for a twenty-seven-month period commencing on October 1, 2020. No interest will be charged on the deferred rent. Deferred rent of \$19,587 is included in accounts payable and accrued expenses in the accompanying statement of financial position as of September 30, 2020.

Facility rent expense for the years ended September 30, 2020 and 2019, was \$161,306 and \$169,876, respectively, which is included in occupancy in the accompanying statements of functional expenses.

Future minimum lease payments under the non-cancelable operating lease consists of the following at September 30:

| | |
|------|------------|
| 2021 | \$ 190,686 |
| 2022 | \$ 196,734 |
| 2023 | \$ 179,618 |

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 four-year period. Earthwatch made contributions of \$63,158 and \$130,897 during fiscal years 2020 and 2019, respectively, which are included in fringe benefits in the accompanying statements of functional expenses.

12. CONDITIONAL GRANT AND ADVANCES

Earthwatch applied for and was awarded a loan of \$540,972 from the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) through a bank. The funds will be used to pay certain payroll costs, including benefits as well as rent and utilities during a covered period as defined in the CARES Act. A portion of these funds may be forgiven, as defined in the agreement, at the end of the covered period and the remainder of the funds will be due over a two-year period with interest at 1%. Any repayment will be deferred for a certain period from the end of the covered period as determined by the Small Business Administration (SBA). The balance of the note that is not forgiven, plus interest, will be due in equal monthly payments through the maturity date as defined by the bank. The forgiveness calculations are subject to review and approval by the lending bank and SBA. In the opinion of management, the results of such reviews, will not have a material effect on the financial position of Earthwatch as of September 30, 2020, and on the changes in its net assets for the year then ended.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2020 and 2019

12. CONDITIONAL GRANT AND ADVANCES (Continued)

Subsequent to September 30, 2020, Earthwatch received forgiveness for the loan from the lending bank and SBA.

Conditional advances include 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.

13. 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.

During fiscal year 2020, COVID-19 was recognized as a global pandemic. The impact of COVID-19 on Earthwatch's future operations and the demand for its services will depend upon, among other things, the duration, spread and intensity of the pandemic, related government responses such as required physical distancing, restrictions on business operations and travel, the pace of recovery of economic activity, and the impact to consumers, all of which are uncertain and impossible to predict. The financial impact to Earthwatch cannot be reasonably estimated at this time.

14. SUBSEQUENT EVENT

Subsequent to September 30, 2020, Earthwatch applied for and received a second draw PPP loan totaling \$546,845. The second draw PPP loan has the same general loan terms as the first draw PPP loan (see Note 12). A portion of these funds may be forgiven, as defined in the agreement, at the end of the covered period and the remainder of the funds will be due over a two year period with interest at 1%.

15. CONTINUING OPERATIONS

Earthwatch incurred surpluses without donor restrictions from operations of \$34,146 and \$144,627 for the years ended September 30, 2020 and 2019, respectively. Net assets with donor restrictions from operations increased by \$477,286 and decreased by \$1,210,240 for the years ended September 30, 2020 and 2019, respectively. As of September 30, 2020, Earthwatch had deficit operating net assets without donor restrictions balance of \$736,916 and current liabilities without donor restrictions exceeded current assets without donor restrictions by \$1,068,032.

Earthwatch has historically relied on cash flow from conditional advances and restricted funds to meet operating cash flow requirements. Earthwatch also has additional resources available if they are needed to cover operations (see Note 16).

Fiscal year 2020 was a uniquely challenging year for Earthwatch. Due to the pandemic, Earthwatch has cancelled all field research expeditions since March 2020. Most of the funded programs have been delayed or cancelled. While our capacity to support fieldwork was certainly compromised this year, it has prompted us to come up with alternative ways in which to deliver on our mission. This has included developing several strong outreach programs that provide great opportunities for engagement and education of the public. This includes the Earthwatch Science Matters Webinar Series, the Earthwatch at Home and Earthwatch at School virtual programs, focusing on climate change impacts and actions. All of these helped Earthwatch maintain connections with members of our volunteer corps, while also introducing us to new audiences.

In recognition that part of our model's vulnerability to this global crisis has been its reliance on travel, we have worked to expand several programs that appeal to both corporate partners (current and potential) and members of the public that are not as dependent on travel. These include expanding Operation Healthy Air (OHA), and the launch of our iNaturalist-based Global Pollinator Watch project.

Earthwatch has taken several steps to maintain liquidity:

- Secured SBA loans. Earthwatch received \$540,972 in a Payroll Protection Program (PPP) Loan. As of September 30, 2020, Earthwatch has fulfilled all the requirements to have this loan forgiveness and has recognized this amount as a conditional grant. In addition, Earthwatch has secured an Economic Injury Disaster Loan of \$150,000. This is a thirty-year note and has an interest rate of 2.75% (see Notes 8 and 12).
- Funders removed restrictions. Earthwatch has recognized approximately \$385,000 in unrestricted revenue resulting from donors that were willing to remove restrictions on these funds reducing future costs to Earthwatch.
- Cut costs. All regular employees are now on either full or partial furlough. In addition, Earthwatch has taken additional steps to reduce both program and non-program expenses. In the current fiscal year, Earthwatch continues to monitor its costs closely, and only anticipates increasing cash outlays as revenue increases allow.
- Secured second PPP loan of \$546,845 on February 4, 2021. Under certain circumstances this loan will become fully forgivable. Management anticipates being able to meet these conditions during the current fiscal year.
- A new focus on planned giving has resulted in approximately \$340,000 in bequests for the fiscal year ending September 30, 2021.

Management is confident that these steps will generate sufficient cash flows to meet its program and operating commitments.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2020 and 2019

16. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS WITHOUT DONOR RESTRICTIONS

Financial assets without donor restrictions available for use by Earthwatch within one year from the statements of financial position date as of September 30, 2020 and 2019, are as follows:

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------|
| Grants, pledges and other receivables (including time restricted grants) | \$ 164,334 | \$ 172,914 |
| Due from affiliates | 51,593 | 102,424 |
| Endowment spending policy draw | <u>8,492</u> | <u>8,585</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 224,419</u> | <u>\$ 283,923</u> |

As part of Earthwatch's liquidity management, Earthwatch has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligation come due. Earthwatch has access to a line of credit, which has \$500,000 and \$175,000 available as of September 30, 2020 and 2019, respectively, (see Note 9) that can be drawn upon as needed to cover operating costs. Earthwatch also has approximately \$355,000 and \$318,000 of short-term operating investments, approximately \$91,000 and \$296,000 excess value beyond the amount required in an endowment account, as of September 30, 2020 and 2019, respectively, and approximately \$480,000 interest in a life insurance policy that can be liquidated or borrowed against. These resources total \$1,071,000 and \$1,269,000 at September 30, 2020 and 2019, respectively.