



earthwatch

**EARTHWATCH INSTITUTE, INC.**

**FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 AND 2022**

**EARTHWATCH INSTITUTE, INC.**

Contents  
September 30, 2023 and 2022

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## Independent Auditor's Report

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

### **Opinion**

We have audited the financial statements of Earthwatch Institute, Inc. (a Massachusetts corporation, not for profit) (Earthwatch), which comprise the statements of financial position as of September 30, 2023 and 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Earthwatch Institute, Inc. as of September 30, 2023 and 2022, 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Earthwatch and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Earthwatch's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

## **Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Earthwatch's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Earthwatch's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*AAFCPA, Inc.*

Westborough, Massachusetts  
February 5, 2024

**EARTHWATCH INSTITUTE, INC.**

Statements of Financial Position  
September 30, 2023 and 2022

Assets	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 81,396	\$ -	\$ 81,396	\$ 269,511	\$ 464,646	\$ 734,157
Short-term investments	343,636	979,917	1,323,553	-	1,145,817	1,145,817
Current portion of pledges receivable	-	407,781	407,781	-	440,000	440,000
Grants and other receivables	150,000	-	150,000	-	-	-
Prepaid field grant expense	67,246	-	67,246	87,011	-	87,011
Prepaid expenses	162,720	-	162,720	149,054	-	149,054
Due from affiliate	2,099	-	2,099	-	-	-
Total current assets	<u>807,097</u>	<u>1,387,698</u>	<u>2,194,795</u>	<u>505,576</u>	<u>2,050,463</u>	<u>2,556,039</u>
Investments	-	2,059,612	2,059,612	-	1,878,656	1,878,656
Pledges Receivable, net of current portion and discount	-	378,104	378,104	-	756,280	756,280
Property and Equipment, net	57,018	-	57,018	62,092	-	62,092
Right-of-Use Asset - Operating	223,054	-	223,054	280,255	-	280,255
Interest in Insurance Policy Contracts	480,035	-	480,035	480,035	-	480,035
Intangible Assets	66,895	-	66,895	66,895	-	66,895
Total assets	<u>\$ 1,634,099</u>	<u>\$ 3,825,414</u>	<u>\$ 5,459,513</u>	<u>\$ 1,394,853</u>	<u>\$ 4,685,399</u>	<u>\$ 6,080,252</u>
<b>Liabilities and Net Assets</b>						
<b>Current Liabilities:</b>						
Current portion of note payable	\$ 3,577	\$ -	\$ 3,577	\$ 2,205	\$ -	\$ 2,205
Current portion of operating lease liability	64,926	-	64,926	63,276	-	63,276
Line of credit	350,000	-	350,000	-	-	-
Accounts payable and accrued expenses	286,120	-	286,120	287,780	-	287,780
Due to affiliate	80,958	-	80,958	120,293	-	120,293
Conditional advances	503,183	-	503,183	306,327	-	306,327
Total current liabilities	<u>1,288,764</u>	<u>-</u>	<u>1,288,764</u>	<u>779,881</u>	<u>-</u>	<u>779,881</u>
Operating Lease Liability, net of current portion	169,799	-	169,799	228,084	-	228,084
Note Payable, net of current portion	146,423	-	146,423	147,795	-	147,795
Total liabilities	<u>1,604,986</u>	<u>-</u>	<u>1,604,986</u>	<u>1,155,760</u>	<u>-</u>	<u>1,155,760</u>
<b>Net Assets:</b>						
<b>Without donor restrictions:</b>						
Operating	(83,129)	-	(83,129)	121,211	-	121,211
Property and equipment and intangibles	112,242	-	112,242	117,882	-	117,882
Total without donor restrictions	<u>29,113</u>	<u>-</u>	<u>29,113</u>	<u>239,093</u>	<u>-</u>	<u>239,093</u>
With donor restrictions	-	3,825,414	3,825,414	-	4,685,399	4,685,399
Total net assets	<u>29,113</u>	<u>3,825,414</u>	<u>3,854,527</u>	<u>239,093</u>	<u>4,685,399</u>	<u>4,924,492</u>
Total liabilities and net assets	<u>\$ 1,634,099</u>	<u>\$ 3,825,414</u>	<u>\$ 5,459,513</u>	<u>\$ 1,394,853</u>	<u>\$ 4,685,399</u>	<u>\$ 6,080,252</u>

The accompanying notes are an integral part of these statements.

**EARTHWATCH INSTITUTE, INC.**

Statements of Activities

For the Years Ended September 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenue and Support:</b>						
Contributions from domestic volunteers	\$ 1,869,221	\$ -	\$ 1,869,221	\$ 1,570,419	\$ -	\$ 1,570,419
Gifts and grants	970,476	875,687	1,846,163	1,161,754	1,366,643	2,528,397
Donated advertising	121,142	-	121,142	107,846	-	107,846
Investment return designated for operations	9,982	97,756	107,738	9,070	90,485	99,555
Investment income	30,602	-	30,602	22,483	-	22,483
Contributions from overseas volunteers	8,483	-	8,483	-	-	-
Other	1,231	-	1,231	15,913	-	15,913
Government contributions	-	-	-	35,303	-	35,303
Net assets released from purpose restrictions	1,607,887	(1,607,887)	-	2,025,316	(2,025,316)	-
Net assets released from time restrictions	400,000	(400,000)	-	400,000	(400,000)	-
Total operating revenue and support	5,019,024	(1,034,444)	3,984,580	5,348,104	(968,188)	4,379,916
<b>Operating Expenses:</b>						
Program	4,122,372	-	4,122,372	4,089,558	-	4,089,558
General and administration	880,014	-	880,014	899,612	-	899,612
Fundraising	375,319	-	375,319	339,956	-	339,956
Total operating expenses	5,377,705	-	5,377,705	5,329,126	-	5,329,126
Changes in net assets from operations	(358,681)	(1,034,444)	(1,393,125)	18,978	(968,188)	(949,210)
<b>Non-Operating Revenue (Expenses):</b>						
Investment return (loss), net	148,701	282,197	430,898	(272,983)	(426,594)	(699,577)
Investment return designated for operations	-	(107,738)	(107,738)	-	(99,555)	(99,555)
Total non-operating revenue (expenses)	148,701	174,459	323,160	(272,983)	(526,149)	(799,132)
Changes in net assets	\$ (209,980)	\$ (859,985)	\$ (1,069,965)	\$ (254,005)	\$ (1,494,337)	\$ (1,748,342)

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, 2023 and 2022

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	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Net Assets, September 30, 2021</b>	\$ 493,098	\$ 6,179,736	\$ 6,672,834
Changes in net assets	<u>(254,005)</u>	<u>(1,494,337)</u>	<u>(1,748,342)</u>
<b>Net Assets, September 30, 2022</b>	239,093	4,685,399	4,924,492
Changes in net assets	<u>(209,980)</u>	<u>(859,985)</u>	<u>(1,069,965)</u>
<b>Net Assets, September 30, 2023</b>	<u>\$ 29,113</u>	<u>\$ 3,825,414</u>	<u>\$ 3,854,527</u>

**EARTHWATCH INSTITUTE, INC.**

Statements of Cash Flows  
For the Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ (1,069,965)	\$ (1,748,342)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	22,084	12,576
Loss on disposal of asset	-	4,865
Change in discount on pledges receivable	21,896	43,720
Investment (return) loss, net	(430,898)	699,577
Non-cash lease expenses	566	11,105
Changes in operating assets and liabilities:		
Pledges receivable	388,571	460,000
Grants and other receivables	(150,000)	297,498
Prepaid field grant expense	19,765	43,423
Prepaid expenses	(13,666)	(17,943)
Due from affiliate	(2,099)	3,507
Accounts payable and accrued expenses	(1,660)	(96,483)
Due to affiliate	(39,335)	83,310
Conditional advances	196,856	45,880
	<u>(1,057,885)</u>	<u>(157,307)</u>
<b>Net cash used in operating activities</b>		
<b>Cash Flows from Investing Activities:</b>		
Acquisition of property and equipment	(17,010)	(60,092)
Proceeds from sale of investments	662,739	3,988,760
Purchase of investments	(590,605)	(3,911,611)
	<u>55,124</u>	<u>17,057</u>
<b>Net cash provided by investing activities</b>		
<b>Cash Flows from Financing Activities:</b>		
Proceeds from line of credit	350,000	-
	<u>350,000</u>	<u>-</u>
<b>Net Change in Cash and Cash Equivalents</b>	(652,761)	(140,250)
<b>Cash and Cash Equivalents:</b>		
Beginning of year	<u>734,157</u>	<u>874,407</u>
End of year	<u>\$ 81,396</u>	<u>\$ 734,157</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	<u>\$ 17,124</u>	<u>\$ 3,961</u>

**EARTHWATCH INSTITUTE, INC.**

 Statements of Functional Expenses  
 For the Years Ended September 30, 2023 and 2022

	2023			2022				
	Program	General and Administration	Fundraising	Total Expenses	Program	General and Administration	Fundraising	Total Expenses
<b>Personnel and Related:</b>								
Salaries	\$ 1,616,058	\$ 540,288	\$ 201,106	\$ 2,357,452	\$ 1,559,624	\$ 583,664	\$ 199,133	\$ 2,342,421
Fringe benefits	259,611	72,269	23,035	354,915	227,045	72,537	21,054	320,636
Payroll taxes	111,185	38,138	14,718	164,041	115,167	41,907	14,752	171,826
Total personnel and related	1,986,854	650,695	238,859	2,876,408	1,901,836	698,108	234,939	2,834,883
<b>Field Grants</b>	1,416,130	-	-	1,416,130	1,423,953	-	-	1,423,953
<b>Other:</b>								
Insurance	197,768	8,117	1,476	207,361	152,027	14,335	1,641	168,003
Travel, staff development, seminars and conferences	102,332	46,868	636	149,836	79,568	26,711	1,727	108,006
Donated advertising	102,971	-	18,171	121,142	91,784	-	16,062	107,846
Consultants and temporary help	40,074	14,473	58,536	113,083	36,638	7,935	21,625	66,198
Program expenses	73,851	668	-	74,519	113,846	-	-	113,846
Professional fees	2,190	64,291	-	66,481	4,050	60,331	-	64,381
Occupancy	45,733	15,070	4,573	65,376	81,934	30,742	9,356	122,032
Bank fees and merchant fees	41,410	16,703	5,195	63,308	32,828	7,673	5,332	45,833
Printing and postage	19,805	2,221	40,796	62,822	27,073	3,855	41,628	72,556
Maintenance and repairs	31,556	28,002	2,351	61,909	52,051	23,535	3,244	78,830
Supplies	24,399	5,074	1,143	30,616	65,098	10,985	1,968	78,051
Depreciation	15,459	5,079	1,546	22,084	7,344	4,360	872	12,576
Telephone	13,197	4,713	943	18,853	12,838	4,445	889	18,172
Interest	-	17,124	-	17,124	-	3,961	-	3,961
Advertising	5,519	-	969	6,488	2,855	-	500	3,355
Dues and subscriptions	2,434	790	125	3,349	2,582	1,393	119	4,094
Miscellaneous	690	126	-	816	1,253	1,243	54	2,550
Total other	719,388	229,319	136,460	1,085,167	763,769	201,504	105,017	1,070,290
Total expenses	\$ 4,122,372	\$ 880,014	\$ 375,319	\$ 5,377,705	\$ 4,089,558	\$ 899,612	\$ 339,956	\$ 5,329,126

The accompanying notes are an integral part of these statements.

## **EARTHWATCH INSTITUTE, INC.**

Notes to Financial Statements  
September 30, 2023 and 2022

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

Earthwatch Institute, Inc. (Earthwatch) connects people 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).

#### **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 accounts in the accompanying financial statements.

#### **Pledges Receivable**

Unconditional promises to give are reported as pledges receivable at net realizable value on the date the promise is verifiably committed. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value, and those that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

#### **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.

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

**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.

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 value 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 2023 and 2022, \$107,738 and \$99,555, 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.

**Property and Equipment and Depreciation**

Earthwatch capitalizes all expenditures for property and equipment in excess of \$2,500 that have a useful life of one year or greater. Property and equipment are recorded at cost, if purchased, or at fair value at time of receipt, if donated. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred. 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

**Lease Accounting**

Earthwatch assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) and determines lease classification as operating or finance at inception. Earthwatch only reassesses its determination if the terms and conditions of the arrangement are changed. Leases with an initial term of twelve months or less are not recorded in the statements of financial position.

Earthwatch's lease is presented as a right-of-use (ROU) asset with a corresponding lease liability in the accompanying statements of financial position. The ROU assets represent Earthwatch's right to use an underlying asset during its lease term, and lease liability represents the obligation to make lease payments.

## EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements  
September 30, 2023 and 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Lease Accounting (Continued)

Operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The ROU assets equal the lease liabilities adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. Earthwatch uses the implicit discount rate when it is readily determinable. Since Earthwatch's lease does not provide an implicit rate, Earthwatch uses the risk-free discount rate at the lease commencement date to determine the present value of the lease payments.

Variable rent payments, if included in the lease agreement and not determinable at the lease commencement, are not included in the measurement of the lease liabilities. Lease expense is recognized on a straight-line basis over the lease term. Earthwatch's lease terms do not include an option to extend the lease.

Earthwatch has lease agreements with lease and non-lease components, which are generally accounted for as a single component.

#### Net Assets

Earthwatch's net assets include the following:

##### ***Without Donor Restrictions:***

- *Operating* represents the portion of net assets that is available for operations and does not have any donor-imposed restrictions.
- *Property and equipment and intangibles* represent the net book value of Earthwatch's property and equipment, right-of-use asset, intangible assets, lease liability, and related debt, if any.

##### ***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 can be spent. 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>2023</u>	<u>2022</u>
Endowment	\$ 1,586,157	\$ 1,573,517
Purpose restricted	952,781	1,609,049
Time restricted	778,104	1,156,280
Appreciation and unspent earnings on endowment	<u>508,372</u>	<u>346,553</u>
	<u>\$ 3,825,414</u>	<u>\$ 4,685,399</u>

## EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements  
September 30, 2023 and 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Net Assets (Continued)

##### *With Donor Restrictions:* (Continued)

A reconciliation of endowment activity for fiscal years 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Endowment net assets, beginning of year	\$ 1,920,070	\$ 2,446,219
Investment return (loss), net	282,197	(426,594)
Investment return designated for operations	<u>(107,738)</u>	<u>(99,555)</u>
Endowment net assets, end of year	<u>\$ 2,094,529</u>	<u>\$ 1,920,070</u>

#### 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) includes endowment and investment activity.

#### Revenue Recognition

In accordance with Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions*, 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. Earthwatch, in accordance with Topic 958, accounts for revenue from government contributions as conditional and recognizes revenue when barriers are overcome (see Note 12).

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.

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.

## **EARTHWATCH INSTITUTE, INC.**

Notes to Financial Statements  
September 30, 2023 and 2022

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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. 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 2023 and 2022, Earthwatch received bequests of approximately \$235,000 and \$70,000, respectively, which are included in gifts and grants in the accompanying statements of activities.

#### **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 \$121,142 and \$107,846 for the years ended September 30, 2023 and 2022, respectively. These amounts have been reported as donated advertising in the accompanying statements of activities and the statements of functional expenses. Earthwatch recognizes the fair value of contributed services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

All gifts - in-kind received by Earthwatch for the years ended September 30, 2023 and 2022, were considered without donor restrictions and able to be used by Earthwatch as determined by management.

#### **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).

**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 who is the owner of the insurance policies (see Note 3). 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 takes 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, 2023 and 2022.

*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 is considered Level 1 in the fair value hierarchy.

## EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements  
September 30, 2023 and 2022

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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, 2023 and 2022. Earthwatch's information returns are subject to examination by the Federal and state jurisdictions.

#### Subsequent Events

Subsequent events have been evaluated through February 5, 2024, which is the date the financial statements were available to be issued. There are no events that met the criteria for disclosure or recognition 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 affiliate as of September 30:

	<u>2023</u>	<u>2022</u>
Earthwatch Australia	\$ 2,099	\$ -

The following are the amounts due to affiliate as of September 30:

	<u>2023</u>	<u>2022</u>
Earthwatch Europe	\$ 80,958	\$ 120,293

There was no revenue derived from affiliates in fiscal years 2023 and 2022.

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, 2023 and 2022. 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, 2023 and 2022

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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 (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, 2023 and 2022, were \$575,314 and \$534,727, 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. PLEDGES RECEIVABLE

Pledges receivable consisted of the following at September 30:

	<u>2023</u>	<u>2022</u>
Amounts due in:		
Less than one year	\$ 407,781	\$ 440,000
One to four years	<u>400,000</u>	<u>800,000</u>
	807,781	1,240,000
Less - discount	21,896	43,720
Less - current portion	<u>407,781</u>	<u>440,000</u>
Long-term pledges receivable, net	<u>\$ 378,104</u>	<u>\$ 756,280</u>

The pledges have been discounted using a 5.47% interest rate as of September 30, 2023. The pledges have been discounted using a 3.83% interest rate as of September 30, 2022.

### 5. INVESTMENTS

Investments consist of the following at September 30:

	<u>2023</u>	<u>2022</u>
Money market	\$ 66,466	\$ 166,631
Common stock:		
Financial services	622,648	507,268
Information technology	492,996	556,391
Industrials	491,083	308,806
Other	345,417	222,644
Healthcare	287,999	316,733
Communication services	196,463	136,830
Real estate	144,956	162,903
Mutual funds:		
Stock index funds	493,574	416,558
Other	145,464	129,001
Intermediate term bond funds	<u>96,099</u>	<u>100,708</u>
	<u>\$ 3,383,165</u>	<u>\$ 3,024,473</u>

## EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements  
September 30, 2023 and 2022

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### 5. INVESTMENTS (Continued)

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.

Investments are not insured and are subject to on-going market fluctuations.

### 6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	<u>2023</u>	<u>2022</u>
Data processing equipment	\$ 177,023	\$ 164,223
Software	57,708	53,498
Other	48,717	48,717
Office equipment	<u>27,825</u>	<u>27,825</u>
	311,273	294,263
Less - accumulated depreciation	<u>254,255</u>	<u>232,171</u>
	<u>\$ 57,018</u>	<u>\$ 62,092</u>

### 7. INTANGIBLE ASSETS

Intangible assets of \$66,895 as of September 30, 2023 and 2022, 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 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 statements 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, 2023 or 2022.

### 8. NOTE PAYABLE

During fiscal year 2020, Earthwatch received a \$150,000 Economic Injury Disaster Loan (EIDL) through the Small Business Administration (SBA). The loan bears interest at 2.75% and requires monthly payments of principal and interest of \$641 beginning in May 2021. During fiscal year 2022, the SBA deferred the repayment by an additional eighteen months. Earthwatch began to make repayments in December 2022 which will continue through June 2050 (maturity). The loan is secured by all business assets. The balance of the note was \$150,000 as of September 30, 2023 and 2022.

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

2024	\$ 3,577
2025	\$ 3,674
2026	\$ 3,773
2027	\$ 3,875
2028	\$ 3,980

## EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements  
September 30, 2023 and 2022

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### 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 of 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 (8.5% and 6.25% at September 30, 2023 and 2022, respectively), minus 25 basis points. At September 30, 2023, there was an outstanding balance of \$350,000. At September 30, 2022, there were no amounts outstanding. Earthwatch must comply with certain covenants under the note payable agreement and was in compliance with these covenants as of September 30, 2023 and 2022.

### 10. OPERATING LEASES

Earthwatch had a lease agreement for its location in Brighton, Massachusetts through March 31, 2022. Facility rent expense under this agreement for the year ended September 30, 2022, was \$90,111, which is included in occupancy in the accompanying fiscal year 2022 statement of functional expenses.

Starting April 1, 2022, Earthwatch came into an agreement for an operating lease for a facility in Newton, Massachusetts through May 2027. Monthly rent under this agreement is \$5,204 beginning in April 2022, which increases annually, as defined in the agreement. Lease expense for the facility lease was \$63,842 and \$31,921 for the years ended September 30, 2023 and 2022, respectively, and is included in occupancy in the accompanying statements of functional expenses. Under the agreement, Earthwatch is required to pay a share of operating expenses and real estate taxes. Earthwatch had \$1,534 of these expenses for the year ended September 30, 2023. Earthwatch did not have any of these expenses for the year ended September 30, 2022.

Earthwatch used the risk-free rate of 2.55% to calculate the present value of the lease liabilities. The remaining lease term at September 30, 2023 and 2022, is 3.67 and 4.67 years, respectively.

The future maturities of the lease obligations were as follows as of September 30, 2023:

2024	\$ 64,926
2025	66,576
2026	68,226
2027	<u>46,032</u>
Total	245,760
Less - present value discount	<u>(11,035)</u>
Present value of lease obligations	<u>\$ 234,725</u>

Additional information about Earthwatch's leases was as follows for fiscal years:

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in measuring operating liabilities	<u>\$ 63,276</u>	<u>\$ 20,816</u>
Operating lease assets obtained in exchange for lease liabilities	<u>\$ -</u>	<u>\$ 308,356</u>

**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 \$74,520 and \$19,799 during fiscal years 2023 and 2022, respectively, which are included in fringe benefits in the accompanying statements of functional expenses.

**12. CONDITIONAL GRANTS AND ADVANCES**

The Employee Retention Tax Credit (ERTC) was first established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and was extended and expanded by Consolidated Appropriations Act (CAA) and American Rescue Plan (ARPA). ERTC provides a refundable tax credit against certain employment taxes equal to 50% of the first \$10,000 in qualified wages paid to each employee between March 12, 2020 and December 31, 2020 (2020 ERTC), and 70% of the first \$10,000, per quarter, in qualified wages paid to each employee between January 1, 2021 and September 30, 2021 (2021 ERTC). To be eligible, Earthwatch must meet certain conditions as described in applicable laws and regulations.

Earthwatch had determined that it qualified for both the 2020 ERTC and the 2021 ERTC, and therefore, had accounted for them as conditional grants under ASC Subtopic 958-605. These grants were conditional upon certain performance requirements and the incurrence of eligible expenses. In the opinion of management, these conditions were met as of September 30, 2022. Earthwatch recognized \$35,303 as contributions for the year ended September 30, 2022, which are included in government contributions in the accompanying statement of activities.

Eligibility for the credit and the credit calculations is subject to review and approval by the Federal government. In the opinion of management, the results of such reviews and audit did not have a material effect on the financial position of Earthwatch at September 30, 2022, and on the changes in its net assets for the year then ended.

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.

One hundred percent of pledges receivable at September 30, 2023 and 2022, is due from two and three donors, respectively.

One hundred percent of grants and other receivables at September 30, 2023, is due from one donor.

**14. CONTINUING OPERATIONS**

Earthwatch incurred a deficit without donor restrictions from operations of \$358,681 for the year ended September 30, 2023. Earthwatch incurred a surplus without donor restrictions from operations of \$18,978 for the year ended September 30, 2022. Net assets with donor restrictions from operations decreased by \$1,034,444 and \$968,188 for the years ended September 30, 2023 and 2022, respectively. As of September 30, 2023, Earthwatch had operating net assets without donor restrictions deficit balance of \$83,129.

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 15).

Fiscal years 2023 and 2022 were to be transition years for Earthwatch as management started back operations following the pandemic. Volunteers have been back in the field, with new safety protocols in place since May 2021 and fielding internationally since September 2021. Earthwatch believes it has emerged from the pandemic as a stronger organization. Management has been prompted to come up with alternative ways in which to deliver on Earthwatch's mission. This has included developing outreach programs that provide great opportunities for engagement and education of the public. This includes the Earthwatch Climate Change Master Class virtual program, focusing on climate change impacts and actions. This program has been primarily marketed to corporate partners as both a link to their internal sustainability programs and as an educational opportunity for their employees and has provided a method to introduce Earthwatch to new audiences.

In recognition that part of Earthwatch's model's vulnerability to this global crisis has been its reliance on travel, management has 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 the iNaturalist-based Global Pollinator Watch project.

Over the past two fiscal years, Earthwatch has taken several steps that have increased liquidity:

- Continued to control costs. While Earthwatch has brought most of staff back and are now approaching pre-pandemic staffing levels, they have matched the staffing increase with a return in fielding and funded programs.
- Imagine a World Campaign - In honor of their fiftieth year in operation, Earthwatch has begun a major capital campaign designed to engage more students on its programs, to engage them in the scientific process, and to further citizen science and environmental field research. The campaign raised \$456,000 for the year ended September 30, 2022, which is the first year of the campaign. This campaign was put on hold during fiscal year 2023 but will resume during fiscal year 2024.
- Reviewed the pricing of our offerings with the hope to bring each line of business closer to break even so that unrestricted donations can be allocated to expanding our mission

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  
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**15. 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, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 81,396	\$ 269,511
Current portion of pledges receivable (including time restricted)	407,781	440,000
Grants and other receivables	150,000	-
Endowment spending policy draw	<u>10,271</u>	<u>9,143</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 649,448</u>	<u>\$ 718,654</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 obligations become due. Earthwatch has access to a line of credit, which has \$150,000 and \$500,000 available as of September 30, 2023 and 2022, respectively (see Note 9), that can be drawn upon as needed to cover operating costs. Earthwatch also has approximately \$480,000 interest in a life insurance policy that can be liquidated or borrowed against.

**16. RECLASSIFICATIONS**

Certain amounts in the fiscal year 2022 financial statements have been reclassified to conform with the fiscal year 2023 presentation.