

COMBINED FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2020**

EARTHRIGHTS INTERNATIONAL, INC.

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CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
EarthRights International, Inc.
Washington, D.C.

Opinion

We have audited the accompanying combined financial statements of EarthRights International, Inc., the Foundation for Culture and Environment in Southeast Asia and the Foundation for Environment and Natural Resources (collectively "EarthRights"), which comprise the combined statement of financial position as of December 31, 2021, and the related combined statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of EarthRights as of December 31, 2021, and the combined change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of EarthRights and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined 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 generally accepted auditing standards will always detect a material misstatement when it exists.

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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, including omissions, 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 combined financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined 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 combined 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 EarthRights' 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 combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about EarthRights' 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.

Report on Summarized Comparative Information

We have previously audited EarthRights' 2020 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated August 3, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.



July 14, 2022

EARTHRIGHTS INTERNATIONAL, INC.

**COMBINED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

ASSETS

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 4,521,797	\$ 4,034,263
Advances to field offices	3,886	19,950
Accounts receivable	21,780	6,860
Grants receivable	7,174,996	7,702,349
Prepaid expenses and deposits	74,393	52,196
Investments	3,971,461	3,576,074
Restricted cash - litigation fund escrow	101,374	101,374
Fixed assets, net of accumulated depreciation and amortization	<u>1,079,939</u>	<u>1,111,964</u>
TOTAL ASSETS	<u>\$ 16,949,626</u>	<u>\$ 16,605,030</u>

LIABILITIES AND NET ASSETS**LIABILITIES**

Loan payable	\$ -	\$ 417,900
Accounts payable and accrued liabilities	62,866	30,341
Deferred revenue	-	28,099
Accrued salaries and related benefits	209,433	179,685
Refundable advance	<u>-</u>	<u>112,036</u>
Total liabilities	<u>272,299</u>	<u>768,061</u>

NET ASSETS

Without donor restrictions:		
Undesignated	1,815,853	1,100,085
Board designated	<u>4,837,642</u>	<u>4,563,300</u>
Total net assets without donor restrictions	6,653,495	5,663,385
With donor restrictions	<u>10,023,832</u>	<u>10,173,584</u>
Total net assets	<u>16,677,327</u>	<u>15,836,969</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,949,626</u>	<u>\$ 16,605,030</u>

EARTHRIGHTS INTERNATIONAL, INC.

**COMBINED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Grants and contributions	\$ 784,580	\$ 5,120,639	\$ 5,905,219	\$ 10,490,523
Contracts	53,875	-	53,875	20,475
Net investment income	355,209	41,980	397,189	677,769
Other revenue	2,050	-	2,050	6,591
Net assets released from donor restrictions	<u>5,312,371</u>	<u>(5,312,371)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>6,508,085</u>	<u>(149,752)</u>	<u>6,358,333</u>	<u>11,195,358</u>
EXPENSES				
Program Services:				
Legal	2,251,083	-	2,251,083	2,187,535
Advocacy and Campaigns	1,258,218	-	1,258,218	660,753
ER Schools and Training	854,364	-	854,364	474,723
International Cross-Cutting	<u>617,824</u>	<u>-</u>	<u>617,824</u>	<u>681,386</u>
Total program services	<u>4,981,489</u>	<u>-</u>	<u>4,981,489</u>	<u>4,004,397</u>
Supporting Services:				
Management and General Development	494,676	-	494,676	478,805
	<u>459,710</u>	<u>-</u>	<u>459,710</u>	<u>426,093</u>
Total supporting services	<u>954,386</u>	<u>-</u>	<u>954,386</u>	<u>904,898</u>
Total expenses	<u>5,935,875</u>	<u>-</u>	<u>5,935,875</u>	<u>4,909,295</u>
Change in net assets before other item	572,210	(149,752)	422,458	6,286,063
OTHER ITEM				
Forgiveness of debt	<u>417,900</u>	<u>-</u>	<u>417,900</u>	<u>-</u>
Change in net assets after other item	990,110	(149,752)	840,358	6,286,063
Net assets at beginning of year	<u>5,663,385</u>	<u>10,173,584</u>	<u>15,836,969</u>	<u>9,550,906</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,653,495</u>	<u>\$ 10,023,832</u>	<u>\$ 16,677,327</u>	<u>\$ 15,836,969</u>

EARTHRIGHTS INTERNATIONAL, INC.
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020

	2021								2020	
	Program Services				Supporting Services				Total Expenses	Total Expenses
	Legal	Advocacy and Campaigns	ER Schools and Training	International Cross-Cutting	Total Program Services	Management and General	Development	Total Supporting Services		
Salaries and fringe benefits	\$ 1,759,165	\$ 507,765	\$ 640,667	\$ 468,651	\$ 3,376,248	\$ 380,265	\$ 384,277	\$ 764,542	\$ 4,140,790	\$ 3,509,141
Interns and volunteers	7,491	332	-	-	7,823	-	-	-	7,823	8,258
Professional/consulting fees	175,242	116,022	39,405	69,300	399,969	38,633	24,600	63,233	463,202	703,503
Rent and utilities	87,402	24,545	11,528	31,817	155,292	23,863	23,863	47,726	203,018	204,739
Telephone and internet	13,908	4,985	5,585	12,814	37,292	6,282	6,981	13,263	50,555	38,566
Office supplies and expenses	35,311	22,903	21,392	10,364	89,970	16,893	13,133	30,026	119,996	90,168
Travel	50,111	26,357	49,821	5,842	132,131	1,833	1,499	3,332	135,463	108,522
Trainings and conferences	11,825	11,533	22,941	-	46,299	-	-	-	46,299	27,998
Insurance	32,094	-	-	312	32,406	9,715	-	9,715	42,121	36,313
Banking, financial services and currency fluctuation	16,953	9,939	12,631	563	40,086	5,951	-	5,951	46,037	37,817
Depreciation and amortization	10,548	7,964	14,120	1,216	33,848	550	551	1,101	34,949	35,215
Subscription/reference material	16,345	17,362	185	4,953	38,845	-	882	882	39,727	36,420
Program planning	1,561	2,111	4,559	-	8,231	700	293	993	9,224	15,470
Grants	15,000	504,433	5,000	-	524,433	-	-	-	524,433	41,989
Board expense	17	17	33	-	67	2,258	-	2,258	2,325	5,888
Other	18,110	1,950	26,497	11,992	58,549	7,733	3,631	11,364	69,913	9,288
TOTAL	\$ 2,251,083	\$ 1,258,218	\$ 854,364	\$ 617,824	\$ 4,981,489	\$ 494,676	\$ 459,710	\$ 954,386	\$ 5,935,875	\$ 4,909,295

See accompanying notes to combined financial statements.

EARTHRIGHTS INTERNATIONAL, INC.

**COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets:	\$ 840,358	\$ 6,286,063
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	34,949	35,215
Unrealized gain on investments	(7,798)	(415,848)
Realized gain on investments	(326,575)	(213,204)
Donated securities	(27,437)	(12,731)
Forgiveness of debt	(417,900)	-
Decrease (increase) in:		
Advances to field offices	16,064	(10,263)
Accounts receivable	(14,920)	19,088
Grants receivable	527,353	(5,420,958)
Prepaid expenses and deposits	(22,197)	31,677
Increase (decrease) in:		
Accounts payable and accrued liabilities	32,525	(49,764)
Deferred revenue	(28,099)	22,111
Accrued salaries and related benefits	29,748	55,702
Refundable advance	<u>(112,036)</u>	<u>112,036</u>
Net cash provided by operating activities	<u>524,035</u>	<u>439,124</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets and improvements	(2,924)	(6,602)
Purchase of investments, net	(1,140,101)	(1,640,711)
Proceeds from sale of investments	<u>1,106,524</u>	<u>1,628,440</u>
Net cash used by investing activities	<u>(36,501)</u>	<u>(18,873)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	<u>-</u>	<u>417,900</u>
Net cash provided by financing activities	<u>-</u>	<u>417,900</u>
Net increase in cash and cash equivalents	487,534	838,151
Cash and cash equivalents at beginning of year, including escrow-litigation fund	<u>4,135,637</u>	<u>3,297,486</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING RESTRICTED CASH - LITIGATION FUND ESCROW	<u>\$ 4,623,171</u>	<u>\$ 4,135,637</u>

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

EarthRights International, Inc. (EarthRights) is a non-governmental, non-profit organization founded in 1995 that combines the power of law and the power of people in defense of human rights and the environment (earth rights). EarthRights specializes in fact-finding, legal actions against perpetrators of earth right abuses, training for grassroots and community leaders, and advocacy campaigns. Through these cutting edge strategies, EarthRights seeks to end earth rights abuses, to provide real solutions for people, and to promote and protect human rights and the environment in the communities where EarthRights works. EarthRights is headquartered in the United States with additional offices in Peru and Thailand.

The accompanying combined financial statements also include the Foundation for Culture and Environment in Southeast Asia (FCESA). FCESA was established to hold title to land in Thailand which is then leased for use by EarthRights and assist in acquiring visas and other support functions for EarthRights in Southeast Asia, including employing staff to carry out EarthRights' functions in the region, under a Memorandum of Understanding with EarthRights. FCESA enters into limited financial activity with oversight by EarthRights, and is funded solely by EarthRights.

The accompanying combined financial statements also include the Foundation for Environment and Natural Resources (FENR). FENR was established to strengthen EarthRights' campaign and legal programs in the Mekong region and allow staff to obtain visas. It also operates under a Memorandum of Understanding with EarthRights, and is funded solely by EarthRights.

EarthRights carries out work in the following areas to achieve the above goals:

Legal - EarthRights Legal work seeks to bring power of the legal system to bear directly on earth rights abuses and thereby change the way that governments and corporations conduct business. To do so, EarthRights uses a variety of legal tools-especially litigation-to attach real costs to human rights and environmental abuses; thus encouraging public and private actors to respect earth rights everywhere.

Advocacy and Campaigns - EarthRights' Advocacy and Campaigns work seeks to raise awareness and build broad support for earth rights issues. EarthRights' goal is to ensure that there are strong legal mechanisms for corporate accountability with regard to human rights and environmental abuses, and to prevent abuses in the first place by showing public and private actors that there are heavy costs associated with those violations. EarthRights' campaigns organize public support for earth rights issues and aim to hold corporate and government human rights and environmental offenders accountable in the "court of public opinion". EarthRights pursues this work in various national and international forums, such as with the OECD and UN bodies.

Our work on EarthRights defenders aims to protect individuals and communities on the front lines who are threatened with violence, arrest, and intimidation for their work defending and protecting their homelands. It seeks to prevent abuses through training and risk management; protect defenders when they are threatened through rapid response plans and legal support; reveal and expose harms through investigation, documentation and reporting; and redress harms when they occur through legal actions on behalf of defenders to hold perpetrators accountable.

ER Schools and Training - EarthRights' Training work equips the current and next generations of grassroots human rights and environmental defenders with the necessary skills to defend human rights and protect natural resources from harmful and unsustainable development.

EARTHRIGHTS INTERNATIONAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Organization (continued) -

ER Schools and Training (continued) - At EarthRights' Schools, local leaders develop the experience and knowledge they need to work at the community level and to advocate nationally and internationally on behalf of their own communities. EarthRights currently has a multi-month residential EarthRights School-Mekong, which brings together emerging leaders from the six countries of the Mekong region to expand their advocacy skills and content expertise around earth rights issues.

EarthRights also offers a two-week Latin American Seminar on Indigenous Legal Defense that equips Latin American lawyers and leaders with the skills and capacities to exercise, demand, and defend their rights as Indigenous peoples. In addition to these two annual schools, EarthRights conducts training for local leaders and legal advocates in the Amazon and Asia, and provides support for the alumni of its schools in these regions. In 2009, EarthRights launched the Mekong Legal Advocacy Institute, to provide training for lawyers in the Mekong region, and to help sustain a Mekong Legal network for these lawyers.

International Cross-Cutting - This is a cross-program area which supports collaboration among EarthRights other program areas, including communications, program management and monitoring and evaluation.

Basis of presentation -

The accompanying combined financial statements are presented on the accrual basis of accounting, in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation* and with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 *Presentation of Financial Statements for Not-for-Profit Entities*. The combined financial statements include the accounts of EarthRights, the Foundation and FENR, collectively referred to as "EarthRights". All significant intercompany transactions and balances have been eliminated in consolidation.

The combined financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with EarthRights' combined financial statements for year ended December 31, 2020, from which the summarized information was derived.

- **Net Assets Without Donor Restrictions** include earned revenue and contributions and grants received without donor-imposed restrictions. These net assets are available for the operations of EarthRights and include both internally designated and undesignated resources.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors (or certain grantors) are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Combined Statement of Activities and Change in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Cash and cash equivalents -

EarthRights considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, EarthRights maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, realized and unrealized gains and losses are recorded net of investment expenses provided by external investment advisors and are included in investment income in the Combined Statement of Activities and Change in Net Assets.

Receivables -

All amounts receivable are recorded at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectible. Accordingly, no allowance for doubtful accounts has been established.

Fixed assets -

Fixed assets in excess of \$2,000 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Building improvements are amortized over the remaining life of the related building, generally forty years. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the year ended December 31, 2021 totaled \$34,949.

Income taxes -

EarthRights is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying combined financial statements. EarthRights is also classified as a private foundation in accordance with Section 509(a)2 of the Internal Revenue Code. The Foundation and FENR are registered in their respective countries as non-governmental organizations and are not subject to income tax.

Uncertain tax positions -

For the year ended December 31, 2021, EarthRights has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the combined financial statements.

Revenue recognition -

Grants and contributions are recognized in the appropriate category of net assets in the period received. EarthRights performs an analysis of the individual grant and contribution to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal under ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Revenue recognition (continued) -

For grants and contributions qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Grants and contributions qualifying as contributions that are unconditional and have donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying combined financial statements.

Grants or contributions qualifying as conditional contributions contain a right of return from obligation provision that limits EarthRights on how funds transferred should be spent. Additionally, a barrier is present that is related to the purpose of the agreement. Revenue is recognized when the condition or conditions on which they depend are substantially met. EarthRights recognizes revenue for conditional contributions when the related barrier has been overcome (generally, when qualifying expenditures are incurred). Funds received in advance of the incurrence of qualifying expenditures are recorded as refundable advances. During the year ended December 31, 2021, there were no conditional commitments received that had not been recognized in the accompanying combined financial statements.

Contracts classified as exchange transactions follow ASU 2014-09, *Revenue from Contracts With Customers* and are recorded as revenue at a point in time when the performance obligations are met. EarthRights has elected to opt out of all (or certain) disclosures not required for nonpublic entities. Transaction price is based on cost. Funding received in advance of satisfying performance obligations are recorded as deferred revenue.

Use of estimates -

The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Combined Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are allocated on a basis of time and effort (such as salaries and benefits) or other reasonable basis.

Investment risks and uncertainties -

EarthRights invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying combined financial statements.

EARTHRIGHTS INTERNATIONAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

New accounting pronouncements not yet adopted -

ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this update address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP's programs and other activities. The ASU should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The amendment will not change the recognition and measurement requirements for those contributed nonfinancial assets.

ASU 2019-01, *Leases* (Topic 842) changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Combined Statement of Financial Position and disclosure of key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 which delayed the implementation date by one year. The ASU is effective for non-public entities for fiscal years beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

EarthRights plans to adopt the new ASUs at the required implementation dates and management is currently in the process of evaluating the adoption methods and the impact of the new standards on its accompanying combined financial statements.

2. INVESTMENTS AND FAIR VALUE

In accordance with FASB ASC 820, *Fair Value Measurement*, EarthRights classifies its financial instruments as "Level 1", meaning all investments are valued based upon quoted prices in an active market.

Investments consisted of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Mutual funds - equities	\$ 2,876,337	\$ 2,584,666
Mutual funds - fixed income	<u>1,095,124</u>	<u>991,408</u>
TOTAL INVESTMENTS	<u>\$ 3,971,461</u>	<u>\$ 3,576,074</u>

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021**

2. INVESTMENTS AND FAIR VALUE (Continued)

Included in investment income, net of fees are the following at December 31, 2021 and 2020:

	2021	2020
Interest and dividends	\$ 108,481	\$ 83,601
Unrealized gain	7,798	415,848
Realized gain	326,575	213,204
Investment fees	(45,665)	(34,884)
TOTAL INVESTMENT INCOME, NET OF FEES	\$ 397,189	\$ 677,769

3. GRANTS RECEIVABLE

As of December 31, 2021 and 2020, contributors to EarthRights have made written promises to give totaling \$7,174,996 and \$7,702,349, respectively. Grants are due as follows at December 31, 2021 and 2020:

	2021	2020
Less than one year	\$ 2,599,697	\$ 2,628,656
One to five years	4,575,299	5,073,693
TOTAL GRANTS RECEIVABLE	\$ 7,174,996	\$ 7,702,349

4. FIXED ASSETS

Fixed assets consisted of the following at December 31, 2021 and 2020:

	2021	2020
Land	\$ 220,544	\$ 220,544
Buildings	903,360	903,360
Improvements	29,474	29,474
Property and equipment	118,919	115,995
Total fixed assets	1,272,297	1,269,373
Less: Accumulated depreciation and amortization	(192,358)	(157,409)
NET FIXED ASSETS	\$ 1,079,939	\$ 1,111,964

5. LOAN PAYABLE

On April 5, 2020, EarthRights received loan proceeds in the amount of \$417,900 under the Paycheck Protection Program (PPP). Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note must be used for certain expenditures within a 24-week period to ultimately be forgiven by the Small Business Administration. During the year ended December 31, 2021, EarthRights expended and tracked the PPP funds for purposes outlined in the CARES Act guidance and received full forgiveness from the SBA in April 2021. Accordingly, EarthRights has recorded revenue from forgiveness of debt on the accompanying Combined Statement of Activities and Change in Net Assets.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021**

6. BOARD DESIGNATIONS

In 2018, in an effort to protect long-term financial health, EarthRights replaced existing reserves with one to be recalculated at the end of each fiscal year to consist of 50% of the succeeding year's total budgeted expenses. During 2020, EarthRights updated their reserve policy to consist of 50% of the succeeding year's total budgeted expenses plus an additional \$1,500,000 for the emergency reserve.

	2021	2020
Stability Reserve	\$ 3,337,642	\$ 3,063,300
Emergency Reserve	1,500,000	1,500,000
TOTAL BOARD DESIGNATIONS	\$ 4,837,642	\$ 4,563,300

7. NET ASSETS WITH RESTRICTIONS

Net assets with restrictions consisted of the following at December 31, 2021 and 2020:

	2021	2020
Legal	\$ 4,252,770	\$ 4,342,990
Advocacy and Campaigns	2,025,907	1,893,945
ER Schools and Training	1,427,183	1,233,199
International Cross Cutting	364,510	996,040
Time Restricted	1,953,462	1,707,410
TOTAL NET ASSETS WITH RESTRICTIONS	\$ 10,023,832	\$ 10,173,584

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

	2021	2020
Legal	\$ 2,248,691	\$ 2,063,165
Advocacy and Campaigns	1,231,567	591,005
ER Schools and Training	676,088	281,889
International Cross-Cutting	439,571	379,543
Passage of Time	716,454	747,286
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 5,312,371	\$ 4,062,888

8. LIQUIDITY

In general, cash is available to meet the upcoming year's needs for general expenditures from its cash accounts (including cash advances made to its field offices) and from accounts and grants (pledges) receivable expected to be received as cash within the same period. In the event of financial distress or liquidity need, EarthRights can draw upon the operating reserve.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021**

8. LIQUIDITY (Continued)

An analysis of available financial assets at December 31, 2021 and 2020 is as follows:

	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 4,521,797	\$ 4,034,263
Advance to field offices	3,886	19,950
Accounts receivable	21,780	6,860
Grants receivable	7,174,996	7,702,349
Investments	3,971,461	3,576,074
Litigation fund escrow	101,374	101,374
	15,795,294	15,440,870
Unavailable within one year due to:		
Donor restrictions	(9,191,820)	(9,804,419)
Litigation fund escrow	(101,374)	(101,374)
Long-term health reserve	(4,837,642)	(4,563,300)
	(14,130,836)	(14,469,093)
FINANCIAL ASSETS AVAILABLE TO MEET SHORT-TERM NEEDS	\$ 1,664,458	\$ 971,777

9. LEASE COMMITMENTS

In May of 2019, EarthRights amended its D.C. office lease, extending the lease by three years which terminates on June 30, 2022. Base rent is \$115,912 per year, plus a proportionate share of expenses, increasing by a factor of 3% per year. EarthRights also maintains a short-term operating lease on property in Peru.

Subsequent to the year ended December 31, 2021, EarthRights extended its D.C. office lease for a period of one year, commencing July 1, 2022 and expiring June 30, 2023. Base rent under this amendment is \$12,609 per month.

The following is a schedule of the future minimum lease payments:

Year Ending December 31,

2022	\$ 155,915
2023	75,654
	\$ 231,569

Rent expense for the years ended December 31, 2021 and 2020 was \$196,117 and \$197,666, respectively. These amounts are included in rent and utilities on the Combined Statement of Functional Expenses.

10. RETIREMENT PLAN

EarthRights provides retirement benefits to its eligible employees in the United States. During 2020, EarthRights switched from a Simple IRA Plan to a 401(k) plan.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
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10. RETIREMENT PLAN (Continued)

For the years ended December 31, 2021 and 2020, EarthRights made a 3% safe harbor contribution. Contributions to the Plan for the years ended December 31, 2021 and 2020 totaled \$73,554 and \$64,542, respectively.

11. SUBSEQUENT EVENTS

In preparing these combined financial statements, EarthRights has evaluated events and transactions for potential recognition or disclosure through July 14, 2022, the date the combined financial statements were available to be issued.