

CONSOLIDATED FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2021**

EARTHRIGHTS INTERNATIONAL, INC.

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Consolidated Statement of Financial Position, as of December 31, 2022, with Summarized Financial Information for 2021	4
EXHIBIT B - Consolidated Statement of Activities and Change in Net Assets, for the Year Ended December 31, 2022, with Summarized Financial Information for 2021	5
EXHIBIT C - Consolidated Statement of Functional Expenses, for the Year Ended December 31, 2022, with Summarized Financial Information for 2021	6
EXHIBIT D - Consolidated Statement of Cash Flows, for the Year Ended December 31, 2022, with Summarized Financial Information for 2021	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8 - 16



CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated 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 consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of EarthRights as of December 31, 2022, and the consolidated 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 Consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated 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 consolidated financial statements are available to be issued.

4550 MONTGOMERY AVENUE · SUITE 800 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · WWW.GRFCPA.COM

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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. 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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' 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated July 14, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



November 8, 2023

EARTHRIGHTS INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 4,818,035	\$ 4,521,797
Advances to field offices	2,399	3,886
Accounts receivable	41,889	21,780
Grants receivable	5,415,731	7,174,996
Prepaid expenses and deposits	77,528	74,393
Investments	2,936,510	3,971,461
Restricted cash - litigation fund escrow	102,250	101,374
Fixed assets, net of accumulated depreciation and amortization	<u>1,048,056</u>	<u>1,079,939</u>
TOTAL ASSETS	<u>\$ 14,442,398</u>	<u>\$ 16,949,626</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued liabilities	\$ 86,364	\$ 62,866
Accrued salaries and related benefits	<u>213,425</u>	<u>209,433</u>
Total liabilities	<u>299,789</u>	<u>272,299</u>

NET ASSETS

Without donor restrictions:		
Undesignated	1,415,404	1,815,853
Board designated	<u>5,153,805</u>	<u>4,837,642</u>
Total net assets without donor restrictions	6,569,209	6,653,495
With donor restrictions	<u>7,573,400</u>	<u>10,023,832</u>
Total net assets	<u>14,142,609</u>	<u>16,677,327</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,442,398</u>	<u>\$ 16,949,626</u>

EARTHRIGHTS INTERNATIONAL, INC.

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021**

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Grants and contributions	\$ 1,380,050	\$ 3,230,781	\$ 4,610,831	\$ 5,905,219
Contracts	-	-	-	53,875
Net investment (loss), income	(766,029)	(27,934)	(793,963)	397,189
Other revenue	2,496	-	2,496	2,050
Net assets released from donor restrictions	<u>5,653,279</u>	<u>(5,653,279)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>6,269,796</u>	<u>(2,450,432)</u>	<u>3,819,364</u>	<u>6,358,333</u>
EXPENSES				
Program Services:				
Legal	2,733,502	-	2,733,502	2,251,083
Advocacy and Campaigns	1,145,760	-	1,145,760	1,258,218
ER Schools and Training	786,465	-	786,465	854,364
International Cross-Cutting	<u>694,429</u>	<u>-</u>	<u>694,429</u>	<u>617,824</u>
Total program services	<u>5,360,156</u>	<u>-</u>	<u>5,360,156</u>	<u>4,981,489</u>
Supporting Services:				
Management and General	534,824	-	534,824	494,676
Development	<u>459,102</u>	<u>-</u>	<u>459,102</u>	<u>459,710</u>
Total supporting services	<u>993,926</u>	<u>-</u>	<u>993,926</u>	<u>954,386</u>
Total expenses	<u>6,354,082</u>	<u>-</u>	<u>6,354,082</u>	<u>5,935,875</u>
Change in net assets before other item	(84,286)	(2,450,432)	(2,534,718)	422,458
OTHER ITEM				
Forgiveness of debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>417,900</u>
Change in net assets after other item	(84,286)	(2,450,432)	(2,534,718)	840,358
Net assets at beginning of year	<u>6,653,495</u>	<u>10,023,832</u>	<u>16,677,327</u>	<u>15,836,969</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,569,209</u>	<u>\$ 7,573,400</u>	<u>\$ 14,142,609</u>	<u>\$ 16,677,327</u>

EARTHRIGHTS INTERNATIONAL, INC.

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021**

	2022								2021	
	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	\$ 1,881,792	\$ 553,467	\$ 508,371	\$ 529,942	\$ 3,473,572	\$ 391,221	\$ 376,025	\$ 767,246	\$ 4,240,818	\$ 4,140,790
Professional/consulting fees	389,689	97,948	56,724	74,579	618,940	83,705	14,416	98,121	717,061	463,202
Travel	134,080	55,999	76,898	23,382	290,359	1,756	13,398	15,154	305,513	135,463
Grants	-	293,119	-	-	293,119	-	-	-	293,119	524,433
Rent and utilities	85,648	22,752	14,724	31,941	155,065	4,634	23,522	28,156	183,221	203,018
Trainings and conferences	58,653	37,862	52,948	573	150,036	1,795	244	2,039	152,075	46,299
Office supplies and expenses	44,769	15,086	19,489	7,847	87,191	10,306	12,526	22,832	110,023	119,996
Other	26,864	30,205	20,261	-	77,330	-	-	-	77,330	69,913
Telephone and internet	13,193	4,868	6,190	16,991	41,242	13,371	13,834	27,205	68,447	50,555
Subscription/reference material	18,194	16,758	482	5,592	41,026	167	2,488	2,655	43,681	39,727
Insurance	29,515	241	481	1,874	32,111	8,923	-	8,923	41,034	42,121
Banking, financial services and currency fluctuation	15,014	8,239	12,205	5	35,463	5,485	38	5,523	40,986	46,037
Depreciation and amortization	10,656	7,444	13,617	1,654	33,371	-	525	525	33,896	34,949
Regulatory Costs	21,328	107	213	-	21,648	2	1,550	1,552	23,200	-
Board expense	135	135	270	-	540	13,037	-	13,037	13,577	2,325
Program planning	3,972	870	3,592	49	8,483	422	536	958	9,441	9,224
Interns and volunteers	-	660	-	-	660	-	-	-	660	7,823
TOTAL	\$ 2,733,502	\$ 1,145,760	\$ 786,465	\$ 694,429	\$ 5,360,156	\$ 534,824	\$ 459,102	\$ 993,926	\$ 6,354,082	\$ 5,935,875

See accompanying notes to combined financial statements.

EARTHRIGHTS INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets:	\$ (2,534,718)	\$ 840,358
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	33,896	34,949
Unrealized loss (gain) on investments	869,496	(7,798)
Realized gain on investments	(46,980)	(326,575)
Donated securities	(109,796)	(27,437)
Forgiveness of debt	-	(417,900)
Decrease (increase) in:		
Advances to field offices	1,487	16,064
Accounts receivable	(20,109)	(14,920)
Grants receivable	1,759,265	527,353
Prepaid expenses and deposits	(3,135)	(22,197)
Increase (decrease) in:		
Accounts payable and accrued liabilities	23,498	32,525
Deferred revenue	-	(28,099)
Accrued salaries and related benefits	3,992	29,748
Refundable advance	-	(112,036)
Net cash (used) provided by operating activities	<u>(23,104)</u>	<u>524,035</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets and improvements	(2,013)	(2,924)
Purchase of investments	(847,648)	(1,140,101)
Proceeds from sale of investments	<u>1,169,879</u>	<u>1,106,524</u>
Net cash provided (used) by investing activities	<u>320,218</u>	<u>(36,501)</u>
Net increase in cash and cash equivalents	297,114	487,534
Cash and cash equivalents at beginning of year, including escrow-litigation fund	<u>4,623,171</u>	<u>4,135,637</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING RESTRICTED CASH - LITIGATION FUND ESCROW	<u>\$ 4,920,285</u>	<u>\$ 4,623,171</u>
SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Donated Securities	<u>\$ 109,796</u>	<u>\$ 27,437</u>

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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 consolidated 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 consolidated 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.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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

Organization (continued) -

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.

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.

Principles of consolidation -

The accounts of EarthRights International, Inc. have been consolidated with Foundation for Culture and Environment in Southeast Asia and the Foundation for Environment and Natural Resources (collectively "EarthRights") pursuant to the criterion established by FASB ASC 958-810, Not-for-Profit Entities Consolidation. Under FASB ASC 958-810, consolidation is required if a separate not-for-profit organization has control (i.e., major voting interest) and significant economic interest in that other organization. All significant inter-company accounts and transactions have been eliminated in consolidation.

Basis of presentation -

The accompanying consolidated 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 consolidated 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.

Descriptions of the two net asset categories are as follows:

- **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.

EARTHRIGHTS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022

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

Basis of presentation (continued) -

- **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 Consolidated 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.

The consolidated 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' consolidated financial statements for year ended December 31, 2021, from which the summarized information was derived.

New accounting pronouncements adopted -

During 2022, EarthRights adopted ASU 2019-01, *Leases* (Topic 842), which changed 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 Consolidated Statement of Financial Position and disclosure of key information about leasing arrangements. EarthRights applied the new standard using the modified retrospective approach and adopted the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. See Note 8 for further details. There was no impact on EarthRights as a result of adopting this ASU.

During the year ended December 31, 2022, EarthRights adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which improves generally accepted accounting principles in the United States (U.S. 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 was adopted retrospectively and did not change the recognition and measurement requirements for those contributed nonfinancial assets. There was no impact on EarthRights as a result of adopting this ASU.

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.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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

Cash and cash equivalents (continued) -

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 (loss) income in the Consolidated 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, 2022 totaled \$33,896.

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 consolidated 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, 2022, 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 consolidated financial statements.

Revenue and support -

Grants and contributions are recognized in the appropriate category of net assets in the period received.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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

Revenue and support (continued) -

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*.

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 consolidated 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, 2022, there were no conditional commitments received that had not been recognized in the accompanying consolidated 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 consolidated 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 consolidated 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 Consolidated 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.

EARTHRIGHTS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022

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

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 consolidated financial statements.

New accounting pronouncement not yet adopted -

Accounting Standard Update (ASU) 2016-13, *Financial Instruments – Credit Losses* (Topic 326), replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for EarthRights for the year ending December 31, 2023. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach.

EarthRights plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying consolidated 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, 2022.

Mutual funds - equities	\$ 2,028,229
Mutual funds - fixed income	<u>908,281</u>
TOTAL INVESTMENTS	<u>\$ 2,936,510</u>

Included in investment loss, net of fees are the following at December 31, 2022.

Interest and dividends	\$ 72,040
Unrealized loss	(869,496)
Realized gain	46,980
Investment fees	<u>(43,487)</u>
TOTAL INVESTMENT LOSS, NET OF FEES	<u>\$ (793,963)</u>

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

3. GRANTS RECEIVABLE

As of December 31, 2022, contributors to EarthRights have made written promises to give totaling \$5,415,731. Grants are due as follows at December 31, 2022:

Less than one year	\$ 3,572,845
One to five years	<u>1,842,886</u>
TOTAL GRANTS RECEIVABLE	<u>\$ 5,415,731</u>

4. FIXED ASSETS

Fixed assets consisted of the following at December 31, 2022:

Land	\$ 220,544
Buildings	903,360
Improvements	29,474
Property and equipment	<u>120,933</u>
Total fixed assets	1,274,311
Less: Accumulated depreciation and amortization	<u>(226,255)</u>
NET FIXED ASSETS	<u>\$ 1,048,056</u>

5. 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.

Stability Reserve	\$ 3,653,805
Emergency Reserve	<u>1,500,000</u>
TOTAL BOARD DESIGNATIONS	<u>\$ 5,153,805</u>

6. NET ASSETS WITH RESTRICTIONS

Net assets with restrictions consisted of the following at December 31, 2022:

Subject to expenditure for a specified purpose:	
Legal	\$ 3,011,880
Advocacy and Campaigns	1,421,437
ER Schools and Training	1,154,189
International Cross Cutting	245,791
Time Restricted	<u>1,740,103</u>
TOTAL NET ASSETS WITH RESTRICTIONS	<u>\$ 7,573,400</u>

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

6. NET ASSETS WITH RESTRICTIONS (Continued)

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:

Purpose restrictions accomplished:	
Legal	\$ 2,692,860
Advocacy and Campaigns	831,237
ER Schools and Training	480,874
International Cross-Cutting	149,331
Passage of Time	<u>1,498,977</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 5,653,279</u>

7. 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.

An analysis of available financial assets at December 31, 2022 is as follows:

Financial assets:	
Cash and cash equivalents	\$ 4,818,035
Advance to field offices	2,399
Accounts receivable	41,889
Grants receivable	5,415,731
Investments	2,936,510
Litigation fund escrow	<u>102,250</u>
	<u>13,316,814</u>
Unavailable within one year due to:	
Donor restrictions	(5,833,297)
Litigation fund escrow	(102,250)
Board designations	<u>(5,153,805)</u>
	<u>(11,089,352)</u>
FINANCIAL ASSETS AVAILABLE TO MEET SHORT-TERM NEEDS	<u>\$ 2,227,462</u>

8. LEASE COMMITMENTS

In May of 2019, EarthRights amended its D.C. office lease, extending the lease by three years which terminated 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.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

8. LEASE COMMITMENTS (Continued)

During the year ended December 31, 2022, 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.

Subsequent to the year ended December 31, 2022, EarthRights entered into an agreement for office space in Lima, Peru. The lease is for two years, commencing on February 6, 2023 and expiring on February 5, 2025. Base rent under this agreement is \$2,300 per month.

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

Year Ending December 31,

2023	\$	100,954
2024		27,600
2025		<u>4,600</u>
	\$	<u>133,154</u>

Rent expense for the year ended December 31, 2022 was \$183,221. This amount is included in rent and utilities on the Consolidated Statement of Functional Expenses.

9. 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.

For the year ended December 31, 2022, EarthRights made a 3% safe harbor contribution. Contributions to the Plan for the year ended December 31, 2022 totaled \$78,829.

10. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, EarthRights has evaluated events and transactions for potential recognition or disclosure through November 8, 2023, the date the consolidated financial statements were available to be issued.