

CONSOLIDATED FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2023
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2022**

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 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, 2023, 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, 2023, 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.

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

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' 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 8, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



November 14, 2024

EARTHRIGHTS INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2023
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2022

ASSETS

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 5,862,035	\$ 4,818,035
Accounts receivable	6,666	41,889
Advances to field offices	1,522	2,399
Grants receivable	3,063,862	5,415,731
Prepaid expenses and deposits	59,867	77,528
Investments	3,438,293	2,936,510
Restricted cash - litigation fund escrow	106,818	102,250
Fixed assets, net of accumulated depreciation and amortization	<u>1,016,014</u>	<u>1,048,056</u>
TOTAL ASSETS	<u>\$ 13,555,077</u>	<u>\$ 14,442,398</u>

LIABILITIES AND NET ASSETS**LIABILITIES**

Accounts payable and accrued liabilities	\$ 143,800	\$ 86,364
Accrued salaries and related benefits	<u>220,882</u>	<u>213,425</u>
Total liabilities	<u>364,682</u>	<u>299,789</u>

NET ASSETS

Without donor restrictions:		
Undesignated	1,235,199	1,415,404
Board designated	<u>5,799,505</u>	<u>5,153,805</u>
Total net assets without donor restrictions	7,034,704	6,569,209
With donor restrictions	<u>6,155,691</u>	<u>7,573,400</u>
Total net assets	<u>13,190,395</u>	<u>14,142,609</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,555,077</u>	<u>\$ 14,442,398</u>

EARTHRIGHTS INTERNATIONAL, INC.

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2023
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2022**

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Grants and contributions	\$ 1,743,593	\$ 4,063,897	\$ 5,807,490	\$ 4,610,831
Contracts	82,387	-	82,387	-
Net investment return	599,245	23,601	622,846	(793,963)
Other revenue	238	-	238	2,496
Net assets released from donor restrictions	5,505,207	(5,505,207)	-	-
Total support and revenue	7,930,670	(1,417,709)	6,512,961	3,819,364
EXPENSES				
Program Services:				
Legal	3,370,522	-	3,370,522	2,733,502
Advocacy and Campaigns	1,261,033	-	1,261,033	1,145,760
ER Schools and Training	749,630	-	749,630	786,465
International Cross-Cutting	898,623	-	898,623	694,429
Total program services	6,279,808	-	6,279,808	5,360,156
Supporting Services:				
Management and General Development	719,588 465,779	- -	719,588 465,779	534,824 459,102
Total supporting services	1,185,367	-	1,185,367	993,926
Total expenses	7,465,175	-	7,465,175	6,354,082
Change in net assets	465,495	(1,417,709)	(952,214)	(2,534,718)
Net assets at beginning of year	6,569,209	7,573,400	14,142,609	16,677,327
NET ASSETS AT END OF YEAR	\$ 7,034,704	\$ 6,155,691	\$ 13,190,395	\$ 14,142,609

EARTHRIGHTS INTERNATIONAL, INC.

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2022**

	2023					2022				
	Program Services				Total Program Services	Supporting Services		Total Expenses	Total Expenses	
Legal	Advocacy and Campaigns	ER Schools and Training	International Cross-Cutting	Management and General		Development	Total Supporting Services			
Salaries and fringe benefits	\$ 2,102,552	\$ 639,175	\$ 410,088	\$ 633,895	\$ 3,785,710	\$ 324,852	\$ 408,191	\$ 733,043	\$ 4,518,753	\$ 4,240,818
Professional/consulting fees	390,941	144,959	76,275	126,699	738,874	181,191	7,869	189,060	927,934	717,061
Travel	247,297	144,629	48,128	41,953	482,007	2,457	6,884	9,341	491,348	305,513
Grants	69,487	227,758	43,363	-	340,608	-	-	-	340,608	293,119
Office supplies and expenses	52,960	12,666	22,010	11,103	98,739	138,547	2,685	141,232	239,971	110,023
Rent and utilities	108,443	22,143	8,308	32,978	171,872	16,650	24,734	41,384	213,256	183,221
Trainings and conferences	135,823	33,339	66,218	2,361	237,741	-	176	176	237,917	152,075
Subscription/reference material	165,754	16,828	948	9,245	192,775	3,047	3,295	6,342	199,117	43,681
Telephone and internet	14,262	4,801	6,021	23,028	48,112	23,990	10,583	34,573	82,685	68,447
Banking, financial services and currency fluctuation	7,247	3,544	6,352	780	17,923	18,861	16	18,877	36,800	40,986
Other	15,755	167	39,103	8	55,033	7	6	13	55,046	77,330
Insurance	34,065	-	-	1,874	35,939	8,802	-	8,802	44,741	41,034
Depreciation and amortization	9,660	7,199	12,546	1,685	31,090	476	476	952	32,042	33,896
Program planning	6,457	3,462	8,255	4,097	22,271	389	684	1,073	23,344	9,441
Interns and volunteers	9,679	223	1,728	55	11,685	41	41	82	11,767	660
Board expense	140	140	287	8,862	9,429	278	139	417	9,846	13,577
Regulatory costs	-	-	-	-	-	-	-	-	-	23,200
TOTAL	\$ 3,370,522	\$ 1,261,033	\$ 749,630	\$ 898,623	\$ 6,279,808	\$ 719,588	\$ 465,779	\$ 1,185,367	\$ 7,465,175	\$ 6,354,082

See accompanying notes to consolidated financial statements.

EARTHRIGHTS INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (952,214)	\$ (2,534,718)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	32,042	33,896
Unrealized (gain) loss on investments	(442,207)	869,496
Realized gain on investments	(53,402)	(46,980)
Donated securities	-	(109,796)
Decrease (increase) in:		
Accounts receivable	35,223	(20,109)
Advances to field offices	877	1,487
Grants receivable	2,351,869	1,759,265
Prepaid expenses and deposits	17,661	(3,135)
Increase in:		
Accounts payable and accrued liabilities	57,436	23,498
Accrued salaries and related benefits	<u>7,457</u>	<u>3,992</u>
Net cash provided (used) by operating activities	<u>1,054,742</u>	<u>(23,104)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets and improvements	-	(2,013)
Purchase of investments	(1,003,507)	(847,648)
Proceeds from sale of investments	<u>997,333</u>	<u>1,169,879</u>
Net cash (used) provided by investing activities	<u>(6,174)</u>	<u>320,218</u>
Net increase in cash and cash equivalents	1,048,568	297,114
Cash and cash equivalents at beginning of year, including escrow-litigation fund	<u>4,920,285</u>	<u>4,623,171</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING RESTRICTED CASH - LITIGATION FUND ESCROW	<u>\$ 5,968,853</u>	<u>\$ 4,920,285</u>
SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Donated Securities	<u>\$ -</u>	<u>\$ 109,796</u>

EARTHRIGHTS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023

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, 2023**

**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, and in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) related to nonprofit entities. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions.

Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board designated and are also reported as net assets without donor restrictions.

EARTHRIGHTS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023

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

Basis of presentation (continued) -

- **Net Assets With Donor Restrictions** - Net assets may be subject to donor-imposed stipulations that are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. 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, 2022, from which the summarized information was derived.

New accounting pronouncement adopted -

During the year ended December 31, 2023, EarthRights adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses* (Topic 326). The ASU 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. Under the standard, disclosures are required to provide users of the consolidated financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by EarthRights that are subject to the guidance in FASB ASC 326 are trade accounts receivable. EarthRights implemented the ASU on January 1, 2023. The impact of the adoption was not considered material to the consolidated financial statements and primarily resulted in enhanced disclosures only.

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 included in investment return, which is presented net of investment expenses paid to external investment advisors, in the accompanying Consolidated Statement of Activities and Change in Net Assets. Investments acquired by gift are recorded at their fair value at the date of the gift.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023**

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

Grants receivable -

Grants receivable includes unconditional promises to give that are expected to be collected in future years. Grants receivable are recorded at their fair value, which is measured as the present value of the future cash flows. The discount on long-term grants receivable is computed using the risk-adjusted interest rates applicable to the years in which the promises to give were received. Amortization of the discount is included in grants and contributions revenue.

Accounts receivable -

Accounts receivable primarily consists of amounts due within one year related to contract services. Accounts receivable are recorded at their net realizable value which approximates fair value. Accounts receivable are evaluated for an allowance for credit losses resulting from the inability of customers to make required payments. The allowance for credit losses is based upon historical loss experience in combination with current economic conditions and a forecast of future economic conditions. Any change in the assumptions used in analyzing a specific account receivable might result in an additional allowance for credit losses being recognized in the period in which the change occurs. As a result of the aforementioned analysis, there was no allowance for credit losses recorded as of December 31, 2023.

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, 2023 totaled \$32,042.

Income taxes -

EarthRights is exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code ("IRC"), as an organization described in IRC Section 501(c)(3). 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.

Support from grants and contributions -

Grants and contributions are recognized in the appropriate category of net assets in the period received. EarthRights performs an analysis of the individual contribution agreement to determine if the funding stream follows the contribution rules or if it should be recorded as an exchange transaction depending upon whether the transaction is deemed reciprocal or nonreciprocal in accordance with ASC Topic 958.

Support from grants and contributions 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.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023**

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

Support from grants and contributions (continued) -

Contributions, including grants qualifying as contributions, that are unconditional but 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. Contributions with donor restrictions either in excess of expenses incurred or with time restrictions are shown as net assets with donor restrictions in the accompanying consolidated financial statements. Contributions that are both received and released from restrictions in the same year are classified as without donor restrictions.

Conditional contributions contain a right of return and a measurable barrier. Contributions are recognized when conditions have been satisfied. Conditional contributions received in advance of meeting specified conditions established by donors are recorded as refundable advances. However, EarthRights had no refundable advances as of December 31, 2023.

In addition, EarthRights may obtain funding source agreements related to conditional contributions, which will be received in future years. However, EarthRights had no conditional contributions to be received in futures years as of December 31, 2023.

Revenue from contracts with customers -

EarthRights' contract services are treated as exchange transaction revenue following ASC Topic 606. Revenue from contracts with customers is recorded when the performance obligations are met. EarthRights has elected to opt out of all disclosures not required for nonpublic entities. Transaction price is based on cost and/or sales price. Amounts received in advance of satisfying performance obligations are recorded as deferred revenue. EarthRights' contracts with customers generally have initial terms of one year or less.

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.

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.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023**

2. INVESTMENTS AND FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, EarthRights has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Consolidated Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market EarthRights has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used and there were no transfers between levels in the fair value hierarchy during the year ended December 31, 2023. Transfers between levels are recorded at the end of the reporting period, if applicable.

- *Equities* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Fixed Income* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.

The table below summarizes, the investments measured at fair value on a recurring basis, by level within the fair value hierarchy as of December 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Equities	\$ 2,386,499	\$ -	\$ -	\$ 2,386,499
Fixed income	<u>1,051,794</u>	<u>-</u>	<u>-</u>	<u>1,051,794</u>
TOTAL INVESTMENTS	<u>\$ 3,438,293</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,438,293</u>

Net investment return consisted of the following for the year ended December 31, 2023:

Interest and dividends	\$ 164,262
Unrealized gain	442,207
Realized gain	53,402
Investment fees	<u>(37,025)</u>
NET INVESTMENT RETURN	<u>\$ 622,846</u>

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023**

3. GRANTS RECEIVABLE

As of December 31, 2023, contributors to EarthRights have made written promises to give totaling \$3,063,862. Grants are due as follows at December 31, 2023:

Less than one year	\$ 2,863,862
One to five years	<u>200,000</u>
TOTAL GRANTS RECEIVABLE	<u>\$ 3,063,862</u>

4. FIXED ASSETS

Fixed assets consisted of the following at December 31, 2023:

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>(258,297)</u>
NET FIXED ASSETS	<u>\$ 1,016,014</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	\$ 4,299,505
Emergency Reserve	<u>1,500,000</u>
TOTAL BOARD DESIGNATIONS	<u>\$ 5,799,505</u>

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2023:

Subject to Expenditure for a Specified Purpose:	
Legal	\$ 2,423,036
Advocacy and Campaigns	1,074,489
ER Schools and Training	743,642
International Cross-Cutting	189,479
Time Restricted	<u>1,725,045</u>
TOTAL NET ASSETS WITH RESTRICTIONS	<u>\$ 6,155,691</u>

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023**

6. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

The following net assets with donor restrictions were released from donor restrictions either by incurring expenses which satisfied the restricted purposes specified by the donors or through the passage of time during the year ended December 31, 2023:

Purpose Restrictions Accomplished:	
Legal	\$ 2,592,652
Advocacy and Campaigns	769,498
ER Schools and Training	510,547
International Cross-Cutting	56,313
Passage of Time	<u>1,576,197</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 5,505,207</u>

7. LIQUIDITY AND AVAILABILITY

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, 2023 is as follows:

Financial assets:	
Cash and cash equivalents	\$ 5,862,035
Accounts receivable	6,666
Advance to field offices	1,522
Grants receivable	3,063,862
Investments	3,438,293
Litigation fund escrow	<u>106,818</u>
	<u>12,479,196</u>
Unavailable within one year due to:	
Donor restrictions	(4,430,646)
Litigation fund escrow	(106,818)
Board designations	<u>(5,799,505)</u>
	<u>(10,336,969)</u>
FINANCIAL ASSETS AVAILABLE TO MEET SHORT-TERM NEEDS	<u>\$ 2,142,227</u>

8. LEASE COMMITMENTS

EarthRights leases office space in Washington, D.C. under an agreement that terminates on June 30, 2025. Base rent under this agreement is \$12,609 per month.

EarthRights also leases office space in Lima, Peru under an agreement that commenced on February 6, 2023 and expires on February 5, 2025. Base rent is \$2,300 per month.

For the year ended December 31, 2023, the total lease cost was \$178,918 and is included in rent and utilities on the Consolidated Statement of Functional Expenses. For the year ended December 31, 2023, the total cash paid was \$178,918 for all operating leases.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023**

8. LEASE COMMITMENTS (Continued)

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

Year Ending December 31,

2024	\$ 103,254
2025	<u>2,300</u>
TOTAL	<u>\$ 105,554</u>

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, 2023, EarthRights made a 3% safe harbor contribution. Contributions to the Plan for the year ended December 31, 2023 totaled \$82,116.

10. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, EarthRights has evaluated events and transactions for potential recognition or disclosure through November 14, 2024, the date the consolidated financial statements were available to be issued.