

COMBINED FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2018**

EARTHRIGHTS INTERNATIONAL, INC.

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Combined Statement of Financial Position, as of December 31, 2019, with Summarized Financial Information for 2018	4
EXHIBIT B - Combined Statement of Activities and Change in Net Assets, for the Year Ended December 31, 2019, with Summarized Financial Information for 2018	5
EXHIBIT C - Combined Statement of Functional Expenses, for the Year Ended December 31, 2019, with Summarized Financial Information for 2018	6
EXHIBIT D - Combined Statement of Cash Flows, for the Year Ended December 31, 2019, with Summarized Financial Information for 2018	7
NOTES TO COMBINED FINANCIAL STATEMENTS	8 - 15



CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

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, 2019, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of EarthRights as of December 31, 2019, and the combined change in its net assets and its combined cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited EarthRights' 2018 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated July 3, 2019. In our opinion, the summarized comparative information presented herein as of December 31, 2018, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

August 5, 2020

EARTHRIGHTS INTERNATIONAL, INC.
COMBINED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 3,196,377	\$ 3,521,251
Advances to field offices	9,687	14,058
Prepaid expenses and deposits	83,873	36,286
Accounts receivable	25,948	9,065
Grants receivable	2,281,391	1,535,843
Investments	2,922,020	2,343,627
Restricted cash - litigation fund escrow	101,109	99,218
Fixed assets, net of accumulated depreciation and amortization	<u>1,140,577</u>	<u>1,154,042</u>
TOTAL ASSETS	<u>\$ 9,760,982</u>	<u>\$ 8,713,390</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued liabilities	\$ 80,105	\$ 42,707
Deferred revenue	5,988	-
Accrued salaries and related benefits	<u>123,983</u>	<u>101,046</u>
Total liabilities	<u>210,076</u>	<u>143,753</u>

NET ASSETS

Without donor restrictions:		
Undesignated	2,386,690	1,595,805
Board designated	<u>2,650,654</u>	<u>2,745,790</u>
Total net assets without donor restrictions	<u>5,037,344</u>	<u>4,341,595</u>
With donor restrictions	<u>4,513,562</u>	<u>4,228,042</u>
Total net assets	<u>9,550,906</u>	<u>8,569,637</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,760,982</u>	<u>\$ 8,713,390</u>

EARTHRIGHTS INTERNATIONAL, INC.

**COMBINED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Contributions	\$ 197,482	\$ -	\$ 197,482	\$ 142,463
Foundation grants	364,971	4,819,992	5,184,963	4,512,446
Contracts	23,275	-	23,275	4,789
Net investment income (loss)	548,742	40,581	589,323	(144,757)
Other revenue	8,767	-	8,767	3,261
Net assets released from donor restrictions	<u>4,575,053</u>	<u>(4,575,053)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>5,718,290</u>	<u>285,520</u>	<u>6,003,810</u>	<u>4,518,202</u>
EXPENSES				
Program Services:				
Legal	2,147,023	-	2,147,023	2,045,191
Advocacy and Campaigns	1,039,338	-	1,039,338	763,928
ER Schools and Training	353,895	-	353,895	319,997
International Cross-Cutting	<u>610,878</u>	<u>-</u>	<u>610,878</u>	<u>477,299</u>
Total program services	<u>4,151,134</u>	<u>-</u>	<u>4,151,134</u>	<u>3,606,415</u>
Supporting Services:				
Management and General Development	399,126	-	399,126	233,401
	<u>472,281</u>	<u>-</u>	<u>472,281</u>	<u>383,269</u>
Total supporting services	<u>871,407</u>	<u>-</u>	<u>871,407</u>	<u>616,670</u>
Total expenses	<u>5,022,541</u>	<u>-</u>	<u>5,022,541</u>	<u>4,223,085</u>
Change in net assets	695,749	285,520	981,269	295,117
Net assets at beginning of year	<u>4,341,595</u>	<u>4,228,042</u>	<u>8,569,637</u>	<u>8,274,520</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,037,344</u>	<u>\$ 4,513,562</u>	<u>\$ 9,550,906</u>	<u>\$ 8,569,637</u>

EARTHRIGHTS INTERNATIONAL, INC.

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019								2018	
	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	\$ 1,364,265	\$ 483,340	\$ 165,410	\$ 302,502	\$2,315,517	\$ 291,346	\$ 348,113	\$ 639,459	\$ 2,954,976	\$ 2,304,800
Interns and volunteers	3,946	-	13,320	-	17,266	-	-	-	17,266	23,614
Fellowships	-	-	2,055	-	2,055	-	-	-	2,055	6,721
Professional/consulting fees	229,486	200,451	37,383	174,514	641,834	32,465	57,653	90,118	731,952	534,842
Rent and utilities	89,598	44,052	5,359	27,633	166,642	20,694	13,796	34,490	201,132	176,629
Telephone and internet	8,259	3,683	1,283	6,298	19,523	2,076	11,301	13,377	32,900	37,400
Office supplies and expenses	57,137	23,321	13,886	27,269	121,613	13,421	10,815	24,236	145,849	100,113
Travel	252,607	115,812	94,789	48,435	511,643	3,026	20,672	23,698	535,341	500,678
Trainings and conferences	25,067	6,766	13	5,443	37,289	-	1,778	1,778	39,067	55,356
Insurance	24,355	-	-	-	24,355	7,650	-	7,650	32,005	31,749
Banking, financial services and currency fluctuation	10,342	10,671	4,462	(28)	25,447	5,812	-	5,812	31,259	(5,616)
Depreciation and amortization	13,059	11,644	8,247	602	33,552	163	109	272	33,824	32,719
Subscription/reference material	8,813	123	31	6,076	15,043	1,324	858	2,182	17,225	14,367
Program planning	9,916	7,795	6,525	5,730	29,966	910	559	1,469	31,435	21,984
Grants	17,193	124,200	-	-	141,393	-	-	-	141,393	306,046
Board expense	-	-	-	1,327	1,327	17,025	-	17,025	18,352	16,087
Other	32,980	7,480	1,132	5,077	46,669	3,214	6,627	9,841	56,510	65,596
TOTAL	\$ 2,147,023	\$ 1,039,338	\$ 353,895	\$ 610,878	\$4,151,134	\$ 399,126	\$ 472,281	\$ 871,407	\$ 5,022,541	\$ 4,223,085

See accompanying notes to combined financial statements.

EARTHRIGHTS INTERNATIONAL, INC.

**COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets:	\$ 981,269	\$ 295,117
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	33,824	32,719
Unrealized (gain) loss on investments	(416,640)	272,731
Realized gain on investments	(129,227)	(73,270)
Donated securities	(5,027)	(10,054)
Decrease (increase) in:		
Advances to field offices	4,371	13,928
Prepaid expenses and deposits	(47,587)	4,987
Accounts receivable	(16,883)	36,097
Grants receivable	(745,548)	986,498
Increase (decrease) in:		
Accounts payable and accrued liabilities	37,398	(28,715)
Deferred revenue	5,988	(560)
Accrued salaries and related benefits	<u>22,937</u>	<u>(15,405)</u>
Net cash (used) provided by operating activities	<u>(275,125)</u>	<u>1,514,073</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets and improvements	(20,359)	(21,602)
Purchase of investments, net	(1,014,052)	(683,651)
Proceeds from sale of investments	<u>986,553</u>	<u>612,404</u>
Net cash used by investing activities	<u>(47,858)</u>	<u>(92,849)</u>
Net (decrease) increase in cash and cash equivalents	(322,983)	1,421,224
Cash and cash equivalents at beginning of year, including escrow-litigation fund	<u>3,620,469</u>	<u>2,199,245</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING RESTRICTED CASH - LITIGATION FUND ESCROW	<u>\$ 3,297,486</u>	<u>\$ 3,620,469</u>

EARTHRIGHTS INTERNATIONAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019

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 real people, and to promote and protect human rights and the environment in the communities where EarthRights works.

The accompanying combined financial statements also include the Foundation for Culture and Environment in Southeast Asia (the Foundation). The Foundation was established to afford EarthRights the legal capacity to hold title to land in Thailand, which it does, and nominatively assist in acquiring visas and other support functions for EarthRights staff based in Asia. The Foundation enters into limited financial activity with oversight 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.

EarthRights maintains the following programs to carry out the above goals:

Legal - EarthRights' Legal program 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 program 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.

Also included in our advocacy and campaigns is our EarthRights Defender Program (ERD). The ERD program 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 program 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 INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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

Organization (continued) -

ER Schools and Training (continued) - EarthRights currently has EarthRights Schools for Myanmar and for the Mekong region, which brings together persons from the six countries of the Mekong watershed, and focuses on sustainable water resource management and oversight of projects funded by international financial institutions. 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 sustaining the Mekong Legal network for these lawyers.

International Cross-Cutting - This is a cross-program area which supports collaboration among EarthRights other program areas, as well as supporting cross-program outreach via the use of the website and other social media tools.

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, 2018, 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, 2019**

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

New accounting pronouncements adopted -

During 2019, EarthRights early adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. Analysis of the various provisions of this standard resulted in no significant changes in the way EarthRights recognized revenue; however, the presentation and disclosures of revenue have been enhanced. EarthRights has elected to opt out of all (or certain) disclosures not required for non public entities and also elected a modified retrospective approach for implementation.

Also during 2019, EarthRights adopted ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improve guidance to better distinguish between conditional and unconditional contributions. EarthRights adopted the ASU using a modified prospective basis.

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 (loss) in the Combined Statement of Activities and Change in Net Assets.

Accounts and grants receivable -

Accounts, loans and grants receivable approximate 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 \$1,000 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.

Income taxes -

EarthRights is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the IRC) and is only subject to tax on unrelated business income.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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

Income taxes (continued) -

EarthRights is also classified as a private foundation in accordance with Section 509(a)2 of the IRC. 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, 2019, 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.

Contributions, grants and contracts -

The majority of the EarthRights' revenue is received through contributions as well as contracts and grants from foundations, international organizations and other entities. Contributions and grants are recognized in the appropriate category of net assets in the period received. The EarthRights performs an analysis of the individual contribution, grant and contract to determine if the revenue streams follow the contributions rules or if considered an exchange transaction depending on whether the transaction is reciprocal or nonreciprocal.

For contributions and grants and contracts qualifying under the contributions 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 condition on which they depend are substantially met. Contributions and grants and contracts qualifying as contributions that are unconditional that 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 and contracts classified as exchange transactions follow ASU 2014-09, *Revenue from Contracts With Customers* and are recorded as revenue when the performance obligations are met. The revenue is recorded directly to without donor restrictions and the transaction price is based on expenses incurred in compliance with the criteria stipulated in the grant or contract agreements. Grants and contracts receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant and contract agreements. Funding received in advance of incurring the related expenses is recorded as deferred revenue.

New accounting pronouncements (not yet adopted) -

FASB issued ASU 2019-01, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Combined Statement of Financial Position and disclosing key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities 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 INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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

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.

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.

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, 2019 and 2018:

	2019	2018
	Fair Value	Fair Value
Mutual funds - equities	\$ 2,108,274	\$ 1,304,777
Mutual funds - fixed income	813,746	1,038,850
TOTAL INVESTMENTS	\$ 2,922,020	\$ 2,343,627

Included in investment income (loss), net of fees are the following at December 31, 2019 and 2018:

	2019	2018
Interest and dividends	\$ 74,382	\$ 85,147
Unrealized gain (loss)	416,640	(272,731)
Realized gain	129,227	73,270
Investment fees	(30,926)	(30,443)
TOTAL INVESTMENT INCOME (LOSS), NET OF FEES	\$ 589,323	\$ (144,757)

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

3. GRANTS RECEIVABLE

As of December 31, 2019, contributors to EarthRights have made written promises to give totaling \$2,281,391. Grants are due as follows at December 31, 2019:

Less than one year	\$ 1,729,732
One to five years	<u>551,659</u>
TOTAL GRANTS RECEIVABLE	<u>\$ 2,281,391</u>

4. FIXED ASSETS

Fixed assets consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 220,544	\$ 220,544
Buildings	903,360	903,360
Improvements	29,474	29,474
Property and equipment	<u>109,393</u>	<u>89,034</u>
Total fixed assets	1,262,771	1,242,412
Less: Accumulated depreciation and amortization	<u>(122,194)</u>	<u>(88,370)</u>
NET FIXED ASSETS	<u>\$ 1,140,577</u>	<u>\$ 1,154,042</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.

	<u>2019</u>	<u>2018</u>
Long-Term Health Reserve	<u>\$ 2,650,654</u>	<u>\$ 2,745,790</u>

6. NET ASSETS WITH RESTRICTIONS

Net assets with restrictions consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Legal	\$ 2,296,786	\$ 2,477,250
Advocacy and Campaigns	496,637	754,753
ER Schools and Training	325,770	542,289
International Cross Cutting	249,938	86,250
Time Restricted	<u>1,144,431</u>	<u>367,500</u>
TOTAL NET ASSETS WITH RESTRICTIONS	<u>\$ 4,513,562</u>	<u>\$ 4,228,042</u>

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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:

	2019	2018
Legal	\$ 1,972,081	\$ 2,025,284
Capital Campaign	100,000	-
Advocacy and Campaigns	956,547	714,062
ER Schools and Training	329,961	313,365
International Cross-Cutting	464,409	418,521
Passage of Time	752,055	565,356
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 4,575,053	\$ 4,036,588

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, 2019 and 2018 is as follows:

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 3,196,377	\$ 3,521,251
Advance to field offices	9,687	14,058
Accounts receivable	25,948	9,065
Grants receivable	2,281,391	1,535,843
Investments	2,922,020	2,343,627
Litigation fund escrow	101,109	99,218
	8,536,532	7,523,062
Unavailable within one year due to:		
Donor restrictions	(3,895,231)	(3,816,381)
Escrowed cash	(101,109)	(99,218)
Long-term health reserve	(2,650,654)	(2,745,790)
	(6,646,994)	(6,661,389)
FINANCIAL ASSETS AVAILABLE TO MEET SHORT-TERM NEEDS	\$ 1,889,538	\$ 861,673

8. LEASE COMMITMENTS

On January 24, 2013, EarthRights signed a 37-month lease for office space, commencing on May 1, 2013 and terminating on May 31, 2016. On December 22, 2015, EarthRights amended its lease, extending the lease by three years and terminating on May 31, 2019.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. LEASE COMMITMENTS (Continued)

In May of 2019, the lease was amended again and extended for an additional three year term which terminates 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 short-term operating leases on property in Thailand, Myanmar and Peru. Those leases expire within one year.

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

Year Ending December 31,

2020	\$ 153,578
2021	158,185
2022	<u>80,261</u>
	<u>\$ 392,024</u>

Rent expense for the years ended December 31, 2019 and 2018 was \$184,941 and \$164,126, respectively.

9. RETIREMENT PLAN

EarthRights provides retirement benefits to its employees through a Simple IRA Plan. This Plan covers all employees in the United States. EarthRights contributes 2% of gross wages. Contributions to the Plan for the years ended December 31, 2019 and 2018 totaled \$34,592 and \$26,049, respectively.

10. SUBSEQUENT EVENTS

In preparing these combined financial statements, EarthRights has evaluated events and transactions for potential recognition or disclosure through August 5, 2020, the date the combined financial statements were available to be issued.

On March 11, 2020, the World Health Organization (WHO) declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen. Other potential financial or operational impacts from COVID-19 are unknown at this time.

On May 13, 2020, EarthRights entered into a five year promissory note agreement in the amount of \$417,900 with a 1% fixed interest rate under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note unless otherwise forgiven. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part.