

COMBINED FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2014
WITH SUMMARIZED FINANCIAL INFORMATION FOR
THE 11-MONTH PERIOD ENDED DECEMBER 31, 2013**

EARTHRIGHTS INTERNATIONAL, INC.

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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. and the Foundation for Culture and Environment in Southeast Asia, collectively ERI, which comprise the combined statement of financial position as of December 31, 2014, 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.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of ERI as of December 31, 2014, 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.

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Report on Summarized Comparative Information

We have previously audited ERI's 2013 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated June 4, 2014. In our opinion, the summarized comparative information presented herein as of and for the 11-month period ended December 31, 2013, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Gelman Rosenberg & Friedman

April 27, 2015

EARTHRIGHTS INTERNATIONAL, INC.

COMBINED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014
WITH SUMMARIZED FINANCIAL INFORMATION FOR
THE 11-MONTH PERIOD ENDED DECEMBER 31, 2013

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,082,217	\$ 4,651,467
Escrow - litigation fund	77,247	63,745
Accounts receivable	36,684	69,062
Advances to field offices	37,162	84,027
Loans receivable (Note 3)	63,193	-
Grants receivable	990,745	1,003,380
Prepaid expenses	<u>52,597</u>	<u>8,857</u>
Total current assets	<u>5,339,845</u>	<u>5,880,538</u>
FIXED ASSETS		
Land	220,544	220,544
Improvements	11,650	-
Property and equipment	<u>133,722</u>	<u>128,447</u>
	365,916	348,991
Less: Accumulated depreciation and amortization	<u>(108,939)</u>	<u>(99,658)</u>
Net fixed assets	<u>256,977</u>	<u>249,333</u>
OTHER ASSETS		
Deposits	5,960	5,960
Investments, long-term (Note 2)	130,880	127,152
Grants receivable, net of current portion	<u>-</u>	<u>399,500</u>
Total other assets	<u>136,840</u>	<u>532,612</u>
TOTAL ASSETS	<u>\$ 5,733,662</u>	<u>\$ 6,662,483</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 12,235	\$ 12,594
Accrued salaries and related benefits	86,795	100,959
Grants payable	-	60,000
Plaintiff settlement payable	<u>-</u>	<u>100,000</u>
Total current liabilities	<u>99,030</u>	<u>273,553</u>
NET ASSETS		
Unrestricted:		
Operating	2,212,607	159,176
Board designated (Note 4)	<u>900,000</u>	<u>3,595,825</u>
Total unrestricted	3,112,607	3,755,001
Temporarily restricted (Note 5)	<u>2,522,025</u>	<u>2,633,929</u>
Total net assets	<u>5,634,632</u>	<u>6,388,930</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,733,662</u>	<u>\$ 6,662,483</u>

See accompanying notes to combined financial statements.

EARTHRIGHTS INTERNATIONAL, INC.

**COMBINED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014
WITH SUMMARIZED FINANCIAL INFORMATION FOR
THE 11-MONTH PERIOD ENDED DECEMBER 31, 2013**

	2014				2013	
	Unrestricted		Total	Temporarily Restricted	Total	Total
	Operating	Board Designated				
REVENUE						
Contributions	\$ 134,733	\$ -	\$ 134,733	\$ 150,709	\$ 285,442	\$ 246,549
Foundation grants	215,300	-	215,300	1,594,097	1,809,397	2,469,273
Attorneys' fees	-	-	-	-	-	1,692,619
Investment income (Note 2)	5,938	-	5,938	4,350	10,288	16,975
Rental income (Note 6)	1,500	-	1,500	-	1,500	-
Other revenue	(966)	-	(966)	-	(966)	777
Donor tour	-	-	-	-	-	10,462
Net assets released from donor restrictions (Note 5)	<u>1,861,060</u>	<u>-</u>	<u>1,861,060</u>	<u>(1,861,060)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>2,217,565</u>	<u>-</u>	<u>2,217,565</u>	<u>(111,904)</u>	<u>2,105,661</u>	<u>4,436,655</u>
EXPENSES						
Program Services:						
Legal	1,206,845	-	1,206,845	-	1,206,845	788,877
Advocacy and Campaigns	252,511	-	252,511	-	252,511	292,206
ER Schools and Training	292,148	-	292,148	-	292,148	566,666
International Cross-Cutting	<u>710,260</u>	<u>-</u>	<u>710,260</u>	<u>-</u>	<u>710,260</u>	<u>296,538</u>
Total program services	<u>2,461,764</u>	<u>-</u>	<u>2,461,764</u>	<u>-</u>	<u>2,461,764</u>	<u>1,944,287</u>
Supporting Services:						
Management and General	197,135	-	197,135	-	197,135	245,206
Development	<u>201,060</u>	<u>-</u>	<u>201,060</u>	<u>-</u>	<u>201,060</u>	<u>167,870</u>
Total supporting services	<u>398,195</u>	<u>-</u>	<u>398,195</u>	<u>-</u>	<u>398,195</u>	<u>413,076</u>
Total expenses	<u>2,859,959</u>	<u>-</u>	<u>2,859,959</u>	<u>-</u>	<u>2,859,959</u>	<u>2,357,363</u>
Change in net assets before other item	(642,394)	-	(642,394)	(111,904)	(754,298)	-
OTHER ITEM						
Transfer to operating	<u>2,695,825</u>	<u>(2,695,825)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	2,053,431	(2,695,825)	(642,394)	(111,904)	(754,298)	2,079,292
Net assets at beginning of year	<u>159,176</u>	<u>3,595,825</u>	<u>3,755,001</u>	<u>2,633,929</u>	<u>6,388,930</u>	<u>4,309,638</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,212,607</u>	<u>\$ 900,000</u>	<u>\$ 3,112,607</u>	<u>\$ 2,522,025</u>	<u>\$ 5,634,632</u>	<u>\$ 6,388,930</u>

EARTHRIGHTS INTERNATIONAL, INC.

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014
WITH SUMMARIZED FINANCIAL INFORMATION FOR
THE 11-MONTH PERIOD ENDED DECEMBER 31, 2013**

	2014				
	Program Services				
	Legal	Advocacy and Campaigns	ER Schools and Training	International Cross-Cutting	Total Program Services
Salaries and fringe benefits (Note 7)	\$ 782,939	\$ 105,658	\$ 98,572	\$ 532,869	\$ 1,520,038
Interns and volunteers	2,909	1,329	19,488	9	23,735
Fellowships	40,995	596	2,519	-	44,110
Professional/consulting fees	62,371	16,379	19,244	76,975	174,969
Rent and utilities (Note 6)	69,522	23,980	21,076	40,919	155,497
Telephone and Internet	9,522	5,506	3,694	7,938	26,660
Office supplies and expenses	25,284	7,290	9,023	7,970	49,567
Travel	185,321	73,291	117,331	34,857	410,800
Outreach and conferences	713	811	-	460	1,984
Insurance	-	-	-	-	-
Banking, financial services and currency fluctuation	2,649	(14,427)	(4,473)	463	(15,788)
Depreciation and amortization	1,366	617	926	1,589	4,498
Subscription/reference material	9,010	1,433	107	30	10,580
Program planning	1,943	3,156	934	3,503	9,536
Grants	4,677	25,698	-	-	30,375
Board expense	-	-	-	1,451	1,451
Other	7,624	1,194	3,707	1,227	13,752
TOTAL	\$ 1,206,845	\$ 252,511	\$ 292,148	\$ 710,260	\$ 2,461,764

Supporting Services					2013
Management and General	Development	Total Supporting Services	Total Expenses	Total Expenses	
\$ 51,053	\$ 133,948	\$ 185,001	\$ 1,705,039	\$ 1,313,947	
-	-	-	23,735	22,079	
-	-	-	44,110	6,350	
47,817	34,276	82,093	257,062	146,857	
34,309	9,677	43,986	199,483	123,003	
4,156	3,475	7,631	34,291	34,864	
8,347	8,479	16,826	66,393	101,502	
5,253	8,993	14,246	425,046	186,248	
2,894	396	3,290	5,274	9,444	
6,238	-	6,238	6,238	6,574	
3,049	-	3,049	(12,739)	(13,968)	
4,630	153	4,783	9,281	11,530	
-	-	-	10,580	-	
4,631	117	4,748	14,284	4,720	
-	-	-	30,375	116,787	
23,779	-	23,779	25,230	51,320	
979	1,546	2,525	16,277	236,106	
\$ 197,135	\$ 201,060	\$ 398,195	\$ 2,859,959	\$ 2,357,363	

EARTHRIGHTS INTERNATIONAL, INC.

**COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
WITH SUMMARIZED FINANCIAL INFORMATION FOR
THE 11-MONTH PERIOD ENDED DECEMBER 31, 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (754,298)	\$ 2,079,292
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	9,281	11,530
Unrealized loss (gain) on investments	4,595	(9,811)
Realized loss on investments	895	1,502
(Increase) decrease in:		
Accounts receivable	32,378	(68,017)
Advances to field offices	46,865	16,628
Loans receivable	(63,193)	-
Grants receivable	412,135	(672,880)
Prepaid expenses	(43,740)	(3,923)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(359)	(12,212)
Accrued salaries and related benefits	(14,164)	38,499
Grants payable	(60,000)	60,000
Plaintiff settlement payable	(100,000)	100,000
Net cash (used) provided by operating activities	<u>(529,605)</u>	<u>1,540,608</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets and improvements	(16,925)	(42,669)
Purchase of investments	(28,190)	(56,709)
Proceeds from sale of investments	18,972	35,608
Net cash used by investing activities	<u>(26,143)</u>	<u>(63,770)</u>
Net (decrease) increase in cash and cash equivalents	(555,748)	1,476,838
Cash and cash equivalents at beginning of year, including escrow-litigation fund	<u>4,715,212</u>	<u>3,238,374</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING ESCROW-LITIGATION FUND	<u>\$ 4,159,464</u>	<u>\$ 4,715,212</u>
SCHEDULE OF NONCASH FINANCING TRANSACTIONS		
Donated Securities	<u>\$ 5,114</u>	<u>\$ 10,186</u>

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

EarthRights International, Inc. (ERI) 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). ERI 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, ERI 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 ERI works. During 2013, ERI changed its year end from January 31, 2013 to December 31, 2013.

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

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

Legal - ERI's 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, ERI 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 - ERI's Advocacy and Campaigns program seeks to raise awareness and build broad support for earth rights issues. ERI's 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. ERI's 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". ERI pursues this work in various national and international forums, such as with the OECD and UN bodies.

ER Schools and Training - ERI's 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 ERI's 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. ERI 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. ERI 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, ERI 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 ERI's other program areas, as well as supporting cross-program outreach via the use of the website and other social media tools.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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

Basis of presentation -

The accompanying combined financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958-810, *Not-for-Profit Entities, 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 ERI's combined financial statements for the 11-month period ended December 31, 2013, from which the summarized information was derived.

Cash and cash equivalents -

ERI 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, ERI 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. Realized and unrealized gains and losses are included in investment income 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 \$500 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.

Income taxes -

ERI is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the IRC). Accordingly, no provision for income taxes has been made in the accompanying combined financial statements. ERI is also classified as a private foundation in accordance with Section 509(a)2 of the IRC.

Uncertain tax positions -

For the year ended December 31, 2014, ERI 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. The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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

Net asset classification -

The net assets are reported in two groups as follows:

- **Unrestricted net assets** include earned revenue and contributions and grants received without donor-imposed restrictions. These net assets are available for the operation of ERI and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include contributions and grants subject to donor-imposed stipulations that will be met by the actions of ERI and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Combined Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support as actual expenses are incurred in compliance with the donor-imposed restrictions or as time restrictions are satisfied.

Reclassification -

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

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.

Risks and uncertainties -

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

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2014**

2. INVESTMENTS AND FAIR VALUE

In accordance with FASB ASC 820, *Fair Value Measurement*, ERI 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 consisted of the following at December 31, 2014:

	<u>Fair Value</u>
Mutual funds - equities	\$ 108,259
Mutual funds - fixed income	<u>22,621</u>
TOTAL INVESTMENTS	<u>\$ 130,880</u>

All of these investments are reported at fair value and classified as Level 1. Level 1 investments are investments where values are based on unadjusted quoted prices for identical assets in an active market that ERI has the ability to access. Included in investment income are the following at December 31, 2014:

Interest and dividends	\$ 15,778
Unrealized loss	(4,595)
Realized loss	<u>(895)</u>
TOTAL INVESTMENT INCOME	<u>\$ 10,288</u>

3. LOAN RECEIVABLE

ERI loaned \$63,193 in start-up costs for the Peruvian non-profit FODAC, the Upper Corrientes Development Association, which was formed as a result of the settlement of *Maynas Carijano v. Occidental Petroleum, Inc.*, in which ERI represented the plaintiffs. This non-interest loan was made on the understanding that these costs would be reimbursed once FODAC receives funding in 2015.

4. BOARD DESIGNATED NET ASSETS

As of December 31, 2014, net assets have been designated by the Board of Directors for the following purposes:

Legal and Myanmar Programs and Organizational Reserve	\$ 600,000
Litigation Reserve	<u>300,000</u>
TOTAL BOARD DESIGNATED NET ASSETS	<u>\$ 900,000</u>

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2014**

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2014:

Legal	\$ 1,016,583
Capital Campaign	528,008
Advocacy and Campaigns	391,365
ER Schools and Training	232,439
Time Restricted	<u>353,630</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 2,522,025</u>

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:

Legal	\$ 924,018
Capital Campaign	28,655
Advocacy and Campaigns	205,712
ER Schools and Training	199,990
International Cross-Cutting	211,563
Passage of Time	<u>291,122</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 1,861,060</u>

6. LEASE COMMITMENTS

On January 24, 2013, ERI signed a 37-month lease, commencing on May 1, 2013 and terminating on May 31, 2016. Base rent is \$103,158 per year, plus a proportionate share of expenses, increasing by a factor of 3% per year. ERI 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:

<u>Year Ending December 31,</u>	
2015	\$ 111,234
2016	<u>46,890</u>
	<u>\$ 158,124</u>

Rent expense for the year ended December 31, 2014 was \$176,914.

7. RETIREMENT PLAN

ERI provides retirement benefits to its employees through a Simple IRA Plan. This plan covers all employees in the United States. ERI contributes 2% of gross wages. Contributions to the plan for the year ended December 31, 2014 totaled \$20,344.

8. SUBSEQUENT EVENTS

In preparing these combined financial statements, ERI has evaluated events and transactions for potential recognition or disclosure through April 27, 2015, the date the combined financial statements were available to be issued.