

COMBINED FINANCIAL STATEMENTS



**FOR THE 11-MONTH PERIOD ENDED DECEMBER 31, 2013
AND FOR THE YEAR ENDED JANUARY 31, 2013**

EARTHRIGHTS INTERNATIONAL, INC.

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Combined Statements of Financial Position, as of December 31, 2013 and January 31, 2013	4
EXHIBIT B - Combined Statements of Activities and Changes in Net Assets, for the 11-Month Period Ended December 31, 2013 and for the Year Ended January 31, 2013	5 - 6
EXHIBIT C - Combined Statement of Functional Expenses, for the 11-Month Period Ended December 31, 2013	7 - 8
EXHIBIT D - Combined Statement of Functional Expenses, for the Year Ended January 31, 2013	9 - 10
EXHIBIT E - Combined Statements of Cash Flows, for the 11-Month Period Ended December 31, 2013 and for the Year Ended January 31, 2013	11
NOTES TO COMBINED FINANCIAL STATEMENTS	12 - 18



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 statements of financial position as of December 31, 2013 and January 31, 2013, and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the 11-month period and 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.

4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · FAX (301) 951-3570 · WWW.GRFCPA.COM

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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, 2013 and January 31, 2013, and the combined changes in their net assets and their combined cash flows for the 11-month period and year then ended in accordance with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

June 4, 2014

EARTHRIGHTS INTERNATIONAL, INC.

COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 AND JANUARY 31, 2013

ASSETS

	<u>December 31,</u> <u>2013</u>	<u>January 31,</u> <u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,651,467	\$ 3,138,374
Escrow - litigation fund	63,745	100,000
Accounts receivable	69,062	1,045
Advances to field offices	84,027	100,655
Grants receivable (Note 3)	1,003,380	730,000
Prepaid expenses	<u>8,857</u>	<u>4,934</u>
Total current assets	<u>5,880,538</u>	<u>4,075,008</u>
FIXED ASSETS (Note 4)		
Land	220,544	198,273
Property and equipment	<u>128,447</u>	<u>108,049</u>
	348,991	306,322
Less: Accumulated depreciation and amortization	<u>(99,658)</u>	<u>(88,128)</u>
Net fixed assets	<u>249,333</u>	<u>218,194</u>
OTHER ASSETS		
Deposits	5,960	5,960
Investments, long-term (Note 2)	127,152	97,742
Grants receivable, net of current portion (Note 3)	<u>399,500</u>	<u>-</u>
Total other assets	<u>532,612</u>	<u>103,702</u>
TOTAL ASSETS	<u>\$ 6,662,483</u>	<u>\$ 4,396,904</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 12,594	\$ 24,806
Accrued salaries and related benefits	100,959	62,460
Grants payable	60,000	-
Plaintiff settlement payable	<u>100,000</u>	<u>-</u>
Total current liabilities	<u>273,553</u>	<u>87,266</u>
NET ASSETS		
Unrestricted:		
Operating	159,176	443,522
Board designated (Note 5)	<u>3,595,825</u>	<u>2,048,719</u>
Total unrestricted	3,755,001	2,492,241
Temporarily restricted (Note 6)	<u>2,633,929</u>	<u>1,817,397</u>
Total net assets	<u>6,388,930</u>	<u>4,309,638</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,662,483</u>	<u>\$ 4,396,904</u>

See accompanying notes to combined financial statements.

EARTHRIGHTS INTERNATIONAL, INC.

**COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE 11-MONTH PERIOD ENDED DECEMBER 31, 2013
AND FOR THE YEAR ENDED JANUARY 31, 2013**

	December 31, 2013				
	Unrestricted				
	Operating	Board Designated	Total Unrestricted	Temporarily Restricted	Total
REVENUE					
Contributions	\$ 86,549	\$ -	\$ 86,549	\$ 160,000	\$ 246,549
Foundation grants	46,145	-	46,145	2,423,128	2,469,273
Attorneys' fees	-	1,692,619	1,692,619	-	1,692,619
Investment income (Note 2)	2,902	-	2,902	14,073	16,975
Other revenue	777	-	777	-	777
Donor tour	10,462	-	10,462	-	10,462
Net assets released from donor restrictions (Note 6)	<u>1,780,669</u>	<u>-</u>	<u>1,780,669</u>	<u>(1,780,669)</u>	<u>-</u>
Total revenue	<u>1,927,504</u>	<u>1,692,619</u>	<u>3,620,123</u>	<u>816,532</u>	<u>4,436,655</u>
EXPENSES					
Program Services:					
Legal	788,877	-	788,877	-	788,877
Advocacy and Campaigns	292,206	-	292,206	-	292,206
ER Schools and Training	566,666	-	566,666	-	566,666
International Cross-Cutting	<u>296,538</u>	<u>-</u>	<u>296,538</u>	<u>-</u>	<u>296,538</u>
Total program services	<u>1,944,287</u>	<u>-</u>	<u>1,944,287</u>	<u>-</u>	<u>1,944,287</u>
Supporting Services:					
Management and General Development	245,206	-	245,206	-	245,206
	<u>167,870</u>	<u>-</u>	<u>167,870</u>	<u>-</u>	<u>167,870</u>
Total supporting services	<u>413,076</u>	<u>-</u>	<u>413,076</u>	<u>-</u>	<u>413,076</u>
Total expenses	<u>2,357,363</u>	<u>-</u>	<u>2,357,363</u>	<u>-</u>	<u>2,357,363</u>
Changes in net assets before other item	(429,859)	1,692,619	1,262,760	816,532	2,079,292
OTHER ITEM					
Transfer to operating	<u>145,513</u>	<u>(145,513)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets	(284,346)	1,547,106	1,262,760	816,532	2,079,292
Net assets at beginning of period as restated (Note 9)	<u>443,522</u>	<u>2,048,719</u>	<u>2,492,241</u>	<u>1,817,397</u>	<u>4,309,638</u>
NET ASSETS AT END OF PERIOD	<u>\$ 159,176</u>	<u>\$ 3,595,825</u>	<u>\$ 3,755,001</u>	<u>\$ 2,633,929</u>	<u>\$ 6,388,930</u>

See accompanying notes to combined financial statements.

January 31, 2013

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 111,953	\$ 338,000	\$ 449,953
53,116	1,450,238	1,503,354
-	-	-
11,900	-	11,900
5,893	-	5,893
2,190	-	2,190
<u>1,731,401</u>	<u>(1,731,401)</u>	<u>-</u>
<u>1,916,453</u>	<u>56,837</u>	<u>1,973,290</u>
714,761	-	714,761
180,006	-	180,006
451,348	-	451,348
<u>752,778</u>	<u>-</u>	<u>752,778</u>
<u>2,098,893</u>	<u>-</u>	<u>2,098,893</u>
159,911	-	159,911
<u>167,582</u>	<u>-</u>	<u>167,582</u>
<u>327,493</u>	<u>-</u>	<u>327,493</u>
<u>2,426,386</u>	<u>-</u>	<u>2,426,386</u>
(509,933)	56,837	(453,096)
<u>-</u>	<u>-</u>	<u>-</u>
(509,933)	56,837	(453,096)
<u>3,002,174</u>	<u>1,760,560</u>	<u>4,762,734</u>
<u>\$ 2,492,241</u>	<u>\$ 1,817,397</u>	<u>\$ 4,309,638</u>

See accompanying notes to combined financial statements.

EARTHRIGHTS INTERNATIONAL, INC.

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE 11-MONTH PERIOD ENDED DECEMBER 31, 2013**

	Program Services				
	Legal	Advocacy and Campaigns	ER Schools and Training	International Cross-Cutting	Total Program Services
Grants	\$ -	\$ 75,000	\$ 41,787	\$ -	\$ 116,787
Compensation (Note 8)	469,599	140,348	201,092	223,131	1,034,170
Payroll taxes	22,688	9,531	4,294	16,199	52,712
Fees for service	43,198	30,656	21,010	3,600	98,464
Development and outreach	3,276	2,281	2,232	1,305	9,094
Office and organizational expense	20,130	22,217	28,647	5,987	76,981
Occupancy (Note 7)	40,047	6,334	35,752	19,897	102,030
Travel	100,160	2,126	43,653	19,445	165,384
Interest, bank fees and currency fluctuation	1,722	896	(20,309)	380	(17,311)
Depreciation and amortizatic	860	1,164	1,616	1,185	4,825
Insurance	-	-	-	-	-
Other program costs	87,197	1,653	206,892	5,409	301,151
Board expenses	-	-	-	-	-
TOTAL	\$ 788,877	\$ 292,206	\$ 566,666	\$ 296,538	\$ 1,944,287

<u>Supporting Services</u>			
<u>Management and General</u>	<u>Development</u>	<u>Total Supporting Services</u>	<u>Total Expenses</u>
\$ -	\$ -	\$ -	\$ 116,787
79,732	129,392	209,124	1,243,294
8,889	9,052	17,941	70,653
48,031	362	48,393	146,857
-	350	350	9,444
21,016	3,505	24,521	101,502
14,639	6,334	20,973	123,003
2,656	18,208	20,864	186,248
3,298	45	3,343	(13,968)
6,654	51	6,705	11,530
6,574	-	6,574	6,574
2,397	571	2,968	304,119
51,320	-	51,320	51,320
<u>\$ 245,206</u>	<u>\$ 167,870</u>	<u>\$ 413,076</u>	<u>\$2,357,363</u>

See accompanying notes to combined financial statements.

EARTHRIGHTS INTERNATIONAL, INC.

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JANUARY 31, 2013**

	Program Services				Total Program Services
	Legal	Advocacy and Campaigns	ER Schools and Training	International Cross-Cutting	
Grants	\$ 1,000	\$ -	\$ 47,491	\$ 75,000	\$ 123,491
Compensation (Note 8)	398,178	92,225	159,267	379,246	1,028,916
Payroll taxes	21,871	4,855	2,999	26,893	56,618
Fees for service	50,816	9,144	8,174	137,026	205,160
Development and outreach	2,375	140	6,833	10,007	19,355
Office and organizational expense	17,133	2,491	6,160	18,029	43,813
Occupancy (Note 7)	37,050	2,575	35,298	29,961	104,884
Travel	67,995	19,665	14,313	64,656	166,629
Interest and banking fees	4	81	305	1,435	1,825
Depreciation and amortization	777	1,942	1,791	344	4,854
Insurance	-	-	-	-	-
Other program costs	117,562	46,888	168,717	10,181	343,348
TOTAL	<u>\$ 714,761</u>	<u>\$ 180,006</u>	<u>\$ 451,348</u>	<u>\$ 752,778</u>	<u>\$ 2,098,893</u>

Supporting Services

Management and General	Development	Total Supporting Services	Total Expenses
\$ -	\$ -	\$ -	\$ 123,491
57,431	133,790	191,221	1,220,137
4,240	9,570	13,810	70,428
27,727	-	27,727	232,887
5,440	10,877	16,317	35,672
29,460	4,092	33,552	77,365
10,382	5,192	15,574	120,458
6,613	4,061	10,674	177,303
2,119	-	2,119	3,944
6,118	-	6,118	10,972
10,381	-	10,381	10,381
-	-	-	343,348
\$ 159,911	\$ 167,582	\$ 327,493	\$ 2,426,386

EARTHRIGHTS INTERNATIONAL, INC.

**COMBINED STATEMENTS OF CASH FLOWS
FOR THE 11-MONTH PERIOD ENDED DECEMBER 31, 2013
AND FOR THE YEAR ENDED JANUARY 31, 2013**

	<u>December 31, 2013</u>	<u>January 31, 2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 2,079,292	\$ (453,096)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	11,530	10,972
Unrealized gain	(9,811)	(7,177)
Realized loss	1,502	82
(Increase) decrease in:		
Accounts receivable	(68,017)	12,421
Advances to field offices	16,628	(22,793)
Grants receivable	(672,880)	450,558
Prepaid expenses	(3,923)	(860)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(12,212)	(4,078)
Accrued salaries and related benefits	38,499	(18,828)
Grants payable	60,000	(18,932)
Plaintiff settlement payable	<u>100,000</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>1,540,608</u>	<u>(51,731)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(42,669)	(10,127)
Purchase of investments	(56,709)	(1,028)
Proceeds from sale of investments	<u>35,608</u>	<u>250,000</u>
Net cash (used) provided by investing activities	<u>(63,770)</u>	<u>238,845</u>
Net increase in cash and cash equivalents	1,476,838	187,114
Cash and cash equivalents at beginning of period, including escrow- litigation fund	<u>3,238,374</u>	<u>3,051,260</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD, INCLUDING ESCROW-LITIGATION FUND	<u>\$ 4,715,212</u>	<u>\$ 3,238,374</u>
SUPPLEMENTAL INFORMATION		
Interest Paid	<u>\$ 406</u>	<u>\$ 104</u>
SCHEDULE OF NONCASH FINANCING TRANSACTIONS		
Donated Securities	<u>\$ 10,186</u>	<u>\$ 5,008</u>

See accompanying notes to combined financial statements.

EARTHRIGHTS INTERNATIONAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND JANUARY 31, 2013

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 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.

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 Program - 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, 2013 AND JANUARY 31, 2013**

**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 the accounts of ERI and the Foundation, collectively referred to as "ERI". All significant intercompany transactions and balances have been eliminated in consolidation.

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 Statements of Activities and Changes in Net Assets.

Accounts and grants receivable -

Accounts 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 11-month period currently under examination, 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, 2013 AND JANUARY 31, 2013**

**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 Statements of Activities and Changes 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 Statements of Activities and Changes 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, 2013 AND JANUARY 31, 2013**

2. INVESTMENTS AND FAIR VALUE

In accordance with FASB ASC 820, *Fair Value Measurement*, ERI has categorized their 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, 2013 and January 31, 2013:

	<u>December 31, 2013</u>	<u>January 31, 2013</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Mutual funds - equities	\$ 103,299	\$ 60,206
Mutual funds - fixed income	<u>23,853</u>	<u>37,536</u>
TOTAL INVESTMENTS	<u>\$ 127,152</u>	<u>\$ 97,742</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, 2013 and January 31, 2013:

	<u>December 31, 2013</u>	<u>January 31, 2013</u>
Interest and dividends	\$ 8,666	\$ 4,805
Unrealized gain	9,811	7,177
Realized loss	<u>(1,502)</u>	<u>(82)</u>
TOTAL INVESTMENT INCOME	<u>\$ 16,975</u>	<u>\$ 11,900</u>

3. GRANTS RECEIVABLE

As of December 31, 2013 and January 31, 2013, contributors to ERI have made written promises to give totaling \$1,402,880 and \$730,000, respectively.

Grants are due as follows at December 31, 2013 and January 31, 2013:

	<u>December 31, 2013</u>	<u>January 31, 2013</u>
Less than one year	\$ 1,003,380	\$ 730,000
One to five years	<u>399,500</u>	<u>-</u>
TOTAL GRANTS RECEIVABLE	<u>\$ 1,402,880</u>	<u>\$ 730,000</u>

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND JANUARY 31, 2013**

4. FIXED ASSETS

Fixed assets consisted of the following at December 31, 2013 and January 31, 2013:

	<u>December 31, 2013</u>	<u>January 31, 2013</u>
Land	\$ 220,544	\$ 198,273
Property and equipment	<u>128,447</u>	<u>108,049</u>
Total fixed assets	348,991	306,322
Less: Accumulated depreciation and amortization	<u>(99,658)</u>	<u>(88,128)</u>
NET FIXED ASSETS	<u>\$ 249,333</u>	<u>\$ 218,194</u>

5. BOARD DESIGNATED NET ASSETS

As of December 31, 2013 and January 31, 2013, net assets have been designated by the Board of Directors for the following purposes:

	<u>December 31, 2013</u>	<u>January 31, 2013</u>
Emergency Fund	\$ 55,167	\$ 55,167
Legal and Myanmar Programs and Organizational Reserve	1,993,552	1,993,552
Litigation Reserve	<u>1,547,106</u>	<u>-</u>
TOTAL BOARD DESIGNATED NET ASSETS	<u>\$ 3,595,825</u>	<u>\$ 2,048,719</u>

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2013 and January 31, 2013:

	<u>December 31, 2013</u>	<u>January 31, 2013</u>
Legal	\$ 595,961	\$ 681,314
Advocacy and Campaigns	516,020	322,316
ER Schools and Training	689,680	266,341
Time Restricted	576,313	250,000
Capital Campaign	<u>255,955</u>	<u>297,426</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 2,633,929</u>	<u>\$ 1,817,397</u>

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND JANUARY 31, 2013**

6. TEMPORARILY RESTRICTED NET ASSETS (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:

	December 31, 2013	January 31, 2013
Legal	\$ 649,580	\$ 275,152
Advocacy and Campaigns	208,669	663,296
ER Schools and Training	560,762	402,261
Capital Campaign	106,471	4,692
Passage of Time	255,187	386,000
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 1,780,669	\$ 1,731,401

7. 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. Those leases expire within one year.

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

<u>Year Ending December 31,</u>	
2014	\$ 108,104
2015	111,231
2016	56,890
	\$ 276,225

Rent expense for the 11-month period ended December 31, 2013 and for the year ended January 31, 2013 was \$110,502 and \$120,458, respectively.

8. 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% percent of gross wages. Contributions to the plan during the 11-month period ended December 31, 2013 and for the year ended January 31, 2013 totaled \$15,169 and \$16,158, respectively.

9. PRIOR PERIOD ADJUSTMENT

ERI has determined that its net asset balance that was originally reported as unrestricted should have been recorded as temporarily restricted. This reclassification resulted in \$132,500 being reclassified from unrestricted net assets to temporarily restricted net assets as of January 31, 2011. The reclassification had no effect on total net assets.

EARTHRIGHTS INTERNATIONAL, INC.

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND JANUARY 31, 2013**

10. SUBSEQUENT EVENTS

In preparing these combined financial statements, ERI has evaluated events and transactions for potential recognition or disclosure through June 4, 2014, the date the combined financial statements were available to be issued.