



**FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

EARTHWATCH INSTITUTE, INC.

Contents
September 30, 2021 and 2020

	<u>Pages</u>
Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Changes in Net Assets	4
Statements of Cash Flows	5
Statements of Functional Expenses	6
Notes to Financial Statements	7 - 18



50 Washington Street
Westborough, MA 01581
508.366.9100
aafcpa.com

Independent Auditor's Report

To the Board of Directors of
Earthwatch Institute, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Earthwatch Institute, Inc. (a Massachusetts corporation, not for profit) which comprise the statements of financial position as of September 30, 2021 and 2020, and the related statements of activities, changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Earthwatch Institute, Inc. as of September 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

AAFCPAs, Inc.

Boston, Massachusetts
March 3, 2022

EARTHWATCH INSTITUTE, INC.

Statements of Financial Position
September 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Current Assets:						
Cash and cash equivalents	\$ 195,870	\$ 678,537	\$ 874,407	\$ -	\$ 774,411	\$ 774,411
Short-term investments	-	1,396,396	1,396,396	-	908,872	908,872
Current portion of pledges receivable	-	500,000	500,000	87,778	75,000	162,778
Grants and other receivables	297,498	-	297,498	76,556	-	76,556
Prepaid field grant expense	130,434	-	130,434	59,128	-	59,128
Prepaid expenses	131,111	-	131,111	60,554	-	60,554
Due from affiliates	3,507	-	3,507	51,593	-	51,593
Due (to) from	-	-	-	(880,599)	880,599	-
Total current assets	<u>758,420</u>	<u>2,574,933</u>	<u>3,333,353</u>	<u>(544,990)</u>	<u>2,638,882</u>	<u>2,093,892</u>
Investments	-	2,404,803	2,404,803	-	1,881,111	1,881,111
Pledges Receivable, net of current portion and discount	-	1,200,000	1,200,000	-	-	-
Property and Equipment, net	19,441	-	19,441	30,761	-	30,761
Other Assets:						
Interest in insurance policy contracts	480,035	-	480,035	480,035	-	480,035
Intangible assets	66,895	-	66,895	66,895	-	66,895
Total other assets	<u>546,930</u>	<u>-</u>	<u>546,930</u>	<u>546,930</u>	<u>-</u>	<u>546,930</u>
Total assets	<u>\$ 1,324,791</u>	<u>\$ 6,179,736</u>	<u>\$ 7,504,527</u>	<u>\$ 32,701</u>	<u>\$ 4,519,993</u>	<u>\$ 4,552,694</u>
Liabilities and Net Assets						
Current Liabilities:						
Current portion of note payable	\$ 1,981	\$ -	\$ 1,981	\$ 1,081	\$ -	\$ 1,081
Accounts payable and accrued expenses	385,545	-	385,545	312,784	-	312,784
Due to affiliates	36,983	-	36,983	-	-	-
Conditional advances	260,447	-	260,447	209,177	-	209,177
Total current liabilities	<u>684,956</u>	<u>-</u>	<u>684,956</u>	<u>523,042</u>	<u>-</u>	<u>523,042</u>
Note Payable, net of current portion	146,737	-	146,737	148,919	-	148,919
Total liabilities	<u>831,693</u>	<u>-</u>	<u>831,693</u>	<u>671,961</u>	<u>-</u>	<u>671,961</u>
Net Assets:						
Without donor restrictions:						
Operating	406,762	-	406,762	(736,916)	-	(736,916)
Property and equipment and intangibles	86,336	-	86,336	97,656	-	97,656
Total without donor restrictions	<u>493,098</u>	<u>-</u>	<u>493,098</u>	<u>(639,260)</u>	<u>-</u>	<u>(639,260)</u>
With donor restrictions	-	6,179,736	6,179,736	-	4,519,993	4,519,993
Total net assets	<u>493,098</u>	<u>6,179,736</u>	<u>6,672,834</u>	<u>(639,260)</u>	<u>4,519,993</u>	<u>3,880,733</u>
Total liabilities and net assets	<u>\$ 1,324,791</u>	<u>\$ 6,179,736</u>	<u>\$ 7,504,527</u>	<u>\$ 32,701</u>	<u>\$ 4,519,993</u>	<u>\$ 4,552,694</u>

The accompanying notes are an integral part of these statements.

EARTHWATCH INSTITUTE, INC.

Statements of Activities

For the Years Ended September 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support:						
Gifts and grants	\$ 1,377,406	\$ 2,598,370	\$ 3,975,776	\$ 1,229,155	\$ 2,161,098	\$ 3,390,253
Government contributions	1,331,333	-	1,331,333	540,972	-	540,972
Contributions from domestic volunteers	307,441	-	307,441	580,550	-	580,550
Donated advertising	106,174	-	106,174	55,703	-	55,703
Investment return designated for operations	8,162	78,532	86,694	8,332	77,460	85,792
Investment income	18,890	-	18,890	20,578	-	20,578
Other	1,363	-	1,363	3,722	-	3,722
Contributions from overseas volunteers	-	-	-	145,272	-	145,272
Net assets released from purpose restrictions	1,439,928	(1,439,928)	-	1,691,272	(1,691,272)	-
Net assets released from time restrictions	-	-	-	70,000	(70,000)	-
Total operating revenue and support	4,590,697	1,236,974	5,827,671	4,345,556	477,286	4,822,842
Operating Expenses:						
Program	2,612,685	-	2,612,685	3,192,973	-	3,192,973
General and administration	761,230	-	761,230	852,763	-	852,763
Fundraising	251,157	-	251,157	265,674	-	265,674
Total operating expenses	3,625,072	-	3,625,072	4,311,410	-	4,311,410
Changes in net assets from operations	965,625	1,236,974	2,202,599	34,146	477,286	511,432
Non-Operating Revenue (Expenses):						
Investment return, net	166,733	509,463	676,196	37,210	136,869	174,079
Investment return designated for operations	-	(86,694)	(86,694)	-	(85,792)	(85,792)
Total non-operating revenue (expenses)	166,733	422,769	589,502	37,210	51,077	88,287
Changes in net assets	\$ 1,132,358	\$ 1,659,743	\$ 2,792,101	\$ 71,356	\$ 528,363	\$ 599,719

The accompanying notes are an integral part of these statements.

EARTHWATCH INSTITUTE, INC.

Statements of Changes in Net Assets
For the Years Ended September 30, 2021 and 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net Assets , September 30, 2019	\$ (710,616)	\$ 3,991,630	\$ 3,281,014
Changes in net assets	<u>71,356</u>	<u>528,363</u>	<u>599,719</u>
Net Assets , September 30, 2020	(639,260)	4,519,993	3,880,733
Changes in net assets	<u>1,132,358</u>	<u>1,659,743</u>	<u>2,792,101</u>
Net Assets , September 30, 2021	<u>\$ 493,098</u>	<u>\$ 6,179,736</u>	<u>\$ 6,672,834</u>

EARTHWATCH INSTITUTE, INC.Statements of Cash Flows
For the Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 2,792,101	\$ 599,719
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	11,320	12,295
Investment return, net	(676,196)	(174,079)
Changes in operating assets and liabilities:		
Pledges receivable	(1,537,222)	793,419
Grants and other receivables	(220,942)	(61,420)
Prepaid field grant expense	(71,306)	1,414
Prepaid expenses	(70,557)	(13,442)
Due from affiliates	48,086	50,831
Accounts payable and accrued expenses	72,761	9,836
Due to affiliates	36,983	-
Conditional advances	51,270	(449,239)
	<u>436,298</u>	<u>769,334</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities:		
Purchase of investments	(830,578)	(263,650)
Proceeds from sale of investments	495,558	323,518
	<u>(335,020)</u>	<u>59,868</u>
Net cash provided by (used in) investing activities		
Cash Flows from Financing Activities:		
Proceeds on note payable	-	150,000
Payments on note payable to a bank	(1,282)	(325,000)
	<u>(1,282)</u>	<u>(175,000)</u>
Net cash used in financing activities		
Net Change in Cash and Cash Equivalents	99,996	654,202
Cash and Cash Equivalents:		
Beginning of year	<u>774,411</u>	<u>120,209</u>
End of year	<u>\$ 874,407</u>	<u>\$ 774,411</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 3,707</u>	<u>\$ 7,460</u>

EARTHWATCH INSTITUTE, INC.

Statements of Functional Expenses
For the Years Ended September 30, 2021 and 2020

	2021			2020				
	Program	General and Administration	Fundraising	Total Expenses	Program	General and Administration	Fundraising	Total Expenses
Personnel and Related:								
Salaries	\$ 1,123,108	\$ 482,511	\$ 147,692	\$ 1,753,311	\$ 1,418,147	\$ 516,582	\$ 162,981	\$ 2,097,710
Fringe benefits	216,322	60,242	11,867	288,431	207,061	60,852	13,423	281,336
Payroll taxes	60,827	33,712	10,317	104,856	143,795	71,226	12,523	227,544
Total personnel and related	1,400,257	576,465	169,876	2,146,598	1,769,003	648,660	188,927	2,606,590
Field Grants	502,795	-	-	502,795	638,405	-	-	638,405
Other:								
Occupancy	156,345	32,487	14,213	203,045	146,024	30,215	13,219	189,458
Advertising	102,594	-	11,121	113,715	58,425	-	6,383	64,808
Program expenses	108,121	-	-	108,121	46,747	-	-	46,747
Consultants and temporary help	74,641	3,072	24,252	101,965	188,979	9,859	19,721	218,559
Insurance	91,865	6,461	1,198	99,524	152,767	20,313	564	173,644
Professional fees	3,308	66,503	38	69,849	690	58,339	-	59,029
Travel, staff development, seminars and conferences	40,301	19,765	227	60,293	63,918	21,046	5,358	90,322
Printing and postage	36,751	1,165	19,009	56,925	26,045	1,015	21,605	48,665
Maintenance and repairs	30,455	23,285	2,551	56,291	32,397	29,563	2,667	64,627
Supplies	25,444	13,543	1,037	40,024	9,981	3,585	824	14,390
Bank fees and merchant fees	7,533	4,104	5,599	17,236	31,675	11,420	4,573	47,668
Telephone	10,466	5,791	867	17,124	14,602	6,432	973	22,007
Dues and subscriptions	12,867	480	377	13,724	2,852	1,796	-	4,648
Depreciation	8,715	1,813	792	11,320	9,468	1,967	860	12,295
Interest	-	3,707	-	3,707	-	7,460	-	7,460
Miscellaneous	227	2,589	-	2,816	995	1,093	-	2,088
Total other	709,633	184,765	81,281	975,679	785,565	204,103	76,747	1,066,415
Total expenses	\$ 2,612,685	\$ 761,230	\$ 251,157	\$ 3,625,072	\$ 3,192,973	\$ 852,763	\$ 265,674	\$ 4,311,410

The accompanying notes are an integral part of these statements.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2021 and 2020

1. OPERATIONS AND NONPROFIT STATUS

Earthwatch Institute, Inc. (Earthwatch) connects citizens with scientists to improve the health and sustainability of the planet. Since its founding in 1971, Earthwatch has empowered over 100,000 volunteers from all walks of life to join leading scientists on research expeditions that tackle critical environmental challenges around the globe—from climate change to ocean health to human-wildlife conflict. Earthwatch works with all sectors of society, including corporations, teachers, students and community leaders. This research is used to: teach local residents how to improve their lives and livelihoods through sustainable business and development; inform state and local policy makers; and educate our international volunteer force on their impact and responsibilities as global citizens.

Earthwatch is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). Earthwatch is also exempt from state income taxes. Donors may deduct contributions made to Earthwatch within IRC requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

Earthwatch prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Earthwatch considers all highly liquid investments purchased with an initial maturity of three months or less to be cash and cash equivalents, except for money market accounts maintained as part of the investment portfolio (see Note 5). Cash and cash equivalents consist of checking and money market accounts in the accompanying financial statements.

Pledges Receivable

Unconditional promises to give are reported as pledges receivable at net realizable value on the date the promise is verifiably committed. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value, and those that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

Allowance for Grants and Other Receivable

Earthwatch receives grants from various donors. An allowance for doubtful accounts, if any, is based on management's best estimate of amounts that may become uncollectible. There were no allowances as of September 30, 2021 and 2020.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Field Grants Expense

Prepaid field grants expense represents advances to researchers who generally field expeditions within two months of receipt of the advance. Field grant expenses are recognized when the expeditions are fielded.

Investments and Return Allocations

Investment income consists of interest and dividends. Interest income is recorded as earned and dividend income is recorded on the ex-dividend date. Realized gains and losses on investment transactions are recorded based on the average cost method. Unrealized gains and losses are based on fair value changes. These investments are not insured and are subject to ongoing market fluctuations (see Note 5).

Earthwatch follows the Massachusetts adopted version of the Uniform Prudent Management Institutional Funds Act (UPMIFA). Subject to the intent of a donor, Earthwatch may appropriate for expenditure or accumulate so much of an endowment fund as Earthwatch determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. The assets in an endowment fund are donor-restricted assets until appropriated for expenditure by Earthwatch. Earthwatch has adopted investment and spending policies for endowment assets that aim to safeguard the purchasing power of the endowment principal, generate an ongoing revenue source, and provide for growth of the investment principal in accordance with UPMIFA.

The Board of Directors of Earthwatch adopted a policy allowing for the use of a portion of total investment return on endowment investments for operations each year. Annually, Earthwatch may appropriate for operations up to 5% of the average fair values of its endowment investment portfolio over the previous three years, measured at the end of the third quarter of the fiscal year. Under Earthwatch's policy, in no event shall such distribution reduce the value of the endowment portfolio below the historical dollar value at the time of the distribution. During fiscal years 2021 and 2020, \$86,694 and \$85,792, respectively, were appropriated for operations (see page 9).

Gains and losses and investment income on endowment funds are reflected as non-operating revenues (expenses) in the accompanying statements of activities.

Property and Equipment and Depreciation

Property and equipment are recorded at cost, if purchased, or at fair value at time of receipt, if donated. Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Software, equipment and other	3 - 7 years
Leasehold improvements	Lesser of 5 years or the life of lease

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Earthwatch's net assets include the following:

Without Donor Restrictions:

- *Operating* represents the portion of net assets that is available for operations and does not have any donor-imposed restrictions.
- *Property and equipment and intangibles* represent the net book value of Earthwatch's property and equipment and intangible assets.

With Donor Restrictions:

Net assets with donor restrictions represent grants and contributions whose uses have been limited by donors to a specific time period or purpose, including for underwriting field research for teachers, students and special projects. It also includes amounts received from donors with the stipulation that the principal will be held in perpetuity (endowment funds) and only the related appreciation and unspent earnings of these endowment funds can be spent. Generally, the investment income from these funds is to be used to provide educational grants and for other operating purposes, in accordance with Earthwatch's spending policy (see page 8). One donor has restricted the unrealized gains or losses to remain held in perpetuity.

Net assets with donor restrictions consist of the following at September 30:

	<u>2021</u>	<u>2020</u>
Purpose restricted	\$ 2,133,517	\$ 2,496,543
Time restricted	1,600,000	-
Endowment	1,729,107	1,680,623
Appreciation and unspent earnings on endowment	<u>717,112</u>	<u>342,827</u>
	<u>\$ 6,179,736</u>	<u>\$ 4,519,993</u>

A reconciliation of endowment activity for fiscal years 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Endowment net assets, beginning of year	\$ 2,023,450	\$ 1,972,373
Investment return, net	509,463	136,869
Investment return designated for operations	<u>(86,694)</u>	<u>(85,792)</u>
Endowment net assets, end of year	<u>\$ 2,446,219</u>	<u>\$ 2,023,450</u>

Statements of Activities

Transactions deemed by management to be ongoing, major or central to the provision of program services are reported as operating revenues and support and operating expenses in the accompanying statements of activities. Non-operating revenue (expenses) include endowment and investment activity.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

In accordance with Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions*, Earthwatch must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome, and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that Earthwatch should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met. Earthwatch, in accordance with Topic 958, accounts for revenue from government contributions as conditional and recognizes revenue when barriers are overcome (see Note 12).

Earthwatch recognizes contributions from domestic and overseas volunteers and payments for field research when the expedition commences. Earthwatch recognizes these contributions in accordance with Topic 958, as the public benefit exceeds the value to the volunteer. Amounts received during the fiscal year, for expeditions that occur subsequent to year-end, are recorded as conditional advances (see Note 12).

Gifts of cash and other assets are recognized as donor restricted support if they are received or unconditionally pledged with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Grants are recognized over the period covered by the grant as services are provided and costs are incurred. Contributions are recognized when unconditionally pledged in writing or received. Donor-restricted endowment contributions are recorded as revenue and net assets with donor restrictions if they are received and committed with donor stipulations that the net assets be held in perpetuity. All other revenue is recognized as earned.

Bequests

Earthwatch may be named as a beneficiary in wills and trusts and periodically may receive distributions. Earthwatch reflects bequests and trust distributions as grant and contribution revenue when received. During fiscal years 2021 and 2020, Earthwatch received bequests of approximately \$446,000 and \$293,000, respectively, which are included in gifts and grants in the accompanying statements of activities.

Donated Goods and Services

Volunteers and other organizations contribute goods and services to Earthwatch in support of various aspects of its programs. These goods and services are reflected in the accompanying financial statements based upon the estimated value assigned to them by the donating volunteers, organization or by management. Donated advertising totaled \$106,174 and \$55,703 for the years ended September 30, 2021 and 2020, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocations

Management allocates expenses related directly to a program to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

The financial statements contain certain categories of expenses that are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and depreciation, which are allocated based on square-footage. Additional expenses that are allocated include salaries, payroll taxes and fringe benefits, which are allocated based on estimates of time and effort spent on each program or support function.

Advertising Costs

Earthwatch expenses advertising costs as they are incurred, or at the time of donation. Donated advertising is valued at the estimated value assigned by the donating organization or by management (see previous page).

Fair Value Measurements

Earthwatch follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that Earthwatch would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

Earthwatch uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of Earthwatch. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable, and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Investments

Earthwatch records its investments at fair value using Level 1 inputs. Reported fair values of shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year (see Note 5).

Split-Interest Agreements

Earthwatch participates in a Split Dollar and Collateral Assignment Agreement with Earthwatch's Founding Chairman who is the owner of the insurance policies (see page 13). The cash surrender value of these policies is valued using Level 2 inputs. The value was determined by the underwriting insurance company's valuation models, which take into account the passage of time, mortality tables, interest rates, cash values for paid-up additions, and dividend accumulations. The cash surrender value represents the guaranteed value Earthwatch would receive upon surrender of these policies as of September 30, 2021 and 2020.

All Other Assets and Liabilities

The carrying value of all other qualifying assets and liabilities does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

Income Taxes

Earthwatch accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. Earthwatch has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at September 30, 2021 and 2020. Earthwatch's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through March 3, 2022, which is the date the financial statements were available to be issued. See Notes 10 and 12 for events that met the criteria for disclosure in the financial statements.

3. RELATED PARTY TRANSACTIONS

Earthwatch has charitable affiliates internationally to extend its scientific and education programs abroad. Earthwatch Australia was established in Sydney, Australia in 1980. Conservation Education and Research Trust (a company limited by guarantee) (doing business as Earthwatch Institute Europe), operating from Oxford, England, was established in 1984. A memorandum of understanding, dated January 1994, was implemented to create an affiliate in Tokyo, Japan (Earthwatch Japan). Earthwatch does not control these affiliates; therefore, their results of operations are not included in the accompanying financial statements. These affiliates share contributions from volunteers and derive staff support and subsidies from Earthwatch.

The following are the amounts due from affiliates as of September 30:

	<u>2021</u>	<u>2020</u>
Earthwatch Australia	<u>\$ 3,507</u>	<u>\$ 51,593</u>

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2021 and 2020

3. RELATED PARTY TRANSACTIONS (Continued)

The following are the amounts due to affiliates as of September 30:

	<u>2021</u>	<u>2020</u>
Earthwatch Europe	<u>\$ 36,983</u>	<u>\$ -</u>

There was no revenue derived from affiliates in fiscal year 2021. The following revenue is derived from affiliates and is reflected as contributions from overseas volunteers in the accompanying statement of activities for the year ended September 30, 2020:

Revenue derived from:		
Earthwatch Europe	\$ 75,425	
Earthwatch Australia	51,847	
Earthwatch Japan	<u>18,000</u>	
	<u>\$ 145,272</u>	

On October 6, 2008, Earthwatch and Earthwatch Europe organized and incorporated Earthwatch International, Inc. (Earthwatch International) (a Delaware corporation, not for profit under IRC Section 501(c)(4)). Earthwatch International has no assets and had no activity as of and for the years ended September 30, 2021 and 2020. The Board of Directors of Earthwatch International consists of the Board members of each of the incorporators, with each incorporator having equal voting power. Earthwatch International's purpose is to provide internationally coordinated governance and administration for the benefit of organizations throughout the world that use Earthwatch trademarks and brand. Each party maintains its own independent governance and financial integrity. Costs relating to information technology staff serve both Earthwatch and Earthwatch Europe and costs are shared under a memorandum of agreement between the organizations.

Earthwatch participates in a Split Dollar and Collateral Assignment Agreement with Earthwatch's Founding Chairman and Board member (resigned in November 2017) who is the owner of the insurance policies. Earthwatch made annual premium payments for the period November 1998 through December 2010, as required under the agreement, totaling \$480,035. These policies are subject to termination upon certain defined circumstances. In the event of the split dollar policy cancellation, Earthwatch will receive an amount equal to the cash surrender value of the policy or the amount of premiums paid to date, whichever is less. In the event of death, Earthwatch will receive the cumulative amount of premium payments from the proceeds of the death benefit. The cash surrender values of the insurance policy contracts at September 30, 2021 and 2020, were \$623,095 and \$547,378, respectively. The lesser of the cash surrender value and the total premiums paid amounts are reflected as interest in insurance policy contracts in the accompanying statements of financial position.

4. PLEDGES RECEIVABLE

Pledges receivable consisted of the following at September 30:

	<u>2021</u>	<u>2020</u>
Amounts due in:		
Less than one year	\$ 500,000	\$ 162,778
One to four years	<u>1,200,000</u>	<u>-</u>
	1,700,000	162,778
Less - current portion	<u>500,000</u>	<u>162,778</u>
Long-term pledges receivable, net	<u>\$ 1,200,000</u>	<u>\$ -</u>

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2021 and 2020

5. INVESTMENTS

Investments consist of the following at September 30:

	<u>2021</u>	<u>2020</u>
Money market	\$ 302,662	\$ 226,889
Mutual funds:		
Intermediate term bond funds	231,111	279,066
Exchange traded funds	1,045,532	862,014
Stock index funds	<u>2,221,894</u>	<u>1,422,014</u>
	<u>\$ 3,801,199</u>	<u>\$ 2,789,983</u>

Investments are reported in the accompanying statements of financial position as current or long-term assets based on management's intent with respect to the use of investments. To satisfy its long-term rate-of-return objectives, Earthwatch relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Investment Committee, advised by a third-party investment advisor, is responsible for selecting the investment manager of Earthwatch's portfolio.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	<u>2021</u>	<u>2020</u>
Data processing equipment	\$ 134,342	\$ 134,342
Software	53,498	53,498
Office equipment	27,825	27,825
Other	18,507	18,507
Leasehold improvements	<u>16,645</u>	<u>16,645</u>
	250,817	250,817
Less - accumulated depreciation	<u>231,376</u>	<u>220,056</u>
	<u>\$ 19,441</u>	<u>\$ 30,761</u>

7. INTANGIBLE ASSETS

Intangible assets of \$66,895 as of September 30, 2021 and 2020, consists of costs incurred by Earthwatch to register its trademarks in foreign countries. These intangible assets are not amortized; rather they are tested for impairment on an annual basis to determine if the intangible assets are being carried on the statements of financial position at or above their implied value. An impairment exists when the implied fair value of the intangible assets is less than the corresponding carrying value of the intangible assets on the statements of financial position. Any impairment is recognized as a loss in the year the asset is determined to be impaired. There was no impairment loss at September 30, 2021 or 2020.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2021 and 2020

8. NOTE PAYABLE

During fiscal year 2020, Earthwatch received a \$150,000 Economic Injury Disaster Loan (EIDL) through the Small Business Administration (SBA). The loan bears interest at 2.75% and requires monthly payments of principal and interest of \$641 beginning in May 2021. During fiscal year 2021, the SBA deferred the repayment by an additional twelve months. Earthwatch repaid \$1,282 of this loan during fiscal year 2021, prior to the SBA's deferral. Earthwatch will continue repayment beginning in March 2022 through February 2052 (maturity). The loan is secured by all business assets. The balance of the note was \$148,718 and \$150,000 as of September 30, 2021 and 2020, respectively.

Maturities of the note payable over the next five years are as follows:

2022	\$ 1,981
2023	\$ 3,509
2024	\$ 3,615
2025	\$ 3,715
2026	\$ 3,819

9. NOTE PAYABLE TO A BANK

Earthwatch has available under a demand note with a bank up to the lesser of \$500,000 or 90% of the value or the pledged marketable securities collateral account. The note is secured by the pledge of a collateral account with marketable securities. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's base lending rate (3.25% and 5% at September 30, 2021 and 2020, respectively), minus 25 basis points. At September 30, 2021 and 2020, there was no amount outstanding. Earthwatch must comply with certain covenants. Earthwatch was not in compliance with the reporting covenant as of September 30, 2021 and 2020, due to timing of approving and submitting the audited financial statements, and received a waiver from bank.

10. OPERATING LEASE

Earthwatch has a lease agreement for its location in Brighton, Massachusetts through August 31, 2023, with an option to extend for an additional five years. Earthwatch secured a letter of credit for \$28,229, in accordance with the security agreement for the lease. The letter of credit had an initial expiration date of January 31, 2020. The letter of credit automatically renews annually with sixty-days' notice with a final expiration date of October 31, 2023. Earthwatch is responsible for its proportionate share of any increase in operating costs and real estate taxes over a base year and maintain specified insurance coverage.

During fiscal year 2020, Earthwatch entered into an agreement to amend the lease, whereby the landlord abated April 2020 rent and July and August 2020 rent was payable at 33%, with the remaining 67% being amortized on a straight-line basis for a twenty-seven-month period commencing on October 1, 2020. No interest is charged on the deferred rent. Deferred rent of \$11,606 and \$19,587 is included in accounts payable and accrued expenses in the accompanying statements of financial position as of September 30, 2021 and 2020, respectively.

Facility rent expense for the years ended September 30, 2021 and 2020, was \$182,700 and \$161,306, respectively, which is included in occupancy in the accompanying statements of functional expenses.

Future minimum lease payments are \$208,068 for fiscal year 2022 and \$195,811 for fiscal year 2023. However, Earthwatch is working with its landlord to terminate the lease agreement during fiscal year 2022.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2021 and 2020

11. EMPLOYMENT BENEFIT PLAN

Earthwatch maintains a qualified salary reduction plan (an IRC Section 401(k) plan), whereby employees who are 21 years of age and have accumulated 500 hours of service are eligible to make elective tax deferred contributions to the plan up to the maximum allowed by law. Earthwatch may contribute to the plan at the discretion of the Board of Directors and may match a portion of employee contributions. These matching contributions vest over a four-year period. Earthwatch made contributions of \$28,436 and \$63,158 during fiscal years 2021 and 2020, respectively, which are included in fringe benefits in the accompanying statements of functional expenses.

12. CONDITIONAL GRANTS AND ADVANCES

In fiscal years 2021 and 2020, Earthwatch applied for, and was awarded, loans of \$546,845 and \$540,972, respectively, from the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) through a bank. The funds were used to pay certain payroll costs, including benefits, during a covered period as defined in the CARES Act. A portion of the funds received may be forgiven, as defined in the agreement, at the end of the covered period, and the remainder of the funds will be due over a five-year and a two-year period, respectively. Both loans carry an interest rate of 1%. Any repayment will be deferred for a certain period from the end of the covered period as determined by the SBA. The balance of the notes that is not forgiven, plus interest, will be due in equal monthly payments through the maturity date as defined by the bank. The forgiveness calculations are subject to review and approval by the lending bank and the SBA. In the opinion of management, the results of such reviews will not have a material effect on the financial position of Earthwatch as of September 30, 2021 and 2020, and on the changes in its net assets for the years then ended.

Earthwatch believed there was not more than a remote chance the PPP loans would not be forgiven, and therefore, accounted for the loans as conditional grants under ASC Subtopic 958-605. It was determined that the grants were conditional upon certain performance requirements and the incurrence of eligible expenses. Amounts received were recognized as revenue when Earthwatch incurred expenditures in compliance with the loan application and CARES Act requirements. For the years ended September 30, 2021 and 2020, Earthwatch recognized the applicable proceeds received as government contributions in the accompanying statements of activities.

Earthwatch received forgiveness for the loan received in fiscal year 2021 from the lending bank and SBA in November 2021. Earthwatch received forgiveness for the loan received in fiscal year 2020 from the lending bank and SBA in December 2020.

The Employee Retention Tax Credit (ERTC) was first established by the CARES Act and was extended and expanded by Consolidated Appropriations Act (CAA) and American Rescue Plan (ARPA). ERTC provides a refundable tax credit against certain employment taxes equal to 50% of the first \$10,000 in qualified wages paid to each employee between March 12, 2020 and December 31, 2020 (2020 ERTC), and 70% of the first \$10,000, per quarter, in qualified wages paid to each employee between January 1, 2021 and December 31, 2021 (2021 ERTC). To be eligible, Earthwatch must meet certain conditions as described in applicable laws and regulations.

Earthwatch has determined that it qualifies for both the 2020 ERTC and the 2021 ERTC, and therefore, is accounting for them as conditional grants under ASC Subtopic 958-605. These grants are conditional upon certain performance requirements and the incurrence of eligible expenses. In the opinion of management, these conditions were met as of September 30, 2021. Earthwatch recognized \$784,488 as contributions for the year ended September 30, 2021, which is included in government contributions in the accompanying fiscal year 2021 statement of activities. As of September 30, 2021, \$297,498 is included in grants and other receivables in the accompanying fiscal year 2021 statement of financial position.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2021 and 2020

12. CONDITIONAL GRANTS AND ADVANCES (Continued)

Eligibility for the credit and the credit calculations are subject to review and approval by the Federal government. In the opinion of management, the results of such reviews and audit will not have a material effect on the financial position of Earthwatch at September 30, 2021, and on the changes in its net assets for the year then ended.

Conditional advances include volunteer payments for future research expeditions. Under certain circumstances, these payments may be refunded, less a handling fee, if the volunteer does not participate in an expedition within prescribed time frames. Earthwatch recognizes these contributions as revenue at the earlier of either the expedition or departure date.

13. CONCENTRATIONS AND CONTINGENCIES

Earthwatch maintains its cash balances in a Massachusetts bank and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, the cash balances exceeded the insured amount. Earthwatch has not experienced any losses in the accounts. Earthwatch's management believes Earthwatch is not exposed to any significant credit risk on cash and cash equivalents.

One hundred percent of grants and other receivables at September 30, 2021 and 2020, was due from one funder. One hundred percent of pledges receivable at September 30, 2021 and 2020, is due from two donors.

COVID-19 continues to be recognized as a global pandemic. The impact of COVID-19 on Earthwatch's future operations and the demand for its services will depend upon, among other things, the duration, spread and intensity of the pandemic; related government responses, such as required physical distancing; restrictions on business operations and travel; the pace of recovery of economic activity; and the impact to consumers, all of which are uncertain and impossible to predict. The financial impact to Earthwatch cannot be reasonably estimated at this time.

14. CONTINUING OPERATIONS

Earthwatch obtained surpluses without donor restrictions from operations of \$965,625 and \$34,146 for the years ended September 30, 2021 and 2020, respectively. Net assets with donor restrictions from operations increased by \$1,236,974 and \$477,286 for the years ended September 30, 2021 and 2020, respectively. As of September 30, 2021, Earthwatch had operating net assets without donor restrictions balance of \$406,762.

Earthwatch has historically relied on cash flow from conditional advances and restricted funds to meet operating cash flow requirements. Earthwatch also has additional resources available if they are needed to cover operations (see Note 15).

Fiscal year 2021 was a transition year for Earthwatch as management slowly started back operations in light of the continuing pandemic. Volunteers have been back in the field, with new safety protocols in place since May 2021 and fielding internationally since September 2021. Earthwatch hopes to emerge from the pandemic as a stronger organization. Management has been prompted to come up with alternative ways in which to deliver on Earthwatch's mission. This has included developing several strong outreach programs that provide great opportunities for engagement and education of the public. This includes the Earthwatch Science Matters Webinar Series, the Earthwatch at Home and Earthwatch at School virtual programs, focusing on climate change impacts and actions. All of these helped Earthwatch maintain connections with members of Earthwatch's volunteer corps, while also introducing new audiences.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2021 and 2020

14. CONTINUING OPERATIONS (Continued)

In recognition that part of Earthwatch's model's vulnerability to this global crisis has been its reliance on travel, management has worked to expand several programs that appeal to both corporate partners (current and potential) and members of the public that are not as dependent on travel. These include expanding Operation Healthy Air (OHA), the launch of the iNaturalist-based Global Pollinator Watch project, and adopting the Tiny Forest program from Earthwatch's UK Affiliate.

Over the past two fiscal years Earthwatch has taken several steps that have increased liquidity:

- Received approximately \$785,000 in employee retention credits through the CARES Act.
- Earthwatch received two PPP loans totaling approximately \$1.1 million during fiscal years 2021 and 2020. As of September 30, 2021, Earthwatch has fulfilled all the requirements to have these loans formally forgiven by the SBA (see Note 12).
- Earthwatch has secured an Economic Injury Disaster Loan of \$150,000. This is a thirty-year note and has an interest rate of 2.75% (see Note 8).
- Cut costs. During the early part of the pandemic, all regular employees were on either full or partial furlough. In addition, Earthwatch has taken additional steps to reduce both program and non-program expenses. In the current fiscal year, Earthwatch continues to monitor its costs closely, and only anticipates increasing cash outlays as revenue increases allow.
- A new focus on planned giving has resulted in approximately \$446,000 in bequests for the fiscal year ended September 30, 2021.

Management is confident that these steps will generate sufficient cash flows to meet its program and operating commitments.

15. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS WITHOUT DONOR RESTRICTIONS

Financial assets without donor restrictions available for use by Earthwatch within one year from the statements of financial position date as of September 30, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 195,870	\$ -
Current portion of pledges receivable (including time restricted)	400,000	87,778
Grants and other receivables	297,498	76,556
Due from affiliates	3,507	51,593
Endowment spending policy draw	<u>8,885</u>	<u>8,492</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 905,760</u>	<u>\$ 224,419</u>

As part of Earthwatch's liquidity management, Earthwatch has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligation come due. Earthwatch has access to a line of credit, which has \$500,000 available as of September 30, 2021 and 2020 (see Note 9), that can be drawn upon as needed to cover operating costs. Earthwatch also has approximately \$480,000 interest in a life insurance policy that can be liquidated or borrowed against.