



**earthwatch**

**EARTHWATCH INSTITUTE, INC.**

**FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022 AND 2021**

**EARTHWATCH INSTITUTE, INC.**

Contents  
September 30, 2022 and 2021

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## Independent Auditor's Report

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

### **Opinion**

We have audited the financial statements of Earthwatch Institute, Inc. (a Massachusetts corporation, not for profit) (Earthwatch), which comprise the statements of financial position as of September 30, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Earthwatch Institute, Inc. as of September 30, 2022 and 2021, 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Earthwatch and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Emphasis of Matter**

As discussed in Note 2 to the financial statements, in fiscal year 2022, Earthwatch adopted Financial Accounting Standards Board's Accounting Standards Update 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Earthwatch's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Earthwatch's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Earthwatch's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*AAFCPA, Inc.*

Boston, Massachusetts  
January 31, 2023

**EARTHWATCH INSTITUTE, INC.**

 Statements of Financial Position  
 September 30, 2022 and 2021

Assets	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 269,511	\$ 464,646	\$ 734,157	\$ 195,870	\$ 678,537	\$ 874,407
Short-term investments	-	1,145,817	1,145,817	-	1,396,396	1,396,396
Current portion of pledges receivable	-	440,000	440,000	-	500,000	500,000
Grants and other receivables	-	-	-	297,498	-	297,498
Prepaid field grant expense	87,011	-	87,011	130,434	-	130,434
Prepaid expenses	149,054	-	149,054	131,111	-	131,111
Due from affiliates	-	-	-	3,507	-	3,507
Total current assets	<u>505,576</u>	<u>2,050,463</u>	<u>2,556,039</u>	<u>758,420</u>	<u>2,574,933</u>	<u>3,333,353</u>
Investments	-	1,878,656	1,878,656	-	2,404,803	2,404,803
Pledges Receivable, net of current portion and discount	-	756,280	756,280	-	1,200,000	1,200,000
Property and Equipment, net	62,092	-	62,092	19,441	-	19,441
Right-of-Use Asset	280,255	-	280,255	-	-	-
Interest in Insurance Policy Contracts	480,035	-	480,035	480,035	-	480,035
Intangible Assets	66,895	-	66,895	66,895	-	66,895
Total assets	<u>\$ 1,394,853</u>	<u>\$ 4,685,399</u>	<u>\$ 6,080,252</u>	<u>\$ 1,324,791</u>	<u>\$ 6,179,736</u>	<u>\$ 7,504,527</u>
<b>Liabilities and Net Assets</b>						
<b>Current Liabilities:</b>						
Current portion of note payable	\$ 2,205	\$ -	\$ 2,205	\$ 1,981	\$ -	\$ 1,981
Current portion of lease liability	63,276	-	63,276	-	-	-
Accounts payable and accrued expenses	289,062	-	289,062	385,545	-	385,545
Due to affiliates	120,293	-	120,293	36,983	-	36,983
Conditional advances	306,327	-	306,327	260,447	-	260,447
Total current liabilities	<u>781,163</u>	<u>-</u>	<u>781,163</u>	<u>684,956</u>	<u>-</u>	<u>684,956</u>
Lease Liability, less current portion	228,084	-	228,084	-	-	-
Note Payable, net of current portion	146,513	-	146,513	146,737	-	146,737
Total liabilities	<u>1,155,760</u>	<u>-</u>	<u>1,155,760</u>	<u>831,693</u>	<u>-</u>	<u>831,693</u>
<b>Net Assets:</b>						
<b>Without donor restrictions:</b>						
Operating	121,211	-	121,211	406,762	-	406,762
Property and equipment and intangibles	117,882	-	117,882	86,336	-	86,336
Total without donor restrictions	<u>239,093</u>	<u>-</u>	<u>239,093</u>	<u>493,098</u>	<u>-</u>	<u>493,098</u>
With donor restrictions	-	4,685,399	4,685,399	-	6,179,736	6,179,736
Total net assets	<u>239,093</u>	<u>4,685,399</u>	<u>4,924,492</u>	<u>493,098</u>	<u>6,179,736</u>	<u>6,672,834</u>
Total liabilities and net assets	<u>\$ 1,394,853</u>	<u>\$ 4,685,399</u>	<u>\$ 6,080,252</u>	<u>\$ 1,324,791</u>	<u>\$ 6,179,736</u>	<u>\$ 7,504,527</u>

The accompanying notes are an integral part of these statements.

**EARTHWATCH INSTITUTE, INC.**

## Statements of Activities

For the Years Ended September 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenue and Support:</b>						
Gifts and grants	\$ 1,161,754	\$ 1,366,643	\$ 2,528,397	\$ 1,377,406	\$ 2,598,370	\$ 3,975,776
Contributions from domestic volunteers	1,570,419	-	1,570,419	307,441	-	307,441
Donated advertising	107,846	-	107,846	106,174	-	106,174
Investment return designated for operations	9,070	90,485	99,555	8,162	78,532	86,694
Government contributions	35,303	-	35,303	1,331,333	-	1,331,333
Investment income	22,483	-	22,483	18,890	-	18,890
Other	15,913	-	15,913	1,363	-	1,363
Net assets released from purpose restrictions	2,025,316	(2,025,316)	-	1,439,928	(1,439,928)	-
Net assets released from time restrictions	400,000	(400,000)	-	-	-	-
Total operating revenue and support	<u>5,348,104</u>	<u>(968,188)</u>	<u>4,379,916</u>	<u>4,590,697</u>	<u>1,236,974</u>	<u>5,827,671</u>
<b>Operating Expenses:</b>						
Program	4,089,558	-	4,089,558	2,612,685	-	2,612,685
General and administration	899,612	-	899,612	761,230	-	761,230
Fundraising	339,956	-	339,956	251,157	-	251,157
Total operating expenses	<u>5,329,126</u>	<u>-</u>	<u>5,329,126</u>	<u>3,625,072</u>	<u>-</u>	<u>3,625,072</u>
Changes in net assets from operations	<u>18,978</u>	<u>(968,188)</u>	<u>(949,210)</u>	<u>965,625</u>	<u>1,236,974</u>	<u>2,202,599</u>
<b>Non-Operating Revenue (Expenses):</b>						
Investment return designated for operations	-	(99,555)	(99,555)	-	(86,694)	(86,694)
Investment return (loss), net	(272,983)	(426,594)	(699,577)	166,733	509,463	676,196
Total non-operating revenue (expenses)	<u>(272,983)</u>	<u>(526,149)</u>	<u>(799,132)</u>	<u>166,733</u>	<u>422,769</u>	<u>589,502</u>
Changes in net assets	<u>\$ (254,005)</u>	<u>\$ (1,494,337)</u>	<u>\$ (1,748,342)</u>	<u>\$ 1,132,358</u>	<u>\$ 1,659,743</u>	<u>\$ 2,792,101</u>

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, 2022 and 2021

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	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Net Assets</b> , 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>
<b>Net Assets</b> , September 30, 2021	493,098	6,179,736	6,672,834
Changes in net assets	<u>(254,005)</u>	<u>(1,494,337)</u>	<u>(1,748,342)</u>
<b>Net Assets</b> , September 30, 2022	<u>\$ 239,093</u>	<u>\$ 4,685,399</u>	<u>\$ 4,924,492</u>

**EARTHWATCH INSTITUTE, INC.**

Statements of Cash Flows  
For the Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ (1,748,342)	\$ 2,792,101
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	12,576	11,320
Loss on disposal of asset	4,865	-
Change in discount on pledges receivable	43,720	-
Investment (return) loss, net	699,577	(676,196)
Right-of-use asset amortization	11,105	-
Changes in operating assets and liabilities:		
Pledges receivable	460,000	(1,537,222)
Grants and other receivables	297,498	(220,942)
Prepaid field grant expense	43,423	(71,306)
Prepaid expenses	(17,943)	(70,557)
Due from affiliates	3,507	48,086
Accounts payable and accrued expenses	(96,483)	72,761
Due to affiliates	83,310	36,983
Conditional advances	45,880	51,270
	<u>(157,307)</u>	<u>436,298</u>
<b>Net cash provided by (used in) operating activities</b>		
<b>Cash Flows from Investing Activities:</b>		
Acquisition of property and equipment	(60,092)	-
Purchase of investments	(3,911,611)	(830,578)
Proceeds from sale of investments	3,988,760	495,558
	<u>17,057</u>	<u>(335,020)</u>
<b>Net cash provided by (used in) investing activities</b>		
<b>Cash Flows from Financing Activities:</b>		
Payments on note payable to a bank	-	(1,282)
	<u>-</u>	<u>(1,282)</u>
<b>Net Change in Cash and Cash Equivalents</b>	(140,250)	99,996
<b>Cash and Cash Equivalents:</b>		
Beginning of year	<u>874,407</u>	<u>774,411</u>
End of year	<u>\$ 734,157</u>	<u>\$ 874,407</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	<u>\$ 3,961</u>	<u>\$ 3,707</u>



**EARTHWATCH INSTITUTE, INC.**

 Statements of Functional Expenses  
 For the Years Ended September 30, 2022 and 2021

	2022			2021				
	Program	General and Administration	Fundraising	Total Expenses	Program	General and Administration	Fundraising	Total Expenses
<b>Personnel and Related:</b>								
Salaries	\$ 1,559,624	\$ 583,664	\$ 199,133	\$ 2,342,421	\$ 1,123,108	\$ 482,511	\$ 147,692	\$ 1,753,311
Fringe benefits	227,045	72,537	21,054	320,636	216,322	60,242	11,867	288,431
Payroll taxes	115,167	41,907	14,752	171,826	60,827	33,712	10,317	104,856
Total personnel and related	1,901,836	698,108	234,939	2,834,883	1,400,257	576,465	169,876	2,146,598
<b>Field Grants</b>	1,423,953	-	-	1,423,953	502,795	-	-	502,795
<b>Other:</b>								
Insurance	152,027	14,335	1,641	168,003	91,865	6,461	1,198	99,524
Occupancy	93,564	30,742	9,356	133,662	156,345	32,487	14,213	203,045
Program expenses	113,846	-	-	113,846	108,121	-	-	108,121
Travel, staff development, seminars and conferences	79,568	26,711	1,727	108,006	40,301	19,765	227	60,293
Donated advertising	91,784	-	16,062	107,846	95,790	-	10,384	106,174
Supplies	65,098	10,985	1,968	78,051	25,444	13,543	1,037	40,024
Printing and postage	27,073	3,855	41,628	72,556	36,751	1,165	19,009	56,925
Maintenance and repairs	40,421	23,535	3,244	67,200	30,455	23,285	2,551	56,291
Consultants and temporary help	36,638	7,935	21,625	66,198	74,641	3,072	24,252	101,965
Professional fees	4,050	60,331	-	64,381	3,308	66,503	38	69,849
Bank fees and merchant fees	32,828	7,673	5,332	45,833	7,533	4,104	5,599	17,236
Telephone	12,838	4,445	889	18,172	10,466	5,791	867	17,124
Depreciation	7,344	4,360	872	12,576	8,715	1,813	792	11,320
Dues and subscriptions	2,582	1,393	119	4,094	12,867	480	377	13,724
Interest	-	3,961	-	3,961	-	3,707	-	3,707
Advertising	2,855	-	500	3,355	6,804	-	737	7,541
Miscellaneous	1,253	1,243	54	2,550	227	2,589	-	2,816
Total other	763,769	201,504	105,017	1,070,290	709,633	184,765	81,281	975,679
Total expenses	\$ 4,089,558	\$ 899,612	\$ 339,956	\$ 5,329,126	\$ 2,612,685	\$ 761,230	\$ 251,157	\$ 3,625,072

The accompanying notes are an integral part of these statements.

## EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements  
September 30, 2022 and 2021

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### 1. OPERATIONS AND NONPROFIT STATUS

Earthwatch Institute, Inc. (Earthwatch) connects people 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).

#### Accounting Standards Adoption

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The update requires a lessee to recognize, on the statement of financial position, a liability to make lease payments and a right-of-use (ROU) asset representing a right to use the underlying asset for the lease term. Additionally, this guidance expanded related disclosure requirements. On October 1, 2021, Earthwatch adopted the new standard and elected the optional transition method, as allowed by ASU 2018-11, *Lease (Topic 842): Targeted Improvements*, to apply the new standard as of the effective date. Therefore, Earthwatch has not applied the new standard to the fiscal year 2021 financial statements. Earthwatch elected to apply the following practical expedients and policy elections at adoption:

Practical expedient package	Earthwatch has elected for any expired and existing leases to skip reassessment of the following: <ul style="list-style-type: none"><li>• whether a contract is, or contains a lease;</li><li>• the lease classification; and</li><li>• any initial direct costs.</li></ul>
Hindsight practical expedient	Earthwatch has elected the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of operating lease assets.

Earthwatch also elected to combine lease and non-lease components and to exclude short-term leases from the statement of financial position.

The new lease standard as of October 1, 2021, was as follows:

	<u>As Previously Reported</u>	<u>Effect of Adoption</u>	<u>As Adjusted</u>
Right-of-use assets	\$ -	\$ 90,111	\$ 90,111
Lease liability	\$ -	\$ 90,111	\$ 90,111
Deferred rent	\$ 11,606	\$ (11,606)	\$ -

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting Standards Adoption (Continued)**

In September 2020, FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 is intended to increase the transparency of contributed nonfinancial assets (in-kind goods and services) for not-for-profit entities through enhancements to presentation and disclosure. The amendments in this ASU will not change the recognition and measurement requirements of in-kind goods and services.

In fiscal year 2022, Earthwatch adoption ASU 2020-07. The adoption of this ASU did not impact Earthwatch net asset classes, results of operations, or cash flows for the year ended September 30, 2022. This ASU has been applied retrospectively to all periods presented.

**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, 2022 and 2021.

**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.

## EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements  
September 30, 2022 and 2021

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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.

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 2022 and 2021, \$99,555 and \$86,694, respectively, were appropriated for operations (see page 10).

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

Earthwatch capitalizes all expenditures for property and equipment in excess of \$2,500 that have a useful life of one year or greater. Property and equipment are recorded at cost, if purchased, or at fair value at time of receipt, if donated. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred. 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

#### Right-of-Use Lease Asset

Earthwatch leases a building. The determination of whether an arrangement is a lease is made at the lease's inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

## EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements  
September 30, 2022 and 2021

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Right-of-Use Lease Asset (Continued)

Earthwatch's lease is classified as operating and is presented as a right-of use (ROU) asset with a corresponding current and long-term lease liability in the accompanying statements of financial position. ROU assets represent Earthwatch's right to use an underlying asset during its lease term, and lease liabilities represent the obligation to make lease payments.

Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Earthwatch uses the implicit rate when it is readily determinable. Since Earthwatch's lease does not provide an implicit rate to determine the present value of lease payments, management uses the risk-free rate at lease commencement. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

#### 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, right-of-use asset, intangible assets, lease liability and related debt, if any.

##### *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 9). 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>2022</u>	<u>2021</u>
Purpose restricted	\$ 1,609,049	\$ 2,133,517
Endowment	1,573,517	1,729,107
Time restricted	1,156,280	1,600,000
Appreciation and unspent earnings on endowment	<u>346,553</u>	<u>717,112</u>
	<u>\$ 4,685,399</u>	<u>\$ 6,179,736</u>

## EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements  
September 30, 2022 and 2021

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Net Assets (Continued)

##### *With Donor Restrictions:* (Continued)

A reconciliation of endowment activity for fiscal years 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
<b>Endowment net assets</b> , beginning of year	\$ 2,446,219	\$ 2,023,450
Investment return (loss), net	(426,594)	509,463
Investment return designated for operations	<u>(99,555)</u>	<u>(86,694)</u>
<b>Endowment net assets</b> , end of year	<u>\$ 1,920,070</u>	<u>\$ 2,446,219</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) includes endowment and investment activity.

#### Revenue Recognition

In accordance with 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.

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.

## **EARTHWATCH INSTITUTE, INC.**

Notes to Financial Statements  
September 30, 2022 and 2021

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### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Revenue Recognition (Continued)**

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 2022 and 2021, Earthwatch received bequests of approximately \$70,000 and \$446,000, 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 \$107,846 and \$106,174 for the years ended September 30, 2022 and 2021, respectively. These amounts have been reported as donated advertising in the accompanying statements of activities and the statements of functional expenses. Earthwatch recognizes the fair value of contributed services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

All gifts-in-kind received by Earthwatch for the years ended September 30, 2022 and 2021, were considered without donor restrictions and able to be used by Earthwatch as determined by management.

#### **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 above).

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

*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 Note 3). 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, 2022 and 2021.

*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.



## EARTHWATCH INSTITUTE, INC.

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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, 2022 and 2021. Earthwatch's information returns are subject to examination by the Federal and state jurisdictions.

#### Subsequent Events

Subsequent events have been evaluated through January 31, 2023, which is the date the financial statements were available to be issued. There are no events that met the criteria for disclosure or recognition 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>2022</u>	<u>2021</u>
Earthwatch Australia	\$ -	\$ 3,507

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

	<u>2022</u>	<u>2021</u>
Earthwatch Europe	\$ 120,293	\$ 36,983

There was no revenue derived from affiliates in fiscal years 2022 and 2021.

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, 2022 and 2021. 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 INSTITUTE, INC.

Notes to Financial Statements  
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### 3. RELATED PARTY TRANSACTIONS (Continued)

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, 2022 and 2021, were \$534,727 and \$623,095, 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>2022</u>	<u>2021</u>
Amounts due in:		
Less than one year	\$ 440,000	\$ 500,000
One to four years	<u>800,000</u>	<u>1,200,000</u>
	1,240,000	1,700,000
Less - discount	43,720	-
Less - current portion	<u>440,000</u>	<u>500,000</u>
Long-term pledges receivable, net	<u>\$ 756,280</u>	<u>\$ 1,200,000</u>

The pledges have been discounted using a 3.83% interest rate as of September 30, 2022. There was no discount at September 30, 2021, as it was immaterial to the accompanying financial statements taken as a whole.

### 5. INVESTMENTS

Investments consist of the following at September 30:

	<u>2022</u>	<u>2021</u>
Money market	\$ 166,631	\$ 302,662
Common stock:		
Information technology	556,391	-
Financial services	507,268	-
Healthcare	316,733	-
Industrials	308,806	-
Other	222,644	-
Real estate	162,903	-
Communication services	136,830	-
Mutual funds:		
Stock index funds	416,558	2,221,894
Other	129,001	-
Intermediate term bond funds	100,708	231,111
Exchange traded funds	<u>-</u>	<u>1,045,532</u>
	<u>\$ 3,024,473</u>	<u>\$ 3,801,199</u>

## EARTHWATCH INSTITUTE, INC.

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### 5. INVESTMENTS (Continued)

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.

Investments are not insured and are subject to on-going market fluctuations.

### 6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	<u>2022</u>	<u>2021</u>
Data processing equipment	\$ 164,223	\$ 134,342
Software	53,498	53,498
Other	48,717	18,507
Office equipment	27,825	27,825
Leasehold improvements	-	16,645
	<u>294,263</u>	<u>250,817</u>
Less - accumulated depreciation	<u>232,171</u>	<u>231,376</u>
	<u>\$ 62,092</u>	<u>\$ 19,441</u>

### 7. INTANGIBLE ASSETS

Intangible assets of \$66,895 as of September 30, 2022 and 2021, consist 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, 2022 or 2021.

### 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 2022, the SBA deferred the repayment by an additional eighteen months. Earthwatch repaid \$1,282 of this loan during fiscal year 2021, prior to the SBA's deferral. Earthwatch will continue repayment beginning in December 2022 through February 2052 (maturity). The loan is secured by all business assets. The balance of the note was \$148,718 as of September 30, 2022 and 2021.

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

2023	\$ 2,205
2024	\$ 3,577
2025	\$ 3,674
2026	\$ 3,773
2027	\$ 3,875

## EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements  
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### 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 (6.25% and 3.25% at September 30, 2022 and 2021, respectively), minus 25 basis points. At September 30, 2022 and 2021, there were no amounts outstanding. Earthwatch must comply with certain covenants. Earthwatch was not in compliance with the reporting covenant as of September 30, 2022 and 2021, due to timing of approving and submitting the audited financial statements, and received a waiver from bank.

### 10. LEASE

Earthwatch had a lease agreement for its location in Brighton, Massachusetts through March 31, 2022. Earthwatch recorded rent on a straight line-basis over the term of the lease in accordance with ASU Topic 840, *Leases*, through fiscal year 2021. Any difference between cash payments in the lease agreements and the related expense for a given year was recorded as deferred rent. Deferred rent of \$11,606 is included in accounts payable and accrued expenses in the accompanying statement of financial position as of September 30, 2021. Facility rent expense under this agreement for the years ended September 30, 2022 and 2021, was \$90,111 and \$182,700, respectively, which is included in occupancy in the accompanying statements of functional expenses. Earthwatch expensed a total of \$10,542 of lease expense for leases that did not qualify under ASC 842, which is included in printing and postage in the accompanying statement of functional expenses.

Starting April 1, 2022, Earthwatch came into an agreement for an operating lease for a facility in Newton, Massachusetts through May 2027. Monthly rent under this agreement is \$5,204 beginning in April 2022, which increases annually, as defined in the agreement. Lease expense for the facility lease was \$31,921 for the year ended September 30, 2022, and is included in occupancy in the accompanying fiscal year 2022 statement of functional expenses. Under the agreement, Earthwatch is required to pay a share of operating expenses and real estate taxes. Earthwatch did not have any of these expenses for the year ended September 30, 2022.

Earthwatch elected a risk-free rate for all classes of assets. The discount rate is 2.55% and the remaining lease term is 4.67 years for the year ended September 30, 2022.

The future maturities of the lease obligations were as follows as of September 30, 2022:

2023	\$ 63,276
2024	64,926
2025	66,576
2026	68,226
2027	<u>46,032</u>
Total	309,036
Less - present value discount	<u>(17,676)</u>
Present value of lease obligations	<u>\$ 291,360</u>

Additional information about Earthwatch's leases is as follows for fiscal year 2022:

Cash paid for amounts included in measuring operating liabilities	\$ 20,816
Operating lease assets obtained in exchange for lease liabilities	\$ 308,356

**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 \$19,799 and \$28,436 during fiscal years 2022 and 2021, respectively, which are included in fringe benefits in the accompanying statements of functional expenses.

**12. CONDITIONAL GRANTS AND ADVANCES**

In fiscal year 2021, Earthwatch applied for, and was awarded, a loan of \$546,845, 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. Earthwatch received forgiveness for the loan received in fiscal year 2021 from the lending bank and SBA in November 2021.

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 September 30, 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, 2022 and 2021. Earthwatch recognized \$35,303 and \$784,488 as contributions for the years ended September 30, 2022 and 2021, respectively, which are included in government contributions in the accompanying statements 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.

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, 2022 and 2021, and on the changes in its net assets for the years 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, was due from one funder. One hundred percent of pledges receivable at September 30, 2022 and 2021, is due from three and two donors, respectively.

**14. CONTINUING OPERATIONS**

Earthwatch obtained surpluses without donor restrictions from operations of \$18,978 and \$965,625 for the years ended September 30, 2022 and 2021, respectively. Net assets with donor restrictions from operations decreased by \$968,188 for the year ended September 30, 2022. Net assets with donor restrictions from operations increased by \$1,236,974 for the year ended September 30, 2021. As of September 30, 2022, Earthwatch had operating net assets without donor restrictions balance of \$121,211.

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 2022 continued to be 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.

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:

- Continued to control costs. While Earthwatch has brought most of staff back and are now approaching pre-pandemic staffing levels, they have matched the staffing increase with a return in fielding and funded programs.
- Imagine a World Campaign - In honor of their fiftieth year in operation, Earthwatch has begun a major capital campaign designed to engage more students on its programs, to engage them in the scientific process, and to further citizen science and environmental field research. The campaign raised \$456,000 for the year ended September 30, 2022, which is the first year of the campaign.

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

**EARTHWATCH INSTITUTE, INC.**Notes to Financial Statements  
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**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, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 269,511	\$ 195,870
Current portion of pledges receivable (including time restricted)	440,000	500,000
Grants and other receivables	-	297,498
Due from affiliates	-	3,507
Endowment spending policy draw	<u>9,143</u>	<u>8,885</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 718,654</u>	<u>\$ 1,005,760</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, 2022 and 2021 (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.