



**FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

EARTHWATCH INSTITUTE, INC.

Contents
September 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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.

A handwritten signature in black ink, reading 'Alexander, Crosser, Penning & Co., P.C.', is written in a cursive style.

Boston, Massachusetts
January 15, 2018

EARTHWATCH INSTITUTE, INC.

Statements of Financial Position
September 30, 2017 and 2016

Assets	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:								
Cash and cash equivalents	\$ -	\$ 294,866	\$ -	\$ 294,866	\$ 13,223	\$ 143,251	\$ -	\$ 156,474
Short-term investments	-	783,275	-	783,275	-	733,042	-	733,042
Current portion of grants, pledges and other receivable, net	143,805	1,368,640	-	1,512,445	57,019	1,037,105	-	1,094,124
Prepaid field grant expense	122,736	-	-	122,736	45,424	-	-	45,424
Prepaid expenses	63,564	-	-	63,564	183,911	-	-	183,911
Due from affiliates	-	-	-	-	28,829	-	-	28,829
Due (to) from	(389,578)	259,053	130,525	-	(220,548)	-	220,548	-
Total current assets	(59,473)	2,705,834	130,525	2,776,886	107,858	1,913,398	220,548	2,241,804
Investments	-	336,863	1,438,435	1,775,298	-	238,887	1,345,359	1,584,246
Grants, Pledges and Other Receivable, net of current portion and discount	-	956,935	-	956,935	-	1,106,700	-	1,106,700
Property and Equipment, net	29,139	-	-	29,139	33,984	-	-	33,984
Other Assets:								
Interest in insurance policy contracts	475,989	-	-	475,989	436,300	-	-	436,300
Deposits	25,000	-	-	25,000	25,343	-	-	25,343
Intangible assets	66,895	-	-	66,895	66,895	-	-	66,895
Total other assets	567,884	-	-	567,884	528,538	-	-	528,538
Total assets	\$ 537,550	\$ 3,999,632	\$ 1,568,960	\$ 6,106,142	\$ 670,380	\$ 3,258,985	\$ 1,565,907	\$ 5,495,272
Liabilities and Net Assets								
Current Liabilities:								
Note payable to a bank	\$ 200,000	\$ -	\$ -	\$ 200,000	\$ 450,000	\$ -	\$ -	\$ 450,000
Accounts payable and accrued expenses	375,978	-	-	375,978	238,329	-	-	238,329
Due to affiliates	108,759	-	-	108,759	355,909	-	-	355,909
Deferred expedition income	754,208	-	-	754,208	568,696	-	-	568,696
Total current liabilities	1,438,945	-	-	1,438,945	1,612,934	-	-	1,612,934
Net Assets:								
Unrestricted:								
Property and equipment and intangibles	96,034	-	-	96,034	100,879	-	-	100,879
Operating	(997,429)	-	-	(997,429)	(1,043,433)	-	-	(1,043,433)
Total unrestricted	(901,395)	-	-	(901,395)	(942,554)	-	-	(942,554)
Temporarily restricted	-	3,999,632	-	3,999,632	-	3,258,985	-	3,258,985
Permanently restricted	-	-	1,568,960	1,568,960	-	-	1,565,907	1,565,907
Total net assets	(901,395)	3,999,632	1,568,960	4,667,197	(942,554)	3,258,985	1,565,907	3,882,338
Total liabilities and net assets	\$ 537,550	\$ 3,999,632	\$ 1,568,960	\$ 6,106,142	\$ 670,380	\$ 3,258,985	\$ 1,565,907	\$ 5,495,272

The accompanying notes are an integral part of these statements.

EARTHWATCH INSTITUTE, INC.

Statements of Activities

For the Years Ended September 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue and Support:								
Gifts and grants	\$ 690,841	\$ 3,811,014	\$ -	\$ 4,501,855	\$ 841,160	\$ 2,968,706	\$ -	\$ 3,809,866
Contributions from domestic volunteers	3,232,202	-	-	3,232,202	2,845,191	-	-	2,845,191
Contributions from overseas volunteers	213,241	-	-	213,241	191,734	-	-	191,734
Donated advertising	111,551	-	-	111,551	109,225	-	-	109,225
Investment return designated for operations	8,160	78,242	-	86,402	8,025	76,972	-	84,997
Investment income	15,272	-	-	15,272	8,535	-	-	8,535
Other	-	-	-	-	16,691	-	-	16,691
Net assets released from purpose restrictions	3,171,585	(3,171,585)	-	-	3,744,365	(3,744,365)	-	-
Net assets released from time restrictions	75,000	(75,000)	-	-	-	-	-	-
Total operating revenue and support	7,517,852	642,671	-	8,160,523	7,764,926	(698,687)	-	7,066,239
Operating Expenses:								
Program	6,331,221	-	-	6,331,221	6,416,875	-	-	6,416,875
General and administration	973,384	-	-	973,384	1,018,406	-	-	1,018,406
Fundraising	265,324	-	-	265,324	337,410	-	-	337,410
Total operating expenses	7,569,929	-	-	7,569,929	7,772,691	-	-	7,772,691
Changes in net assets from operations	(52,077)	642,671	-	590,594	(7,765)	(698,687)	-	(706,452)
Non-Operating Revenue (Expenses):								
Investment return, net	53,547	184,378	3,053	240,978	33,019	138,813	12,537	184,369
Change in interest in insurance policy contracts	39,689	-	-	39,689	21,349	-	-	21,349
Investment return designated for operations	-	(86,402)	-	(86,402)	-	(84,997)	-	(84,997)
Total non-operating revenue (expenses)	93,236	97,976	3,053	194,265	54,368	53,816	12,537	120,721
Changes in net assets	\$ 41,159	\$ 740,647	\$ 3,053	\$ 784,859	\$ 46,603	\$ (644,871)	\$ 12,537	\$ (585,731)

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, 2017 and 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets , September 30, 2015	\$ (989,157)	\$ 3,903,856	\$ 1,553,370	\$ 4,468,069
Changes in net assets	<u>46,603</u>	<u>(644,871)</u>	<u>12,537</u>	<u>(585,731)</u>
Net Assets , September 30, 2016	(942,554)	3,258,985	1,565,907	3,882,338
Changes in net assets	<u>41,159</u>	<u>740,647</u>	<u>3,053</u>	<u>784,859</u>
Net Assets , September 30, 2017	<u>\$ (901,395)</u>	<u>\$ 3,999,632</u>	<u>\$ 1,568,960</u>	<u>\$ 4,667,197</u>

EARTHWATCH INSTITUTE, INC.

Statements of Cash Flows

For the Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 784,859	\$ (585,731)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	9,769	6,587
Change in discount on grants and pledges receivable	(3,568)	9,035
Change in interest in insurance policy contracts	(39,689)	(21,349)
Investment return, net	(240,978)	(184,369)
Changes in operating assets and liabilities:		
Grants, pledges and other receivable	(264,988)	119,946
Prepaid field grant expense	(77,312)	25,052
Prepaid expenses	120,347	7,984
Due from affiliates	28,829	28,619
Deposits	343	7,036
Accounts payable and accrued expenses	137,649	(127,573)
Due to affiliate	(247,150)	95,362
Deferred expedition income	185,512	(48,501)
	<u>393,623</u>	<u>(667,902)</u>
Net cash provided by (used in) operating activities		
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(4,924)	(26,254)
Purchase of investments	(1,225,613)	(1,644,638)
Proceeds from sale of investments	1,225,306	2,088,666
	<u>(5,231)</u>	<u>417,774</u>
Net cash provided by (used in) investing activities		
Cash Flows from Financing Activities:		
Net proceeds from (payments on) note payable to a bank	(250,000)	250,000
	<u>138,392</u>	<u>(128)</u>
Net Change in Cash and Cash Equivalents		
Cash and Cash Equivalents:		
Beginning of year	156,474	156,602
End of year	<u>\$ 294,866</u>	<u>\$ 156,474</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 14,512</u>	<u>\$ 6,908</u>

EARTHWATCH INSTITUTE, INC.

Statements of Functional Expenses
For the Years Ended September 30, 2017 and 2016

	2017			2016				
	Program	General and Administration	Fundraising	Total Expenses	Program	General and Administration	Fundraising	Total Expenses
Personnel and Related:								
Salaries	\$ 1,848,135	\$ 610,387	\$ 141,261	\$ 2,599,783	\$ 1,973,838	\$ 614,760	\$ 213,718	\$ 2,802,316
Fringe benefits	187,795	75,311	12,643	275,749	142,836	83,373	10,715	236,924
Payroll taxes	202,734	39,854	11,353	253,941	263,107	50,591	17,047	330,745
Total personnel and related	<u>2,238,664</u>	<u>725,552</u>	<u>165,257</u>	<u>3,129,473</u>	<u>2,379,781</u>	<u>748,724</u>	<u>241,480</u>	<u>3,369,985</u>
Field Grants	<u>2,611,094</u>	<u>-</u>	<u>-</u>	<u>2,611,094</u>	<u>2,566,166</u>	<u>-</u>	<u>-</u>	<u>2,566,166</u>
Other:								
Program expenses	321,307	-	-	321,307	136,781	-	-	136,781
Travel, staff development, seminars and conferences	249,832	47,503	9,220	306,555	369,889	59,484	22,587	451,960
Occupancy	150,707	39,780	9,945	200,432	142,618	38,031	9,508	190,157
Consultants and temporary help	161,505	19,847	10,694	192,046	224,900	54,648	6,007	285,555
Insurance	157,547	17,748	538	175,833	157,914	22,875	614	181,403
Advertising	120,519	-	13,073	133,592	138,322	-	14,472	152,794
Printing and postage	47,921	2,351	46,115	96,387	79,390	3,370	31,512	114,272
Bank fees and merchant fees	80,589	9,328	-	89,917	69,856	6,382	4,007	80,245
Professional fees	43,498	37,500	-	80,998	34,503	41,145	19	75,667
Maintenance and repairs	47,093	19,934	2,238	69,265	22,032	13,092	539	35,663
Supplies	41,482	12,820	982	55,284	41,062	5,635	1,123	47,820
Telephone	38,764	12,635	2,865	54,264	41,499	11,647	2,773	55,919
Dues and subscriptions	11,097	4,682	1,138	16,917	7,221	1,952	2,360	11,533
Interest	-	14,512	-	14,512	-	6,908	-	6,908
Miscellaneous	2,806	6,672	2,806	12,284	-	3,196	80	3,276
Depreciation	6,796	2,520	453	9,769	4,941	1,317	329	6,587
Total other	<u>1,481,463</u>	<u>247,832</u>	<u>100,067</u>	<u>1,829,362</u>	<u>1,470,928</u>	<u>269,682</u>	<u>95,930</u>	<u>1,836,540</u>
Total expenses	<u>\$ 6,331,221</u>	<u>\$ 973,384</u>	<u>\$ 265,324</u>	<u>\$ 7,569,929</u>	<u>\$ 6,416,875</u>	<u>\$ 1,018,406</u>	<u>\$ 337,410</u>	<u>\$ 7,772,691</u>

The accompanying notes are an integral part of these statements.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2017 and 2016

1. OPERATIONS AND NONPROFIT STATUS

Earthwatch Institute, Inc. (Earthwatch) is dedicated to building a healthy and sustainable planet. Earthwatch grants monetary and volunteer support to scientific field research and multi-cultural awareness efforts in our most threatened human and wildlife communities each year. Findings are 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. Innovative educational programs for teachers and students improve scientific literacy and environmental awareness in our next generation of leaders, while strategic academic, corporate and government partnerships engage all sectors in long-lasting protection of our natural and cultural resources.

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.

Allowance of Grants, Pledges and Other Receivable

Earthwatch receives grants and pledges from various donors. The allowance for doubtful accounts, if any, is based on management's best estimate of amounts that may become uncollectible. There was no allowance as of September 30, 2017 and 2016.

Prepaid Field Grants Expense

Prepaid field grants expense represents advances to researchers who generally field expeditions within two months of receipt of the advance. Accrued field grants represent amounts due to researchers upon completion of a project and their filing specific reports. No such amounts were due at September 30, 2017 and 2016. These amounts are forfeited by the researcher if the reports are not submitted to Earthwatch by the date that is outlined in the contract. Field grant expenses are recognized when the expeditions are fielded.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2017 and 2016

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. 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 permanently restricted investments for operations each year. Annually, Earthwatch may appropriate for operations up to 5% of the average fair values of its permanently restricted 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 permanently restricted endowment portfolio below the historical dollar value at the time of the distribution. During fiscal years 2017 and 2016, \$86,402 and \$84,997, respectively, was appropriated for operations (see Note 9).

Earthwatch withdrew approximately \$265,000 of funds from the endowment investment fund in fiscal year 2016 to support operations. Beginning in fiscal year 2017, spending policy draw calculations will be reduced by the amount of the advanced distributions. Accordingly, no cash was withdrawn in fiscal year 2017. The remaining balance is reflected in the accompanying statements of financial position as due to/from at September 30, 2017 and 2016.

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

Deferred Expedition Income

Deferred expedition income includes 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.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Earthwatch's net assets include the following:

Unrestricted:

Property and equipment and intangibles represent the net book value of Earthwatch's property and equipment and intangible assets, net of related debts, if any.

Operating represents the portion of net assets that is available for operations and does not have any donor imposed restrictions.

Temporarily restricted represents 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. Temporarily restricted net assets also include appreciation on unspent earnings on permanently restricted net assets.

Temporarily restricted net assets consist of the following at September 30:

	<u>2017</u>	<u>2016</u>
Purpose restricted	\$ 3,512,769	\$ 2,795,098
Appreciation and unspent earnings on permanently restricted net assets	336,863	238,887
Time restricted	<u>150,000</u>	<u>225,000</u>
	<u>\$ 3,999,632</u>	<u>\$ 3,258,985</u>

Permanently restricted represents grants and contributions that have been restricted by donors to be maintained by Earthwatch in perpetuity (endowment funds). 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 in permanently restricted net assets.

Revenue Recognition

Earthwatch recognizes contributions from domestic and overseas volunteers at the end of the month in which the volunteers participate in the research expeditions. Gifts of cash and other assets are recognized as temporarily 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, temporarily restricted net assets are reclassified to unrestricted net assets 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. Unrestricted contributions are recognized when unconditionally pledged in writing or received. Donor-restricted endowment contributions are recorded as permanently restricted revenue and net assets if they are received and committed with donor stipulations that the net assets be held in perpetuity. All other revenue is recognized as earned.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or when amounts to be received are known.

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 \$111,551 and \$109,225 for the years ended September 30, 2017 and 2016, respectively.

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.

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.

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).

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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 and Board member (resigned in November 2017) 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, 2017 and 2016.

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, 2017 and 2016. Earthwatch's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through January 15, 2018, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
September 30, 2017 and 2016

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>2017</u>	<u>2016</u>
Amounts due from:		
Earthwatch Japan	\$ -	\$ 27,707
Earthwatch Australia	<u>-</u>	<u>1,112</u>
	<u>\$ -</u>	<u>\$ 28,829</u>

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

	<u>2017</u>	<u>2016</u>
Amounts due to:		
Earthwatch Europe	\$ 101,210	\$ 355,909
Earthwatch Australia	<u>7,549</u>	<u>-</u>
	<u>\$ 108,759</u>	<u>\$ 355,909</u>

The following revenue is derived from affiliates and is reflected as contributions from overseas volunteers in the accompanying statements of activities for the years ended September 30:

	<u>2017</u>	<u>2016</u>
Revenue derived from:		
Earthwatch Europe	\$ 118,750	\$ 96,088
Earthwatch Australia	51,609	60,855
Earthwatch Japan	<u>42,882</u>	<u>34,791</u>
	<u>\$ 213,241</u>	<u>\$ 191,734</u>

During fiscal years 2017 and 2016, Earthwatch received grants of \$1,832,424 and \$142,192, respectively, from Earthwatch Europe as part of a grant to Earthwatch Europe from HSBC. In addition, a Board member of Earthwatch is the Chief Operating Officer of HSBC Bank USA. Earthwatch is participating as a sub-grantee in this global water quality research project. Earthwatch will be carrying out portions of the project in North and South America over three years. Earthwatch received cash payments relating to these grants totaling \$952,159 and \$22,457 during the years ended September 30, 2017 and 2016, respectively. The balance due related to this project at September 30, 2017 and 2016, is \$1,000,000 and \$119,735, respectively, and is included in grants, pledges and other receivable (see Note 4).

EARTHWATCH INSTITUTE, INC.

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

During fiscal years 2017 and 2016, Earthwatch also had another one-year grant with Earthwatch Europe with funding from HSBC. The funding totaled \$120,557 and \$127,271 for fiscal years 2017 and 2016, respectively. All balances were paid during fiscal years 2017 and 2016.

The balance of temporarily restricted net assets from these related party grants is as follows as of September 30:

	<u>2017</u>	<u>2016</u>
HSBC Water Project	\$ 1,529,089	\$ 169,201
Other HSBC Projects	<u>94,036</u>	<u>96,774</u>
	<u>\$ 1,623,125</u>	<u>\$ 265,975</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, 2017 and 2016. 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, 2017 and 2016, were \$475,989 and \$436,300, respectively. These amounts are reflected as interest in insurance policy contracts in the accompanying statements of financial position.

4. GRANTS, PLEDGES AND OTHER RECEIVABLE

Grants, pledges and other receivable consist of amounts committed to Earthwatch for both unrestricted and restricted purposes. These amounts are due as follows:

<u>Fiscal Year</u>	<u>2017</u>	<u>2016</u>
Less than one year	\$ 1,512,445	\$ 1,094,124
One to five years	<u>970,000</u>	<u>1,123,333</u>
	2,482,445	2,217,457
Less - discount	<u>13,065</u>	<u>16,633</u>
	2,469,380	2,200,824
Less - current portion	<u>1,512,445</u>	<u>1,094,124</u>
Long-term grants, pledges and other receivable, net	<u>\$ 956,935</u>	<u>\$ 1,106,700</u>

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
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4. GRANTS, PLEDGES AND OTHER RECEIVABLE (Continued)

The pledges have been discounted using a 1.0% rate for fiscal years 2017 and 2016.

Earthwatch Europe's (see Note 3) grant receivable balance as of September 30, 2017 and 2016, was \$1,000,000 and \$119,735, respectively. These amounts represents approximately 40% and 5% of the total outstanding grants, pledges and other receivable balance as of September 30, 2017 and 2016, respectively. Approximately 40% of outstanding grants, pledges and other receivable at September 30, 2017, was due from another donor. Approximately 82% of outstanding grants, pledges and other receivable at September 30, 2016, was due from two other donors.

5. INVESTMENTS

Investments consist of the following at September 30:

	<u>2017</u>	<u>2016</u>
Money market	\$ 367,305	\$ 369,583
Fixed income:		
Intermediate term bond funds	279,145	218,629
Exchange traded funds	937,408	1,577,510
Equities	10,159	23,155
Mutual funds:		
Large blend	512,799	128,411
Mid-cap blend	290,749	-
Small blend	<u>161,008</u>	<u>-</u>
	<u>\$ 2,558,573</u>	<u>\$ 2,317,288</u>

The following is a summary of the net investment return of the portfolio for the years ended September 30:

	<u>2017</u>	<u>2016</u>
Net realized gains (losses) on investments	\$ 140,469	\$ (2,240)
Unrealized gains on investments	77,506	160,733
Investment income, net of fees of \$12,172 and \$10,620 for the years ended September 30, 2017 and 2016, respectively	<u>23,003</u>	<u>25,876</u>
Investment return, net	<u>\$ 240,978</u>	<u>\$ 184,369</u>

The investments have been allocated among the unrestricted, temporarily restricted and permanently restricted net asset classes in the accompanying financial statements according to the absence or presence of donor restrictions.

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.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
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5. INVESTMENTS (Continued)

Investment gains of \$3,053 and \$12,537 for the years ended September 30, 2017 and 2016, respectively, at the request of a donor, are to remain in the endowment.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	<u>2017</u>	<u>2016</u>
Office equipment	\$ 235,782	\$ 229,914
Data processing equipment	149,211	149,211
Software	101,872	101,872
Other	52,507	53,451
Leasehold improvements	<u>30,083</u>	<u>30,083</u>
	569,455	564,531
Less - accumulated depreciation	<u>540,316</u>	<u>530,547</u>
	<u>\$ 29,139</u>	<u>\$ 33,984</u>

7. INTANGIBLE ASSETS

Intangible assets of \$66,895 as of September 30, 2017 and 2016, 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 statement 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 statement 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, 2017 or 2016.

8. NOTE PAYABLE TO A BANK

Earthwatch has available up to \$500,000 under a line of credit agreement with a bank. The line of credit is secured by the pledge of a collateral account with marketable securities. This agreement was amended during fiscal year 2017 and Earthwatch has available up to the lesser of \$500,000 or 90% of the value or the pledged marketable securities collateral account. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's base lending rate (4.25% at September 30, 2017), minus 25 basis points. Prior to the amendment, borrowings under the agreement were due on demand and interest was payable monthly at the bank's base lending rate (3.50% at September 30, 2016), plus 1%. This agreement expires on March 31, 2019. At September 30, 2017 and 2016, \$200,000 and \$450,000, respectively, was outstanding.

Earthwatch must comply with certain covenants. Earthwatch was in compliance with these covenants as of September 30, 2017.

EARTHWATCH INSTITUTE, INC.Notes to Financial Statements
September 30, 2017 and 2016**9. ENDOWMENT**

Changes in endowment net assets by class are as follows:

	<u>Donor-Restricted</u>		<u>Total Endowment</u>
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, September 30, 2015	\$ 185,071	\$ 1,553,370	\$ 1,738,441
Investment return:			
Unrealized gains on investments	115,241	12,537	127,778
Investment income, net of fees	25,876	-	25,876
Net realized losses on investments	<u>(2,304)</u>	<u>-</u>	<u>(2,304)</u>
Total investment return	<u>138,813</u>	<u>12,537</u>	<u>151,350</u>
Investment return designated for operations	<u>(84,997)</u>	<u>-</u>	<u>(84,997)</u>
Endowment net assets, September 30, 2016	<u>238,887</u>	<u>1,565,907</u>	<u>1,804,794</u>
Investment return:			
Unrealized gains on investments	25,934	3,053	28,987
Investment income, net of fees	23,003	-	23,003
Net realized gains on investments	<u>135,441</u>	<u>-</u>	<u>135,441</u>
Total investment return	<u>184,378</u>	<u>3,053</u>	<u>187,431</u>
Investment return designated for operations	<u>(86,402)</u>	<u>-</u>	<u>(86,402)</u>
Endowment net assets, September 30, 2017	<u>\$ 336,863</u>	<u>\$ 1,568,960</u>	<u>\$ 1,905,823</u>

10. OPERATING LEASE

Earthwatch has a lease agreement for office space in Allston, Massachusetts through December 2017. Earthwatch is responsible for its proportionate share of any increase in operating costs and real estate taxes over a base year and must maintain specified insurance coverage. After the lease expires, Earthwatch will continue to lease the space as a tenant-at-will until they relocate in fiscal year 2018.

Facility rent expense for the years ended September 30, 2017 and 2016, was \$174,975 and \$173,442, respectively, which is included in occupancy in the accompanying statements of functional expenses.

Future minimum cash lease payments under non-cancelable operating leases are \$43,361 in fiscal year 2018.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
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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 \$103,769 and \$54,972 during fiscal years 2017 and 2016, respectively.

12. 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.

See Note 4 for concentrations in grants, pledges and other receivable.

In the ordinary course of Earthwatch's business, Earthwatch is, from time-to-time, involved in disputes concerning certain individual's employment with Earthwatch. While these employees are seeking damages in connection with these disputes, Earthwatch denies any wrongdoing in these cases and is taking the appropriate legal steps in defense of these disputes. It is Earthwatch's opinion that any potential settlement would not be material to the accompanying financial statements.

13. CONTINUING OPERATIONS

Earthwatch incurred unrestricted deficits from operations of \$(52,077) and \$(7,765) for the years ended September 30, 2017 and 2016, respectively. Temporarily restricted net assets from operations increased by \$642,671 for the year ended September 30, 2017, and decreased by \$698,687 for the year ended September 30, 2016. As of September 30, 2017, Earthwatch had a deficit unrestricted operating net assets balance of \$997,429 and unrestricted current liabilities exceeded unrestricted current assets by \$1,498,418.

Earthwatch has historically relied on cash flow from deferred expedition income and restricted funds to meet operating cash flow requirements. Earthwatch also has additional resources available if they are needed to cover operations. These resources at September 30, 2017, include approximately \$228,000 excess value beyond what is needed to cover a line of credit in an operating reserve, approximately \$206,000 excess value beyond the amount permanently restricted in an endowment account, and approximately \$476,000 interest in a life insurance policy that can be liquidated or borrowed against.

During fiscal year 2017, Earthwatch reduced non-program costs by approximately 7% from the prior year due to improvements and efficiencies during the year. Since September 30, 2016, Earthwatch has reduced headcount of two employees within general and administration and fundraising and replaced a third full-time employee with a part-time employee. During fiscal year 2018, Earthwatch has continued to control costs, while increasing investments in fundraising and within the program department.

EARTHWATCH INSTITUTE, INC.

Notes to Financial Statements
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13. CONTINUING OPERATIONS (Continued)

During fiscal year 2017, Earthwatch commenced a significant new program funded by HSBC. Earthwatch will assist in the establishment of Water Academy Science Centers within many of the countries HSBC operates. It has been preliminarily agreed that Earthwatch will lead at least 38 teams, consisting of at least 760 total participants within North America, at these Science Centers, providing hands-on environmental research and learning experience focused on such issues as urban pollution, water infiltration, heat island effects, and carbon sequestration.

The budget provides that Earthwatch will receive at least \$1.8 million over the course of this three year program. With these cost improvements and new efforts, management believes that Earthwatch will generate sufficient cash flows to meet its program and operating commitments.

14. RECLASSIFICATIONS

Certain amounts in the September 30, 2016 financial statements have been reclassified to conform to the September 30, 2017 presentation.