



**FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

EARTHWATCH INSTITUTE, INC.

**CONTENTS
SEPTEMBER 30, 2014 AND 2013**

| | <u>PAGES</u> |
|---|---------------------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| FINANCIAL STATEMENTS: | |
| Statements of Financial Position | 2 |
| Statements of Activities..... | 3 |
| Statements of Changes in Net Assets | 4 |
| Statements of Cash Flows | 5 |
| Statements of Functional Expenses | 6 |
| Notes to Financial Statements | 7 - 18 |



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, 2014 and 2013, 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, 2014 and 2013, 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.

Emphasis of a Matter

As discussed in Note 12 to the financial statements, during fiscal year 2014, Earthwatch discovered that certain amounts previously included in deferred expedition income should have been classified as temporarily restricted net assets. The change resulted in an increase of \$256,823 to the September 30, 2012 net assets, which is reflected in the statements of changes in net assets. Our opinion is not modified with respect to this matter.

Alexander, Brown, Pinning & Co., P.C.
Wellesley, Massachusetts
April 8, 2015

EARTHWATCH INSTITUTE, INC.

STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2014 AND 2013

| <u>ASSETS</u> | 2014 | | | | 2013 (Restated) | | | |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| | <u>UNRESTRICTED</u> | <u>TEMPORARILY RESTRICTED</u> | <u>PERMANENTLY RESTRICTED</u> | <u>TOTAL</u> | <u>UNRESTRICTED</u> | <u>TEMPORARILY RESTRICTED</u> | <u>PERMANENTLY RESTRICTED</u> | <u>TOTAL</u> |
| CURRENT ASSETS: | | | | | | | | |
| Cash and cash equivalents | \$ - | \$ 276,822 | \$ - | \$ 276,822 | \$ 34,047 | \$ 619,128 | \$ - | \$ 653,175 |
| Short-term investments | - | 912,249 | - | 912,249 | - | 843,299 | - | 843,299 |
| Current portion of grants, pledges and other receivable, net | 91,532 | 1,515,410 | - | 1,606,942 | 145,665 | 1,673,080 | - | 1,818,745 |
| Prepaid field grant expense, net | 102,716 | - | - | 102,716 | 83,207 | - | - | 83,207 |
| Prepaid expenses | 86,116 | - | - | 86,116 | 60,370 | - | - | 60,370 |
| Due from affiliates | 37,705 | - | - | 37,705 | 119,546 | - | - | 119,546 |
| Due (to) from | (98,525) | 137,873 | (39,348) | - | 86,443 | (47,095) | (39,348) | - |
| Total current assets | <u>219,544</u> | <u>2,842,354</u> | <u>(39,348)</u> | <u>3,022,550</u> | <u>529,278</u> | <u>3,088,412</u> | <u>(39,348)</u> | <u>3,578,342</u> |
| INVESTMENTS | - | 293,168 | 1,625,858 | 1,919,026 | - | 293,201 | 1,468,501 | 1,761,702 |
| GRANTS, PLEDGES AND OTHER RECEIVABLE, net of current portion and discount | - | 729,010 | - | 729,010 | - | 584,204 | 150,000 | 734,204 |
| PROPERTY AND EQUIPMENT, net | 10,793 | - | - | 10,793 | 65,390 | - | - | 65,390 |
| OTHER ASSETS: | | | | | | | | |
| Interest in insurance policy contracts | 429,298 | - | - | 429,298 | 433,108 | - | - | 433,108 |
| Lease deposit | 25,000 | - | - | 25,000 | 25,000 | - | - | 25,000 |
| Intangible assets | 66,895 | - | - | 66,895 | 66,895 | - | - | 66,895 |
| Total assets | <u>\$ 751,530</u> | <u>\$ 3,864,532</u> | <u>\$ 1,586,510</u> | <u>\$ 6,202,572</u> | <u>\$ 1,119,671</u> | <u>\$ 3,965,817</u> | <u>\$ 1,579,153</u> | <u>\$ 6,664,641</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | |
| Note payable to a bank | \$ 300,000 | \$ - | \$ - | \$ 300,000 | \$ - | \$ - | \$ - | \$ - |
| Accounts payable and accrued expenses | 333,281 | - | - | 333,281 | 666,658 | - | - | 666,658 |
| Due to affiliates | 120,434 | - | - | 120,434 | - | - | - | - |
| Deferred expedition income | 475,856 | - | - | 475,856 | 719,972 | - | - | 719,972 |
| Total current liabilities | <u>1,229,571</u> | <u>-</u> | <u>-</u> | <u>1,229,571</u> | <u>1,386,630</u> | <u>-</u> | <u>-</u> | <u>1,386,630</u> |
| ACCRUED RENT | - | - | - | - | 10,152 | - | - | 10,152 |
| Total liabilities | <u>1,229,571</u> | <u>-</u> | <u>-</u> | <u>1,229,571</u> | <u>1,396,782</u> | <u>-</u> | <u>-</u> | <u>1,396,782</u> |
| NET ASSETS: | | | | | | | | |
| Unrestricted: | | | | | | | | |
| Property and equipment and intangibles | 77,688 | - | - | 77,688 | 132,285 | - | - | 132,285 |
| Operating | (555,729) | - | - | (555,729) | (409,396) | - | - | (409,396) |
| Total unrestricted | <u>(478,041)</u> | <u>-</u> | <u>-</u> | <u>(478,041)</u> | <u>(277,111)</u> | <u>-</u> | <u>-</u> | <u>(277,111)</u> |
| Temporarily restricted | - | 3,864,532 | - | 3,864,532 | - | 3,965,817 | - | 3,965,817 |
| Permanently restricted | - | - | 1,586,510 | 1,586,510 | - | - | 1,579,153 | 1,579,153 |
| Total net assets | <u>(478,041)</u> | <u>3,864,532</u> | <u>1,586,510</u> | <u>4,973,001</u> | <u>(277,111)</u> | <u>3,965,817</u> | <u>1,579,153</u> | <u>5,267,859</u> |
| Total liabilities and net assets | <u>\$ 751,530</u> | <u>\$ 3,864,532</u> | <u>\$ 1,586,510</u> | <u>\$ 6,202,572</u> | <u>\$ 1,119,671</u> | <u>\$ 3,965,817</u> | <u>\$ 1,579,153</u> | <u>\$ 6,664,641</u> |

The accompanying notes are an integral part of these statements.

EARTHWATCH INSTITUTE, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

| | 2014 | | | | 2013 | | | |
|---|--------------|---------------------------|---------------------------|--------------|--------------|---------------------------|---------------------------|--------------|
| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
| OPERATING REVENUE AND SUPPORT: | | | | | | | | |
| Gifts and grants | \$ 746,682 | \$ 3,617,120 | \$ - | \$ 4,363,802 | \$ 989,490 | \$ 4,346,776 | \$ - | \$ 5,336,266 |
| Contributions from domestic volunteers | 3,201,037 | - | - | 3,201,037 | 3,136,150 | - | - | 3,136,150 |
| Contributions from overseas volunteers | 244,994 | - | - | 244,994 | 253,182 | - | - | 253,182 |
| Donated advertising | 109,769 | - | - | 109,769 | 95,751 | - | - | 95,751 |
| Investment return designated for operations | 6,988 | 54,730 | - | 61,718 | 6,575 | 41,104 | - | 47,679 |
| Investment income | 57,183 | - | - | 57,183 | 29,097 | - | - | 29,097 |
| Other | 3,217 | - | - | 3,217 | 4,804 | - | - | 4,804 |
| Net assets released from purpose restrictions | 3,725,781 | (3,725,781) | - | - | 4,134,950 | (4,134,950) | - | - |
| Net assets released from time restrictions | 60,000 | (60,000) | - | - | 203,000 | (203,000) | - | - |
| Total operating revenue and support | 8,155,651 | (113,931) | - | 8,041,720 | 8,852,999 | 49,930 | - | 8,902,929 |
| OPERATING EXPENSES: | | | | | | | | |
| Program | 7,059,218 | - | - | 7,059,218 | 7,114,082 | - | - | 7,114,082 |
| General and Administration | 1,060,652 | - | - | 1,060,652 | 1,147,451 | - | - | 1,147,451 |
| Fundraising | 263,259 | - | - | 263,259 | 383,670 | - | - | 383,670 |
| Total operating expenses | 8,383,129 | - | - | 8,383,129 | 8,645,203 | - | - | 8,645,203 |
| Changes in net assets from operations | (227,478) | (113,931) | - | (341,409) | 207,796 | 49,930 | - | 257,726 |
| NON-OPERATING REVENUES (EXPENSES): | | | | | | | | |
| Investment return, net | 26,548 | 109,364 | 7,157 | 143,069 | 86,542 | 135,759 | 11,765 | 234,066 |
| Endowment contributions | - | - | 200 | 200 | - | - | 4,926 | 4,926 |
| Cancellation of grant | - | (35,000) | - | (35,000) | - | - | - | - |
| Investment return designated for operations | - | (61,718) | - | (61,718) | - | (47,679) | - | (47,679) |
| Total non-operating revenues (expenses) | 26,548 | 12,646 | 7,357 | 46,551 | 86,542 | 88,080 | 16,691 | 191,313 |
| Changes in net assets | \$ (200,930) | \$ (101,285) | \$ 7,357 | \$ (294,858) | \$ 294,338 | \$ 138,010 | \$ 16,691 | \$ 449,039 |

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, 2014 AND 2013**

| | <u>UNRESTRICTED</u> | <u>TEMPORARILY RESTRICTED</u> | <u>PERMANENTLY RESTRICTED</u> | <u>TOTAL</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| NET ASSETS , September 30, 2012, as previously stated | \$ (571,449) | \$ 3,570,984 | \$ 1,562,462 | \$ 4,561,997 |
| Prior period adjustment | <u>-</u> | <u>256,823</u> | <u>-</u> | <u>256,823</u> |
| NET ASSETS , September 30, 2012, as restated | (571,449) | 3,827,807 | 1,562,462 | 4,818,820 |
| Changes in net assets | <u>294,338</u> | <u>138,010</u> | <u>16,691</u> | <u>449,039</u> |
| NET ASSETS , September 30, 2013 | (277,111) | 3,965,817 | 1,579,153 | 5,267,859 |
| Changes in net assets | <u>(200,930)</u> | <u>(101,285)</u> | <u>7,357</u> | <u>(294,858)</u> |
| NET ASSETS , September 30, 2014 | <u>\$ (478,041)</u> | <u>\$ 3,864,532</u> | <u>\$ 1,586,510</u> | <u>\$ 4,973,001</u> |

The accompanying notes are an integral part of these statements.

EARTHWATCH INSTITUTE, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

| | <u>2014</u> | <u>2013</u> |
|--|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ (294,858) | \$ 449,039 |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 22,035 | 35,830 |
| Change in discount on grants and pledges receivable - operating | 5,194 | (4,822) |
| Bad debts | 67,500 | - |
| Cancellation of grant | 35,000 | - |
| Investment return, net | (143,069) | (234,066) |
| Endowment contributions | (200) | (4,926) |
| Changes in operating assets and liabilities: | | |
| Grants, pledges and other receivable | (40,697) | (32,131) |
| Prepaid field grant expense, net | (19,509) | (50,349) |
| Prepaid expenses | (25,746) | 1,220 |
| Due from affiliates | 81,841 | 661 |
| Accounts payable and accrued expenses | (300,815) | 44,804 |
| Due to affiliates, net | 120,434 | - |
| Deferred expedition income | (244,116) | 294,175 |
| Accrued rent | (10,152) | (17,787) |
| Net cash provided by (used in) operating activities | <u>(747,158)</u> | <u>481,648</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Change in interest in insurance policy contracts | 3,810 | (9,349) |
| Endowment contributions | 150,200 | 148,025 |
| Purchase of investments | (1,813,002) | (946,347) |
| Proceeds from sale of investments | <u>1,729,797</u> | <u>754,755</u> |
| Net cash provided by (used in) investing activities | <u>70,805</u> | <u>(52,916)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from note payable to a bank | <u>300,000</u> | <u>-</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (376,353) | 428,732 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>653,175</u> | <u>224,443</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 276,822</u> | <u>\$ 653,175</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Property and equipment financed through accounts payable | <u>\$ -</u> | <u>\$ 32,562</u> |
| Change in discount on grants and pledges receivable - permanently restricted | <u>\$ -</u> | <u>\$ 4,926</u> |
| Cash paid for interest | <u>\$ 1,485</u> | <u>\$ -</u> |
| Cost basis of disposed property and equipment | <u>\$ 1,345,353</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these statements.

EARTHWATCH INSTITUTE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

| | 2014 | | | | 2013 | | | |
|--|---------------------|---|--------------------------|---------------------------|---------------------|---|--------------------------|---------------------------|
| | <u>PROGRAM</u> | <u>GENERAL AND ADMINIS- TRATION</u> | <u>FUND- RAISING</u> | <u>TOTAL EXPENSES</u> | <u>PROGRAM</u> | <u>GENERAL AND ADMINIS- TRATION</u> | <u>FUND- RAISING</u> | <u>TOTAL EXPENSES</u> |
| SALARY AND RELATED: | | | | | | | | |
| Salaries | \$ 2,321,509 | \$ 609,213 | \$ 154,727 | \$ 3,085,449 | \$ 2,404,149 | \$ 611,948 | \$ 159,447 | \$ 3,175,544 |
| Payroll taxes | 317,595 | 50,688 | 15,032 | 383,315 | 282,366 | 53,977 | 14,785 | 351,128 |
| Fringe benefits | 112,855 | 71,719 | 33,374 | 217,948 | 138,766 | 71,945 | 12,019 | 222,730 |
| Total salary and related | <u>2,751,959</u> | <u>731,620</u> | <u>203,133</u> | <u>3,686,712</u> | <u>2,825,281</u> | <u>737,870</u> | <u>186,251</u> | <u>3,749,402</u> |
| FIELD GRANTS | <u>2,528,307</u> | <u>-</u> | <u>-</u> | <u>2,528,307</u> | <u>2,330,501</u> | <u>-</u> | <u>-</u> | <u>2,330,501</u> |
| OTHER: | | | | | | | | |
| Travel, staff development, seminars and conferences | 348,091 | 95,640 | 6,871 | 450,602 | 314,389 | 80,488 | 5,021 | 399,898 |
| Program expenses | 411,589 | 509 | 1,372 | 413,470 | 481,578 | 12,722 | 37 | 494,337 |
| Advertising | 182,489 | 4,518 | - | 187,007 | 250,416 | 6,345 | - | 256,761 |
| Consultants and temporary help | 158,459 | 16,315 | - | 174,774 | 199,780 | 49,707 | 43,500 | 292,987 |
| Rent | 116,771 | 26,828 | 7,365 | 150,964 | 168,087 | 58,787 | 37,682 | 264,556 |
| Printing and postage | 94,888 | 13,979 | 28,375 | 137,242 | 96,853 | 1,961 | 82,219 | 181,033 |
| Legal and accounting | 48,981 | 66,289 | - | 115,270 | 50,959 | 62,213 | - | 113,172 |
| Meals and lodging | 36,536 | 51,485 | 7,212 | 95,233 | 31,162 | 41,020 | 5,098 | 77,280 |
| Insurance | 61,327 | 18,413 | 1,568 | 81,308 | 96,018 | 20,532 | 4,332 | 120,882 |
| Bad debts | 67,500 | - | - | 67,500 | - | - | - | - |
| Bank fees and merchant fees | 67,038 | - | - | 67,038 | 96,392 | 20,913 | - | 117,305 |
| Telephone | 43,240 | 10,548 | 4,454 | 58,242 | 41,018 | 14,498 | 7,060 | 62,576 |
| Program equipment grants | 52,988 | - | - | 52,988 | 16,290 | - | - | 16,290 |
| Miscellaneous | 35,652 | 545 | 514 | 36,711 | 58,462 | 16,308 | 2,989 | 77,759 |
| Facilities | 20,930 | 5,276 | 1,320 | 27,526 | 19,435 | 6,793 | 4,354 | 30,582 |
| Depreciation | 17,044 | 3,916 | 1,075 | 22,035 | 22,705 | 7,998 | 5,127 | 35,830 |
| Information technology | 9,519 | 11,938 | - | 21,457 | 14,756 | 8,459 | - | 23,215 |
| Dues and subscriptions | 5,910 | 1,348 | - | 7,258 | - | 837 | - | 837 |
| Interest | - | 1,485 | - | 1,485 | - | - | - | - |
| Total other | <u>1,778,952</u> | <u>329,032</u> | <u>60,126</u> | <u>2,168,110</u> | <u>1,958,300</u> | <u>409,581</u> | <u>197,419</u> | <u>2,565,300</u> |
| Total expenses | <u>\$ 7,059,218</u> | <u>\$ 1,060,652</u> | <u>\$ 263,259</u> | <u>\$ 8,383,129</u> | <u>\$ 7,114,082</u> | <u>\$ 1,147,451</u> | <u>\$ 383,670</u> | <u>\$ 8,645,203</u> |

The accompanying notes are an integral part of these statements.

EARTHWATCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

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.

SIGNIFICANT ACCOUNTING POLICIES

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

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 on 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.

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.

EARTHWATCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

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 and students and special projects. Temporarily restricted net assets also include appreciation on unspent earnings on permanently restricted endowment.

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

| | <u>2014</u> | <u>2013</u> |
|--|--------------------|--------------------|
| Purpose restricted | \$3,561,364 | \$3,650,295 |
| Time restricted | 10,000 | 70,000 |
| Appreciation and unspent earnings on permanently restricted endowment | 293,168 | 245,522 |
| | <u>\$3,864,532</u> | <u>\$3,965,817</u> |

- **Permanently restricted** represents grants and contributions that have been restricted by donors to be maintained by Earthwatch in perpetuity (endowment funds). 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 11).

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.

Property, Equipment and Depreciation

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

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

EARTHWATCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Equipment and Depreciation (Continued)

Property and equipment consist of the following at September 30:

| | <u>2014</u> | <u>2013</u> |
|---------------------------------|------------------|------------------|
| Office equipment | \$229,914 | \$ 290,024 |
| Data processing equipment | 133,686 | 394,678 |
| Software | 76,562 | 1,052,322 |
| Other | 52,507 | 99,157 |
| Leasehold improvements | <u>30,083</u> | <u>64,486</u> |
| | 522,752 | 1,900,667 |
| Less - accumulated depreciation | <u>511,959</u> | <u>1,835,277</u> |
| | <u>\$ 10,793</u> | <u>\$ 65,390</u> |

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 3). 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. Grants, pledges and other receivable in the accompanying statements of financial position are reported net of an allowance for doubtful accounts of \$62,892 as of September 30, 2014. There was no allowance as of September 30, 2013.

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 (\$19,175 at September 30, 2013) represent amounts due to researchers upon completion of a project and their filing specific reports. No such amounts were due at September 30, 2014. These amounts, which are netted with prepaid field grants expense, 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.

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.

EARTHWATCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

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 non-operating revenue when received or when amounts to be received are known.

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 departure date.

Cancellation of Grant

Cancellation of grant includes a reduced grant amount related to a change in the nature and scope of the related restricted program.

Fair Value Measurements

ASC Topic, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. These standards establish a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value.

The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Instruments which are generally included in this category include equity and debt securities publicly traded on an exchange.
- Level 2 – Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 – Inputs that are unobservable and which require significant judgment or estimation.

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

EARTHWATCH INSTITUTE, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013
(Continued)**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Return Allocations

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 2014 and 2013, \$61,718 and \$47,679, respectively, was appropriated for operations (see Note 4).

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

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, 2014 and 2013. Earthwatch's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

Subsequent Events

Subsequent events have been evaluated through April 8, 2015, 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.

(2) 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 INSTITUTE, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013
(Continued)**

(2) RELATED PARTY TRANSACTIONS (Continued)

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 with and derive staff support and subsidies from Earthwatch.

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

| | <u>2014</u> | <u>2013</u> |
|----------------------|-----------------|------------------|
| Amounts due from: | | |
| Earthwatch Australia | \$20,739 | \$ 45,451 |
| Earthwatch Japan | 16,966 | 38,586 |
| Earthwatch Europe | <u>-</u> | <u>35,509</u> |
| | <u>\$37,705</u> | <u>\$119,546</u> |

Amounts due to affiliates as of September 30, 2014 include \$120,434 due to Earthwatch Europe.

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>2014</u> | <u>2013</u> |
|-----------------------|------------------|------------------|
| Revenue derived from: | | |
| Earthwatch Europe | \$104,126 | \$ 62,305 |
| Earthwatch Australia | 103,132 | 140,952 |
| Earthwatch Japan | <u>37,736</u> | <u>49,925</u> |
| | <u>\$244,994</u> | <u>\$253,182</u> |

During fiscal years 2014 and 2013, Earthwatch received grants of \$675,784 and \$923,865, respectively, from Earthwatch Europe as part of a grant to Earthwatch Europe from HSBC. 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 five years. Earthwatch has received cumulative cash payments relating to the water project totaling \$1,166,483 and \$235,861, as of September 30, 2014 and 2013, respectively. The balance due related to this project at September 30, 2014 and 2013, is \$433,166 and \$688,004, respectively, and is included in grants, pledges and other receivable (see Note 9).

During fiscal years 2014 and 2013, Earthwatch also had other one-year grants with Earthwatch Europe with funding from HSBC. The funding totaled \$58,791 and \$946,991 for fiscal years 2014 and 2013, respectively. The balance due at September 30, 2013 was \$228,174. All balances were paid during fiscal year 2014.

EARTHWATCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013
(Continued)

(2) **RELATED PARTY TRANSACTIONS** (Continued)

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

| | <u>2014</u> | <u>2013</u> |
|----------------------|------------------|--------------------|
| HSBC Water Project | \$635,874 | \$ 926,856 |
| Other HSBC Projects | 213,201 | 421,328 |
| HSBC Climate Project | <u>-</u> | <u>52,610</u> |
| | <u>\$849,075</u> | <u>\$1,400,794</u> |

Additionally, during fiscal year 2013, Earthwatch Europe provided Earthwatch with a \$362,763 grant to supplement program expenses. This amount is included in gifts and grants in the accompanying fiscal year 2013 statement of activities.

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, 2014 and 2013. 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. Certain costs, key executives and program and administrative 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 (non-voting) 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, 2014 and 2013, were \$429,298 and \$433,108, respectively. These amounts are reflected as interest in insurance policy contracts in the accompanying statements of financial position.

(3) **INVESTMENTS**

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.

EARTHWATCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013
(Continued)

(3) **INVESTMENTS** (Continued)

All investments are valued using Level 1 inputs (see Note 1) and consist of the following at September 30:

| | <u>2014</u> | <u>2013</u> |
|------------------------------|---------------------------|---------------------------|
| Money market | \$ 507,492 | \$ 464,060 |
| Fixed income: | | |
| Intermediate term bond funds | 517,076 | 448,650 |
| Other bond funds | 130,302 | 187,144 |
| Equities: | | |
| Mutual funds: | | |
| Other funds | 419,008 | 375,555 |
| Exchange traded funds | 370,918 | 279,857 |
| Large value funds | 330,407 | 122,954 |
| Large blend funds | 281,094 | 304,178 |
| Large growth funds | <u>274,978</u> | <u>422,603</u> |
| | <u>\$2,831,275</u> | <u>\$2,605,001</u> |

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

| | <u>2014</u> | <u>2013</u> |
|---|-------------------------|-------------------------|
| Net realized gains on investments | \$146,906 | \$ 43,729 |
| Investment income, net of fees of \$7,773 and \$2,154 for the years ended September 30, 2014 and 2013, respectively | 40,953 | 48,919 |
| Unrealized gains (losses) on investments | <u>(44,790)</u> | <u>141,418</u> |
| Investment return, net | <u>\$143,069</u> | <u>\$234,066</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 (see Note 4).

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.

Investment gains of \$7,157 and \$11,765 for the years ended September 30, 2014 and 2013, respectively, at the request of a donor, are to remain in the endowment (see Note 4).

EARTHWATCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013
(Continued)

(4) 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, 2012 | <u>\$157,442</u> | <u>\$1,562,462</u> | <u>\$1,719,904</u> |
| Investment return: | | | |
| Unrealized gains on investments | 85,547 | 11,765 | 97,312 |
| Investment income, net of fees | 48,919 | - | 48,919 |
| Net realized gains on investments | <u>1,293</u> | <u>-</u> | <u>1,293</u> |
| Total investment return | <u>135,759</u> | <u>11,765</u> | <u>147,524</u> |
| Contributions | <u>-</u> | <u>4,926</u> | <u>4,926</u> |
| Investment return designated for operations | <u>(47,679)</u> | <u>-</u> | <u>(47,679)</u> |
| Endowment net assets, September 30, 2013 | <u>245,522</u> | <u>1,579,153</u> | <u>1,824,675</u> |
| Investment return: | | | |
| Unrealized gains on investments | 56,175 | 7,157 | 63,332 |
| Investment income, net of fees | 40,953 | - | 40,953 |
| Net realized gains on investments | <u>12,236</u> | <u>-</u> | <u>12,236</u> |
| Total investment return | <u>109,364</u> | <u>7,157</u> | <u>116,521</u> |
| Contributions | <u>-</u> | <u>200</u> | <u>200</u> |
| Investment return designated for operations | <u>(61,718)</u> | <u>-</u> | <u>(61,718)</u> |
| Endowment net assets, September 30, 2014 | <u>\$293,168</u> | <u>\$1,586,510</u> | <u>\$1,879,678</u> |

(5) NOTE PAYABLE TO A BANK

Earthwatch has available up to \$500,000 under a line of credit agreement with a bank. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's base lending rate (3.25% at September 30, 2014 and 2013), plus 1%. The line of credit is secured by the pledge of a collateral account with marketable securities. At September 30, 2014, \$300,000 was outstanding. No amount was outstanding under this agreement at September 30, 2013.

Earthwatch must comply with certain covenants, including maintaining certain financial ratios, as specified in the agreement. Earthwatch must, at all times, hold marketable securities, including corporate bonds, with an aggregate market value of no less than \$500,000. This agreement expires on September 30, 2015. Earthwatch was not in compliance with all of their covenants as of September 30, 2014 and 2013 and obtained a waiver from the bank.

EARTHWATCH INSTITUTE, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

(Continued)

(6) OPERATING LEASES

Earthwatch has a five-year lease agreement for office space in Allston, Massachusetts, commencing on May 1, 2010. During fiscal year 2014, this lease was extended and now expires in May, 2016. 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. In August, 2013, this lease was amended to reduce the square footage and proportionate share of operating costs. Earthwatch is recognizing rent expense on a straight-line basis over the term of the lease in accordance with the ASC Topic, *Leases*.

Facility rent expense for the years ended September 30, 2014 and 2013, was \$150,964 and \$264,556, respectively, which includes tenant-at-will rent expense of approximately \$1,000, for the year ended September 30, 2013. As of September 30, 2014 and 2013, accrued rent was \$13,112 and \$35,591, respectively, of which \$13,112 and \$25,439, respectively, is current and is included in accounts payable and accrued expenses in the accompanying statements of financial position.

Future minimum cash lease payments for fiscal year 2015 under non-cancelable operating leases are \$101,178.

(7) INTANGIBLE ASSETS

Intangible assets of \$66,895 as of September 30, 2014 and 2013, 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, 2014 and 2013.

(8) 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 five-year period. Earthwatch made contributions of \$39,736 and \$41,661 during fiscal years 2014 and 2013, respectively.

EARTHWATCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013
(Continued)

(9) 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>2014</u> | <u>2013</u> |
|---|-------------------|-------------------|
| Less than one year | \$1,669,834 | \$1,818,745 |
| One to five years | <u>740,000</u> | <u>740,000</u> |
| | 2,409,834 | 2,558,745 |
| Less - allowance for doubtful accounts | 62,892 | - |
| Less - discount | <u>10,990</u> | <u>5,796</u> |
| | 2,335,952 | 2,552,949 |
| Less - current portion | <u>1,606,942</u> | <u>1,818,745</u> |
| Long-term grants, pledges and other receivable, net | <u>\$ 729,010</u> | <u>\$ 734,204</u> |

The pledges have been discounted using a 1.0% rate for fiscal years 2014 and 2013.

Earthwatch Europe's (see Note 2) grant receivable balances as of September 30, 2014 and 2013, were \$433,166 and \$916,178, respectively. These amounts represent approximately 18% and 36% of the total outstanding grants and pledges balance as of September 30, 2014 and 2013, respectively. One other donor's balance represents approximately 54% of the outstanding pledge balance as of September 30, 2014. Two other donors' balances represent approximately 47% of the outstanding pledge balance as of September 30, 2013.

(10) 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 9 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.

EARTHWATCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013
(Continued)

(11) CONTINUING OPERATIONS

Earthwatch incurred an unrestricted surplus (deficit) from operations of \$(227,478) and \$207,796 for the years ended September 30, 2014 and 2013, respectively. Temporarily restricted net assets from operations decreased by \$113,931 for the year ended September 30, 2014 and increased by \$49,930 for the year ended September 30, 2013. As of September 30, 2014, Earthwatch had a deficit unrestricted operating net assets balance of \$555,729 and unrestricted current liabilities exceeded unrestricted current assets by \$1,010,027.

Earthwatch has historically relied on cash flow from deferred expedition income and restricted funds to meet operating cash flow requirements.

During fiscal year 2014, Earthwatch's operating deficit was the net result of unexpected shortfalls in revenue in a restricted grant, the contributions from domestic and overseas volunteers, and unrestricted income and was partially offset by management actions to contain program delivery and overhead costs. Earthwatch has continued to benefit from cost reductions through the efficiencies of the shared costs with Earthwatch Europe (see Note 2). The improvements in costs and efficiency will continue into fiscal year 2015, and coupled with the enhanced focus on fundraising and marketing initiatives, as well as significant staff and process changes, management expects a modest surplus. With firm commitments and advance payments on most of the restricted grants to be delivered in fiscal year 2015, management believes that Earthwatch will generate sufficient cash flows to meet its program and operating commitments.

(12) PRIOR PERIOD ADJUSTMENT

During fiscal year 2014, Earthwatch discovered that the certain amounts previously included in deferred expedition income were overstated at September 30, 2012. The net effect of these misstatements resulted in a \$256,823 understatement of net assets at September 30, 2012.

Net assets as of September 30, 2012, have been restated as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|--------------------|
| Net assets, September 30, 2012, as previously stated | \$(571,449) | \$3,570,984 | \$1,562,462 | \$4,561,997 |
| To properly state expedition funds as temporarily restricted net assets | - | 256,823 | - | 256,823 |
| Net assets, September 30, 2012, as restated | <u>\$(571,449)</u> | <u>\$3,827,807</u> | <u>\$1,562,462</u> | <u>\$4,818,820</u> |

The effect on the September 30, 2013 financial statements was a reduction of deferred expedition income liability and an increase in temporarily restricted net assets of \$256,823.