

**EARTH INNOVATION INSTITUTE**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2016**

# EARTH INNOVATION INSTITUTE

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December 31, 2016

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**A Division of SingerLewak**

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Earth Innovation Institute  
San Francisco, California

### Report on the Financial Statements

We have audited the accompanying financial statements of Earth Innovation Institute (the Organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements (collectively, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Organization'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 Organization'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 Earth Innovation Institute as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*SingerLewak. LLP*

May 8, 2017

**EARTH INNOVATION INSTITUTE**  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 2016

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**ASSETS**

**Current assets**

|                                    |                  |
|------------------------------------|------------------|
| Cash and cash equivalents          | \$ 161,246       |
| Restricted cash                    | 234,985          |
| Grants receivable, current portion | 2,314,073        |
| Accounts receivable                | 152,178          |
| Prepaid expenses                   | 28,079           |
| Other assets                       | <u>93,483</u>    |
| Total current assets               | <u>2,984,044</u> |

**Noncurrent assets**

|   |                  |
|---|------------------|
| Grants receivable, net of current portion | 2,988,114        |
| Deposits                                  | <u>37,872</u>    |
| Total noncurrent assets                   | <u>3,025,986</u> |

|                     |                            |
|---------------------|----------------------------|
| <b>Total assets</b> | <b><u>\$ 6,010,030</u></b> |
|---------------------|----------------------------|

**LIABILITIES AND NET ASSETS**

**Current liabilities**

|                                      |                |
|--------------------------------------|----------------|
| Accounts payable                     | \$ 87,611      |
| Grants and direct assistance payable | 150,733        |
| Accrued vacation                     | 46,115         |
| Accrued expenses                     | <u>33,285</u>  |
| Total liabilities                    | <u>317,744</u> |

**Net assets**

|                        |                  |
|------------------------|------------------|
| Unrestricted           | 281,619          |
| Temporarily restricted | <u>5,410,667</u> |
| Total net assets       | <u>5,692,286</u> |

|   |                            |
|---|----------------------------|
| <b>Total liabilities and net assets</b> | <b><u>\$ 6,010,030</u></b> |
|---|----------------------------|

The accompanying notes are an integral part of these financial statements.

# EARTH INNOVATION INSTITUTE

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

|  | Unrestricted      | Temporarily<br>Restricted | Total               |
|--|-------------------|---------------------------|---------------------|
| <b>Revenue</b>                               |                   |                           |                     |
| Grants and contributions                     | \$ 83,359         | \$ 8,325,462              | \$ 8,408,821        |
| Contracts                                    | 589,219           | -                         | 589,219             |
| In-kind donations                            | 97,748            | -                         | 97,748              |
| Other income                                 | 3,199             | -                         | 3,199               |
| Interest income                              | 1,023             | -                         | 1,023               |
| Foreign currency translation loss            | (267)             | (210,010)                 | (210,277)           |
|  | <u>774,281</u>    | <u>8,115,452</u>          | <u>8,889,733</u>    |
| <b>Net assets released from restrictions</b> |                   |                           |                     |
| Satisfaction of program restrictions         | <u>3,628,586</u>  | <u>(3,628,586)</u>        | <u>-</u>            |
| Total revenue                                | <u>4,402,867</u>  | <u>4,486,866</u>          | <u>8,889,733</u>    |
| <b>Expenses</b>                              |                   |                           |                     |
| Program services                             | 4,425,830         | -                         | 4,425,830           |
| Supporting services                          |                   |                           |                     |
| Management and general                       | 164,891           | -                         | 164,891             |
| Fundraising                                  | <u>95,512</u>     | <u>-</u>                  | <u>95,512</u>       |
| Total expenses                               | <u>4,686,233</u>  | <u>-</u>                  | <u>4,686,233</u>    |
| Change in net assets                         | (283,366)         | 4,486,866                 | 4,203,500           |
| Net assets, beginning of year                | <u>564,985</u>    | <u>923,801</u>            | <u>1,488,786</u>    |
| Net assets, end of year                      | <u>\$ 281,619</u> | <u>\$ 5,410,667</u>       | <u>\$ 5,692,286</u> |

The accompanying notes are an integral part of these financial statements.

**EARTH INNOVATION INSTITUTE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended December 31, 2016

|                              | <u>Program Services</u> |                  |                     |                     | Total<br>Program<br>Services |
|------------------------------|-------------------------|------------------|---------------------|---------------------|------------------------------|
|                              | Small-<br>holders       | Science          | Policy              | Commodities         |                              |
| Personnel expenses           | \$ 155,179              | \$ 3,039         | \$ 384,119          | \$ 418,848          | \$ 961,185                   |
| Grants and direct assistance | 257,389                 | -                | 176,901             | 609,653             | 1,043,943                    |
| Contract services            | 74,948                  | 4,903            | 187,879             | 556,103             | 823,833                      |
| Operations                   | 37,304                  | 302              | 114,574             | 237,134             | 389,314                      |
| Professional services        | 4,957                   | -                | 23,067              | 38,324              | 66,348                       |
| Facilities and equipment     | -                       | -                | 2,333               | 1,765               | 4,098                        |
| Other program implementation | 1,234                   | -                | 65,778              | 57,596              | 124,608                      |
| Business expenses            | 239                     | -                | 477                 | 10,671              | 11,387                       |
| Miscellaneous expenses       | -                       | -                | 241                 | 70                  | 311                          |
| Allocated overhead           | 148,641                 | 3,285            | 356,060             | 492,817             | 1,000,803                    |
| <b>Total expenses</b>        | <b>\$ 679,891</b>       | <b>\$ 11,529</b> | <b>\$ 1,311,429</b> | <b>\$ 2,422,981</b> | <b>\$ 4,425,830</b>          |

  

|                              | <u>Supporting Services</u> |                  |                                 | Total               |
|------------------------------|----------------------------|------------------|---------------------------------|---------------------|
|                              | Management<br>& General    | Fundraising      | Total<br>Supporting<br>Services |                     |
| Personnel expenses           | \$ 671,639                 | \$ 52,734        | \$ 724,373                      | \$ 1,685,558        |
| Grants and direct assistance | -                          | -                | -                               | 1,043,943           |
| Contract services            | 178                        | -                | 178                             | 824,011             |
| Operations                   | 228,724                    | 4,173            | 232,897                         | 622,211             |
| Professional services        | 126,919                    | -                | 126,919                         | 193,267             |
| Facilities and equipment     | 170,897                    | -                | 170,897                         | 174,995             |
| Other program implementation | 4,140                      | -                | 4,140                           | 128,748             |
| Business expenses            | 435                        | -                | 435                             | 11,822              |
| Miscellaneous expenses       | 1,367                      | -                | 1,367                           | 1,678               |
| Allocated overhead           | (1,039,408)                | 38,605           | (1,000,803)                     | -                   |
| <b>Total expenses</b>        | <b>\$ 164,891</b>          | <b>\$ 95,512</b> | <b>\$ 260,403</b>               | <b>\$ 4,686,233</b> |

The accompanying notes are an integral part of these financial statements.

**EARTH INNOVATION INSTITUTE**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2016

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|   |                   |
|---|-------------------|
| <b>Cash flows from operating activities</b>   |                   |
| Change in net assets  | \$ 4,203,500      |
| Adjustments to reconcile change in net assets to<br>net cash used by operating activities |                   |
| Loss on disposal of construction in process   | 52,400            |
| Change in operating assets and liabilities  |                   |
| Grants receivable   | (4,690,982)       |
| Accounts receivable   | 177,896           |
| Prepaid expenses  | 12,968            |
| Other assets  | 7,082             |
| Deposits  | (15,601)          |
| Accounts payable  | (199,750)         |
| Grants and direct assistance payable  | (41,509)          |
| Accrued vacation  | 6,442             |
| Accrued expenses  | (4,238)           |
| Deferred revenue  | <u>(73,892)</u>   |
| Net cash used by operating activities   | <u>(565,684)</u>  |
| <br>  |                   |
| Net change in cash, cash equivalents, and restricted cash                                 | (565,684)         |
| <br>  |                   |
| Cash, cash equivalents, and restricted cash, beginning of year                            | <u>961,915</u>    |
| <br>  |                   |
| Cash, cash equivalents, and restricted cash, end of year                                  | <u>\$ 396,231</u> |

The accompanying notes are an integral part of these financial statements.



**NOTE 1 – NATURE OF ACTIVITIES**

Earth Innovation Institute (the Organization) pursues the goals of slowing climate change, conserving tropical forests and fisheries, and improving rural livelihoods by promoting sustainable rural development through a blend of research, consensus-building, policy analysis and reform, and private sector engagement.

**Key Program Areas:**

Commodities

Expansion of cropland and pastures for the production of agricultural commodities such as palm oil, soy beans, beef and timber is an important driver of forest clearing and degradation, especially in the tropics. Earth Innovation Institute, together with partners, seeks to reduce the negative impacts of expanding commodity production by supporting regional dialogues among agriculture leaders, government and civil society to establish regional (“territorial”) milestones for reducing deforestation and greenhouse gas emissions, increasing productivity, and eliminating chemical contamination. Our strategy strives to support and strengthen existing initiatives, such as commodity roundtable sustainability standards, by developing incentives for supporting the transition to sustainable production - especially among smallholders.

Policy

Sound public policy is critical to confronting humanity’s most urgent environmental challenges: climate change, forest loss, and the scarcity of arable land. Earth Innovation Institute works to achieve transformative change at all levels of government, internationally and in the regions where we and our partners work.

We encourage governments and international institutions to adopt, enforce, and strengthen policies that promote responsible natural resource management and improved livelihoods for local communities. We provide support and technical analyses to decision-makers and stakeholders. We seek smarter solutions to the major challenges, seizing opportunities to align policies, market forces, finance, and local governance to achieve the sustainable management of natural resources before they are depleted.

Smallholders

The expansion of commercial logging, agriculture, and fishing has led to land conflicts and depletion of forest and fisheries resources for the developing world’s 1.5 billion smallholder households. Simultaneously, unclear land tenure and limited access to technical assistance, credit, and quality inputs make it difficult for most smallholders to meet increasingly rigorous production standards and access modern markets.

Commercial partnerships between smallholders and agribusinesses can provide the assistance that smallholders need. Earth Innovation Institute is working to develop regional governance conditions that ensure equitable contract arrangements as the basis for an inclusive rural development strategy in which integration into sustainable supply chains drives low-emission rural development.

**NOTE 1 – NATURE OF ACTIVITIES (Continued)**

Science

At Earth Innovation Institute, we believe that rigorously established evidence and broad dissemination of information is the basis for good policy-making and progressive social change. Our Science program focuses on designing and conducting research and analysis driven by the environmental and socioeconomic challenges tropical nations face.

Together with our partners, we study diverse elements of these challenges including the nature of contract arrangements between smallholders and logging and agriculture companies, the impacts of fire and drought on rainforest ecology, the financial and policy barriers to sustainable land-use, the impacts of deforestation on hydropower generation, and methods for assessing fisheries and forest stocks at community levels.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP), which reflects revenue when earned and expenses as incurred.

Basis of Presentation

U.S. GAAP requires that the Organization report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted net assets, and permanently restricted net assets. At December 31, 2016, the Organization has no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with a maturity of three months or less at the purchase date to be cash equivalents.

Restricted Cash

Restricted cash represents funds received from the Norwegian Agency for Development Cooperation that are required to be held in a separate bank account, and are limited in use to expenses under the related grant.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with U.S.GAAP. Those estimates and assumptions affect the reported amounts of asset and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Revenue

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a donor-specified restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as Net Assets Released from Restrictions.

Grants and Accounts Receivable

Grants and Accounts Receivable relate primarily to governmental entities, nonprofits, and private foundations. Based on receivable support, confirmations and subsequent collections, management has determined that no allowance for uncollectible receivables is considered necessary. Unconditional receivables are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional receivables are recorded at net realizable value.

Contract and Contributions Receivable

Unconditional receivables are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional receivables are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year.

Fixed Assets

The Organization records acquisitions of items with a cost of \$5,000 or more as fixed assets. Fixed assets are recorded at cost when purchased or at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the fixed assets. For the year ended December 31, 2016, the Organization recognized a \$52,400 loss on disposal of construction in progress related to a lease that was terminated in November 2016 (see Note 6). This loss is included in facilities and equipment expense in the statement of functional expenses. As of December 31, 2016, the Organization had no fixed assets.

Grants and Direct Assistance

Payments to entities in and outside the United States by Earth Innovation Institute are only made upon execution of a written agreement signed by the two parties outlining the terms and conditions of use of the funds. Terms require the recipient to submit periodic accounting of use of funds and reporting on activities and progress made under the purpose as defined in the agreement. Additional monitoring requirements are implemented when pertinent, such as expanded financial reports, external project audit reports, copies of receipts and site visits. Earth Innovation Institute's program and administrative staff monitor performance and adherence to the terms of the agreement, and no subsequent payments are made until the recipient has demonstrated compliance with the agreement.

**EARTH INNOVATION INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Donated Services

Earth Innovation Institute recognizes donated services and goods in-kind when (a) the services required specialized knowledge or skill and (b) if the services or goods were not donated, Earth Innovation Institute would have purchased the services at fair market value. Earth Innovation Institute received \$97,7484 of in-kind advertising during the year ended December 31, 2016.

Allocation of Functional Expenses

Salaries are directly allocated to supporting and program services based on employees timekeeping by activity. Common costs are allocated based primarily on the ratio of direct costs of each activity to total direct costs.

Income Taxes

Earth Innovation Institute is exempt from income taxes under Internal Revenue Section 501(c)(3). The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Earth Innovation Institute recognizes the effect of income tax positions only if those positions are more than not to be sustained. Management continuously evaluates tax positions reflected in the Organization's tax filings and does not believe that any material uncertain tax positions exist.

Recent Accounting Pronouncements

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Organization beginning on January 1, 2019. The adoption of ASU 2016-18 is not expected to have a material impact on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-05 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recent Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact of the pending adoption of the new standard on the financial statements. The Organization currently expects that upon adoption of ASU 2016-02, right-of-use assets and lease liabilities will be recognized in the balance sheet in amounts that will be material.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Organization for fiscal years beginning after December 15, 2018. The Organization elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

**NOTE 3 – CONCENTRATION OF CREDIT RISK**

Earth Innovation Institute maintains cash balances at one financial institution, where accounts are insured up to \$250,000. At December 31, 2016, Earth Innovation Institute's uninsured cash balance totaled \$120,111. Earth Innovation Institute does not believe that it is exposed to any significant risk in connection with these cash balances.

**EARTH INNOVATION INSTITUTE**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016

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**NOTE 3 - CONCENTRATION OF CREDIT RISK (Continued)**

At December 31, 2016, two donors comprised approximately 83% of Earth Innovation Institute's grants receivable, 86% of grant revenue and 81% of total revenue for the year then ended.

**NOTE 4 - GRANTS RECEIVABLE**

|                                 |                            |
|---------------------------------|----------------------------|
| Due in less than one year       | \$ 2,314,073               |
| Due in two to four years        | <u>3,107,204</u>           |
| Total grants receivable         | 5,421,277                  |
| Less: discount to present value | <u>(119,090)</u>           |
| Net grants receivable           | <b><u>\$ 5,302,187</u></b> |

Grants receivable to be received after December 31, 2017 are discounted at 1.47%, which is based on the IRS risk free mid-term rate and approximates the fair value of the assets.

**NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS**

|                           |                            |
|---------------------------|----------------------------|
| Restricted as to purpose: |                            |
| Policy                    | \$ 4,529,124               |
| Smallholders              | 725,035                    |
| Commodities               | <u>275,599</u>             |
| Total                     | <b><u>\$ 5,529,758</u></b> |

**NOTE 6 - LEASE COMMITMENTS**

In 2016 Earth Innovation Institute leased office space for its operations under short term lease agreements with monthly rent payments ranging from \$8,771 to \$9,500. For the year ended December 31, 2016, rent paid for these operating leases totaled \$110,491 and are included in facilities and equipment expenses in the Statement of Functional Expenses.

Earth Innovation Institute initially signed a lease for office space under a non-cancelable operating lease originally beginning in October 2016 and expiring in May 2020. Due to ongoing delays in the issuances of zoning permits, the Organization terminated this lease agreement in November 2016 on an "as-is" basis, which including relinquishing the rights to preexisting construction in progress at the location (see Note 2). As of December 31, 2016, the Organization had no outstanding liabilities relating to this lease.

**EARTH INNOVATION INSTITUTE**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016

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**NOTE 6 – LEASE COMMITMENTS (Continued)**

Earth Innovation Institute signed a lease for office space under a non-cancelable operating lease beginning in January 2017 expiring in May 2020. The lease calls for base monthly rent of \$10,403 with 3% annual increases over the term of the lease, and additional monthly common area maintenance (CAM) expenses based 5.5% of the Landlord's calculated operating costs.

Future minimum annual lease payment under this lease are as follows:

| <u>Year Ended December 31,</u> |                   |
|--------------------------------|-------------------|
| 2017                           | \$ 124,830        |
| 2018                           | 128,575           |
| 2019                           | 132,432           |
| 2020                           | <u>136,405</u>    |
| Total                          | <u>\$ 522,242</u> |

**NOTE 7 – PENSION PLAN**

Effective July 1, 2012, Earth Innovation Institute established a Simplified Employee Pension (SEP) Plan under Section 408(k) of the Internal Revenue Code. With this plan, the employer agrees to provide discretionary contributions in each calendar year to the individual retirement account or individual retirement annuity (IRA) of all employees who are at least 21 years old and have performed at least one year of service. Earth Innovation Institute's contribution equals 10% of eligible employees' salary. The related expense for the year ended December 31, 2016 was \$121,787.

**NOTE 8 – CONDITIONAL GRANT**

During 2016, Earth Innovation Institute received a five-year grant from the Norwegian Agency for Development Cooperation (Norad) in the amount of NOK 65,000,000. As of December 31, 2016, NOK 49,000,000 (USD 5,681,720) of this grant is deemed conditional based on annual appropriation by the Norwegian Parliament.

The conditional portion of the grant will not be recognized as an asset or revenue until the annual appropriation has been approved by the grantor. Future disbursements scheduled for approval are as follows:

| <u>Year Ended December 31,</u> |                       |
|--------------------------------|-----------------------|
| 2017                           | NOK 13,000,000        |
| 2018                           | 12,000,000            |
| 2019                           | 12,000,000            |
| 2020                           | <u>12,000,000</u>     |
| Total                          | NOK <u>49,000,000</u> |

Earth Innovation Institute expects to fulfill the terms of the conditional grant. For the year ended December 31, 2016, Earth Innovation Institute recognized NOK 16,000,000 (USD 1,968,160) of revenue related to this grant.

**NOTE 9 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through May 8, 2017, the date which the financial statements were available to be issued and determined the following subsequent event to be reported:

- Earth Innovation Institute signed a facilities lease agreement commencing in January 2017 expiring in May 2020. See Note 6 for details.
- On February 10, 2017, the Norwegian Agency for Development Cooperation (Norad) approved the 2017 funding appropriation in the amount of NOK 13,000,000, which will be recognized as revenue for the year ended December 31, 2017. See Note 8 for details.