

Earth Force, Inc.

**Financial Statements and Report
of
Independent Certified Public Accountants
As of September 30, 2016 and 2015**

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Certified Public Accountants (a professional corporation)
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Report of Independent Certified Public Accountants

Board of Directors
Earth Force, Inc.

We have audited the accompanying financial statements of Earth Force, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the year 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 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 of 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 Earth Force, Inc. as of September 30, 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.

Littleton, Colorado
December 14, 2016

Earth Force, Inc.
Statements of Financial Position
September 30, 2016 and 2015

	2016	2015
Assets		
Current Assets:		
Cash and cash equivalents	\$ 431,219	\$ 293,856
Grants and accounts receivable	89,160	110,503
Other current assets	10,052	11,823
Total Current Assets	530,431	416,182
Investments	-	150,260
Total Assets	\$ 530,431	\$ 566,442
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	85,352	\$ 153,138
Deferred revenue	43,771	39,782
Total Liabilities	129,123	192,920
Net assets:		
Unrestricted	153,179	106,831
Temporarily restricted	248,129	266,691
Total net assets	401,308	373,522
Total Liabilities and Net Assets	\$ 530,431	\$ 566,442

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

Earth Force, Inc.
Statements of Activities
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>			<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue:						
Grants and contributions	\$ 289,136	\$551,400	\$ 840,536	\$ 293,992	\$ 556,704	\$ 850,696
Government grants	105,344	-	105,344	335,657	-	335,657
Product sales, net of cost of goods sold of \$17,569 (2016) and \$3,318 (2015)	9,506	-	9,506	8,357	-	8,357
In-kind contributions	18,832	-	18,832	28,176	-	28,176
Other income	39,319	-	39,319	31,534	-	31,534
Interest and dividend income	143	-	143	84	-	84
Realized and unrealized gains, net	(164)	-	(164)	5,353	-	5,353
Net assets released from restrictions due to satisfaction of program expenditure requirement	<u>569,962</u>	<u>(569,962)</u>	<u>-</u>	<u>473,354</u>	<u>(473,354)</u>	<u>-</u>
Total support and revenue	<u>1,032,078</u>	<u>(18,562)</u>	<u>1,013,516</u>	<u>1,176,507</u>	<u>83,350</u>	<u>1,259,857</u>
Expenses:						
Program Services	841,944	-	841,944	1,067,299	-	1,067,299
Supporting services - Management and general	64,219	-	64,219	72,038	-	72,038
Fundraising	<u>79,567</u>	<u>-</u>	<u>79,567</u>	<u>117,711</u>	<u>-</u>	<u>117,711</u>
Total Expenses	<u>985,730</u>	<u>-</u>	<u>985,730</u>	<u>1,257,048</u>	<u>-</u>	<u>1,257,048</u>
Change in Net Assets	46,348	(18,562)	27,786	(80,541)	83,350	2,809
Net Assets Beginning of Year	<u>106,831</u>	<u>266,691</u>	<u>373,522</u>	<u>187,372</u>	<u>183,341</u>	<u>370,713</u>
Net Assets End of Year	<u>\$ 153,179</u>	<u>\$248,129</u>	<u>\$ 401,308</u>	<u>\$ 106,831</u>	<u>\$ 266,691</u>	<u>\$ 373,522</u>

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

Earth Force, Inc.
Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 27,786	\$ 2,809
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized and unrealized gain on investments	-	5,353
Bad Debt Expense	-	1,280
Changes in assets and liabilities		
Grants and accounts receivable	21,343	(36,912)
Other current assets	1,771	(272)
Accounts payable and accrued expenses	(67,786)	(39,635)
Deferred revenue	3,989	5,014
Net cash from operating activities	(12,897)	(62,363)
 Cash flows from investing activities		
(Purchases) of investments	-	(215,613)
Sales of investments	150,260	379,807
Net cash from investing activities	150,260	164,194
Net change in cash and cash equivalents	137,363	101,831
 Cash balance—beginning of year	293,856	192,025
 Cash balance—end of year	\$ 431,219	\$ 293,856

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

Earth Force, Inc.

Notes to Financial Statements

September 30, 2016 and 2015

1. Organization

Earth Force Inc. (Earth Force) was incorporated under the laws of the state of Delaware in 1993. Its primary mission is to help youth learn about the environment and their communities and to take civic action to address issues they see there. Earth Force's mission is to engage young people as active citizens who improve the environment and their communities now and in the future. All programs include the fundamental elements of youth decision making, civic engagement, environmental action, and service learning.

Earth Force has an office in Denver, Colorado, and staff working across most of the country as well as in Canada. States in which Earth Force currently supports partners and programs include Colorado, Illinois, Kansas, Kentucky, Maryland, Michigan, Missouri, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Florida, South Carolina, Texas, Virginia, and Washington D.C. Earth Force receives most of its funding through grants and contributions.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all receivables, payables, and other liabilities. Earth Force reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted amounts are those currently available at the discretion of the Board of Directors for use in Earth Force's operations.

Temporarily restricted amounts are monies restricted by donor specifically for certain periods, purposed, or programs.

Permanently restricted amounts are assets that must be maintained permanently by Earth Force as required by the donor, but Earth Force is permitted to use or expend part or all of any income derived from those assets. Earth Force does not currently maintain any permanently restricted net assets.

Earth Force, Inc.
Notes to Financial Statements
September 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Earth Force considers all demand deposits and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Organization's cash deposits are held at financial institutions at which deposits are insured up to \$250,000 per institution by the FDIC. As of September 30, 2016 and 2015, the FDIC's insurance limit was exceeded by approximately \$68,781 and \$44,655, respectively.

Grants and Accounts Receivable

Grants receivable consist primarily of amounts due from federal and state governments. Accounts receivable represent amounts due from third parties for services provided. Receivables are stated at the amount management expects to collect on outstanding balances. Earth Force considers the receivable amounts to be fully collectible; accordingly, no allowance for doubtful accounts is deemed necessary as of September 30, 2016 and 2015. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to bad debt expense.

Investments

Investments in equity security with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment income, gains, and losses are reported in the statements of activities.

Property and Equipment

Property and equipment is stated at cost or, if donated, at fair market value at the date of donation. Depreciation is provided utilizing the straight-line method over the estimated useful lives for owned assets, ranging from 3 to 15 years, and related lease terms for leasehold improvements. Expenditures for major repairs and improvements are capitalized, and expenditures for minor repairs and maintenance are expensed when incurred.

It is the policy of Earth Force to capitalize all purchases of \$5,000 and greater. As of September 30, 2016 and 2015, the Organization had no capitalized property or equipment.

Contributions

Contributions are recognized as unrestricted or temporarily restricted when received, depending on the existence and nature of donor restrictions. When restrictions are satisfied, revenues are reclassified and reported as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Contributions include amounts received from donors related to special events and are reported net of direct benefits to donors.

Earth Force, Inc.
Notes to Financial Statements
September 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

In-Kind Donations

In-kind donations of property, materials, and personal services are recorded at estimated fair value at date of receipt. These donations (other than contributions of property and equipment) are included as program costs to properly reflect the total cost of the particular program.

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

Income Taxes

Earth Force, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. During 2016, the Organization had no unrelated business activities and believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization's federal tax return (Form 990) for 2016 is subject to examination by the IRS, generally for three years after the return is filed

Functional Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Organization evaluated all events or transactions that occurred after September 30, 2016 through December 6, 2016 the date the financial statements were available to be issued. During this period, the Organization was not aware of any material recognizable subsequent events.

Fair Value Measurements and Investments

Earth Force values its financial assets and liabilities based on the price that would be received to sell as assets or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Earth Force, Inc.
Notes to Financial Statements
September 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

The following fair value hierarchy prioritizes observable inputs used to measure fair value into three broad levels, which are described below:

- Level 1 Quoted prices in active markets are accessible at the measurements date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2 Observable prices are based on inputs not quoted on active markets but corroborated by market data.
- Level 3 Unobservable inputs are used when little or no market data is available.

In determining fair value, Earth Force utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk in its assessment of fair value. These classifications (Level 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity. As of September 30, 2016, Earth Force's investments, previously held in mutual funds, were moved into their operating account.

3. Retirement Plan

Earth Force sponsors a 401(k) retirement plan (the "Plan") that covers all employees. The Plan is available to employees who work 20 hours or more per week. Employees may contribute amounts based on limits established by the IRS. The plan provides for discretionary employer matching contributions. As of September 30, 2016 and 2015, employer matching contributions were determined to be up to \$1,500 per qualifying employee on an annual basis, which have been paid for by forfeitures available in the Plan or cash reserves. Plan participants become 100% vested in employer contributions to the Plan after three years of employment. During the years ended September 30, 2016 and 2015, matching contributions totaled \$14,663 and \$18,897, respectively.

4. Commitments and Contingencies

Government Contracts

Earth Force receives certain revenues from contracts with various governmental agencies. The disbursement of funds received under these contracts generally requires compliance with term and conditions specified in the contracts and are subject to audit by the contracting agencies.

Earth Force, Inc.
Notes to Financial Statements
September 30, 2016 and 2015

4. Commitments and Contingencies (continued)

The amount of charges to these contracts that may be disallowed, if any, by such audits cannot presently be determined, and no provision for any liability that may result has been made in the financial statements. However, management believes Earth Force is in compliance with its contract requirements, and no liability has arisen in the past or is currently expected.

Operating Lease

Earth Force leases office space under a non-cancelable operating lease with monthly payments not to exceed \$927. The lease was renewed in 2015 to extend the term one more year through December 2016. Future minimum lease payments are approximately \$2,700 for the year ending September 30, 2016. Rent expense for the years ended September 30, 2016 and 2015 was \$11,836 and \$11,124, respectively.

5. Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following:

	September 30,	
	2016	2015
Community programs	\$ 164,233	\$ 129,000
Health equity programs	73,896	135,652
Water-based programs	10,000	2,039
Total	<u>\$ 248,129</u>	<u>\$ 266,691</u>