

Earth Force, Inc.

**Financial Statements and Report
of
Independent Certified Public Accountants**

As of September 30, 2015 and 2014

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**Haynie &
Company**

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, 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. The financial statements of Earth Force, Inc. as of September 30, 2014, were audited by other auditors whose report dated December 18, 2014, expressed an unmodified opinion on those 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, 2015, 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
January 5, 2016

Earth Force, Inc.
Statements of Financial Position
September 30, 2015 and 2014

	2015	2014
Assets		
Current Assets:		
Cash and cash equivalents	\$ 293,856	\$ 192,025
Grants and accounts receivable	110,503	74,871
Other current assets	11,823	11,551
Total Current Assets	416,182	278,447
Investments	150,260	319,807
Total Assets	\$ 566,442	\$ 598,254
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 153,138	\$ 192,773
Deferred revenue	39,782	34,768
Total Liabilities	192,920	227,541
 Net assets:		
Unrestricted	106,831	187,372
Temporarily restricted	266,691	183,341
Total net assets	373,522	370,713
Total Liabilities and Net Assets	\$ 566,442	\$ 598,254

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

Earth Force, Inc.
Statements of Activities
For the Years Ended September 30, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue:						
Grants and contributions, net of direct benefit expense of \$0 (2015) and \$32,909 (2014)	\$ 293,992	\$556,704	\$ 850,696	\$ 401,531	\$ 511,843	\$ 913,374
Government grants	335,657	-	335,657	292,100	-	292,100
Product sales, net of cost of goods sold of \$3,318 (2015) and \$4,894 (2014)	8,357	-	8,357	13,961	-	13,961
In-kind contributions	28,176	-	28,176	96,207	-	96,207
Other income	31,534	-	31,534	25,539	-	25,539
Interest and dividend income	84	-	84	13,630	-	13,630
Realized and unrealized gains, net	5,353	-	5,353	7,418	-	7,418
Net assets released from restrictions due to satisfaction of program expenditure requirement:	<u>473,354</u>	<u>(473,354)</u>	<u>-</u>	<u>456,065</u>	<u>(456,065)</u>	<u>-</u>
Total support and revenue	<u>1,176,507</u>	<u>83,350</u>	<u>1,259,857</u>	<u>1,306,451</u>	<u>55,778</u>	<u>1,362,229</u>
Expenses:						
Program Services	1,067,299	-	1,067,299	1,275,371	-	1,275,371
Supporting services -						
Management and general	72,038	-	72,038	75,339	-	75,339
Fundraising	<u>117,711</u>	<u>-</u>	<u>117,711</u>	<u>122,860</u>	<u>-</u>	<u>122,860</u>
Total Expenses	<u>1,257,048</u>	<u>-</u>	<u>1,257,048</u>	<u>1,473,570</u>	<u>-</u>	<u>1,473,570</u>
Change in Net Assets	(80,541)	83,350	2,809	(167,119)	55,778	(111,341)
Net Assets Beginning of Year	<u>187,372</u>	<u>183,341</u>	<u>370,713</u>	<u>354,491</u>	<u>127,563</u>	<u>482,054</u>
Net Assets End 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>

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

Earth Force, Inc.
Statements of Cash Flows
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Changes in net assets	\$ 2,809	\$ (111,341)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized gain on investments	5,353	(7,418)
Bad Debt Expense	1,280	2,040
Changes in operating assets and liabilities		
Grants and accounts receivable	(36,912)	93,874
Other current assets	(272)	(2,820)
Accounts payable and accrued expenses	(39,635)	(47,551)
Deferred revenue	<u>5,014</u>	<u>(4,259)</u>
Net cash from operating activities	<u>(62,363)</u>	<u>(77,475)</u>
Cash flows from investing activities		
Sale of investments	379,807	-
Purchase of investments	<u>(215,613)</u>	<u>(14,042)</u>
Net cash from investing activities	<u>164,194</u>	<u>(14,042)</u>
Net change in cash and cash equivalents	101,831	(91,517)
Cash balance—beginning of year	<u>192,025</u>	<u>283,542</u>
Cash balance—end of year	<u>\$ 293,856</u>	<u>\$ 192,025</u>

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

Earth Force, Inc.

Notes to Financial Statements

September 30, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014, the FDIC's insurance limit was exceeded by approximately \$44,655 and \$-0-, 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, 2015 and 2014. 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, 2015 and 2014, 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, 2015 and 2014

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 2015, 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 2015 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, 2015 through January 5, 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, 2015 and 2014

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, 2015 and 2014, all of Earth Force's investments are held in mutual funds, which are categorized as Level 1 in the fair value hierarchy.

The following is a description of the valuation methodology used for assets measured at fair value. There were no changes in the methodologies used during the years ended September 30, 2015 and 2014.

Mutual funds: Valued at the closing price reported on the active market on which the funds are traded.

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 24 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, 2015 and 2014, 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, 2015 and 2014, matching contributions totaled \$18,897 and \$15,332, respectively.

Earth Force, Inc.
Notes to Financial Statements
September 30, 2015 and 2014

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 terms and conditions specified in the contracts and are subject to audit by the contracting agencies. 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 expires in December 2015 and was renewed through December 2016 subsequent to year end. Future minimum lease payments are approximately \$2,700 for the year ending September 30, 2015. Rent expense for the years ended September 30, 2015 and 2014 was \$11,124 and \$11,043, respectively.

5. Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following:

	September 30,	
	2015	2014
Community programs	\$ 129,000	\$ 114,197
Health equity programs	135,652	59,771
Water-based programs	2,039	8,973
General operations	-	400
Total	<u>\$ 266,691</u>	<u>\$ 183,341</u>