

Financial Statements and Supplementary
Information Together with
Report of Independent Certified Public Accountants

INNOVATIONS FOR POVERTY ACTION

December 31, 2011 and 2010

INNOVATIONS FOR POVERTY ACTION

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS


Board of Directors of
Innovations for Poverty Action:

We have audited the accompanying statements of financial position of Innovations for Poverty Action (“IPA”) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of IPA’s management. 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 established by the American Institute of Certified Public Accountants. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IPA’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IPA as of December 31, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the years ended December 31, 2011 and 2010 is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.


Melville, New York
June 13, 2012

INNOVATIONS FOR POVERTY ACTION
Statements of Financial Position
December 31, 2011 and 2010

ASSETS	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,387,120	\$ 720,019
Restricted cash	7,688,111	5,332,184
Accounts receivable and others, net	4,814,763	5,530,933
Prepaid expenses and other assets	80,490	35,910
Advances	<u>227,343</u>	<u>162,820</u>
Total current assets	<u>14,197,827</u>	<u>11,781,866</u>
NON-CURRENT ASSETS		
Property and equipment, net	<u>226,145</u>	<u>179,690</u>
Total non-current assets	<u>226,145</u>	<u>179,690</u>
Total assets	<u>\$ 14,423,972</u>	<u>\$ 11,961,556</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,052,456	\$ 775,857
Deferred revenue	<u>8,503,743</u>	<u>8,542,427</u>
Total current liabilities	<u>9,556,199</u>	<u>9,318,284</u>
NET ASSETS		
Unrestricted	<u>4,867,773</u>	<u>2,643,272</u>
Total net assets	<u>4,867,773</u>	<u>2,643,272</u>
Total liabilities and net assets	<u>\$ 14,423,972</u>	<u>\$ 11,961,556</u>

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

INNOVATIONS FOR POVERTY ACTION
Statement of Activities
December 31, 2011

	<u>Total Unrestricted</u>
REVENUE AND SUPPORT	
Grants and contracts	\$ 29,333,965
Contributions	529,770
Interest income	<u>25,887</u>
Total revenue and support	<u>29,889,622</u>
EXPENSES	
Program services	25,261,356
General and administrative	2,332,332
Fundraising	<u>71,433</u>
Total expenses	<u>27,665,121</u>
Change in net assets	<u>2,224,501</u>
Net assets, beginning of year	<u>2,643,272</u>
Net assets, end of year	<u>\$ 4,867,773</u>

The accompanying notes are an integral part of this financial statement.

INNOVATIONS FOR POVERTY ACTION
Statement of Activities
December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Grants and contracts	\$ 18,572,784	\$ -	\$ 18,572,784
Contributions	56,781	-	56,781
Interest income	23,203	-	23,203
Net gains on currency exchange	<u>26,288</u>	<u>-</u>	<u>26,288</u>
Total revenue and support	<u>18,679,056</u>	<u>-</u>	<u>18,679,056</u>
EXPENSES			
Program services	17,791,236	-	17,791,236
General and administrative	1,164,895	-	1,164,895
Fundraising	<u>4,814</u>	<u>-</u>	<u>4,814</u>
Total expenses	<u>18,960,945</u>	<u>-</u>	<u>18,960,945</u>
Change in net assets	<u>(281,889)</u>	<u>-</u>	<u>(281,889)</u>
Net assets, beginning of year, as previously reported	482,551	24,021,067	24,503,618
Prior period adjustment (Note 3)	<u>2,442,610</u>	<u>(24,021,067)</u>	<u>(21,578,457)</u>
Net assets, beginning of year, as restated	<u>2,925,161</u>	<u>-</u>	<u>2,925,161</u>
Net assets, end of year	<u>\$ 2,643,272</u>	<u>\$ -</u>	<u>\$ 2,643,272</u>

The accompanying notes are an integral part of this financial statement.

INNOVATIONS FOR POVERTY ACTION
Statements of Cash Flows
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,224,501	\$ (281,889)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	100,726	55,716
Doubtful accounts	66,515	9,485
Changes in operating assets and liabilities		
Accounts receivable and others	649,655	(4,053,516)
Prepaid expenses and other assets	(44,580)	(14,632)
Advances	(64,523)	5,439
Accounts payable and accrued expenses	276,599	644,551
Deferred revenue	<u>(38,684)</u>	<u>4,053,124</u>
Net cash provided by operating activities	<u>3,170,209</u>	<u>418,278</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment	<u>(147,181)</u>	<u>(112,173)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in restricted cash	<u>(2,355,927)</u>	<u>(1,809,184)</u>
Net increase (decrease) in cash and cash equivalents	667,101	(1,503,079)
Cash and cash equivalents, beginning of year	<u>720,019</u>	<u>2,223,098</u>
Cash and cash equivalents, end of year	<u>\$ 1,387,120</u>	<u>\$ 720,019</u>
Cash paid for interest	<u>\$ 1,808</u>	<u>\$ 2,883</u>

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

INNOVATIONS FOR POVERTY ACTION

Notes to Financial Statements

December 31, 2011 and 2010

1. ORGANIZATION

Description of Operations

Innovations for Poverty Action (“IPA”) is a 501(c)(3) US-based non-profit organization founded in 2002 by Dean Karlan, with the goal of serving as the link between academic research and real-world problems faced by the poor in developing countries. IPA is driven by the belief that innovative action paired with rigorous evidence of what works accelerates the eradication of global poverty. Combining technical rigor, immediate policy interest, and solid grounding in the needs of the poor, IPA’s work helps practitioners better allocate their resources and improve their operations. IPA believes that both the willingness and the capacity to implement evidence-driven solutions depend on familiarity with the principles and practices of evaluation research.

Primary Activities and Objectives

Activities

IPA partners with academics from a large number of universities, practitioners and governments from around the world, to determine the cost-effectiveness of poverty alleviation and other policy programs, using the most rigorous evaluation techniques. With 235 currently ongoing projects in over 40 countries in Africa, Asia, and North and South America, IPA’s projects span a variety of fields, including microfinance, transfers, education, health, agriculture, corruption, charitable giving, political participation, and social capital. While the majority of IPA’s budget is devoted to conducting impact evaluations, IPA also uses funds to disseminate research findings.

Objectives

Innovate: Develop innovative solutions to poverty and policy problems worldwide. Use frontier knowledge from economics, psychology and public health.

Evaluate: Conduct randomized controlled trials to evaluate public policies. This provides the highest quality and most reliable answers to what works and what does not. Our evaluations seek to generate insight into why particular strategies work -- not just whether they work -- so as to make the findings useful for scale-up and replication in other settings and countries.

Replicate: Replicate evaluations in multiple settings. We can learn from one evaluation, but we can learn much more about what to do after seeing replications of similar interventions in multiple settings, and learn when ideas work best, and when they do not.

Communicate: Communicate lessons to donors and implementers. The ultimate aim of IPA is to help resources be allocated to effective programs and policies. IPA’s communication strategy targets both donors, to help guide them to programs and ideas that have been proven effective, as well as to organizations, to help guide their programming decisions towards more effective ideas and implementation strategies. We do this through non-technical communication on individual studies and sets of studies, as well as through synthesis articles and conversations that frame key policy issues and present reliable evidence to help guide development practitioners, policymakers, investors and donors towards better decisions and allocation of resources.

INNOVATIONS FOR POVERTY ACTION

Notes to Financial Statements

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Scale: Scale-up of effective solutions. This includes hands-on technical assistance or direct implementation if appropriate, as well as extensive communication and advocacy efforts.

IPA's accomplishments

IPA is a relatively young organization that has experienced encouraging growth in the past few years. IPA currently has operations in nearly 40 countries around the world and 235 research projects underway. IPA's findings from past projects on topics including education, health, access to financial services, and entrepreneurship have already provided valuable information and actionable results for development programs. The completion of current projects will add considerable depth and breadth to this knowledge base. All of IPA's work maintains rigorous standards of evidence, not only adding credibility to its findings, but also encouraging and educating others to hold to similarly high standards.

A few of IPA's notable accomplishments to-date include:

- IPA has contributed to or directly managed more than 40 completed evaluations. These evaluations produced results that are of direct interest for practitioners, and offer guidance for improving services and policies. For example, IPA's work in the area of measuring the impact of access to credit on businesses and households is groundbreaking. In the past year IPA Research Affiliates completed two major studies of the impact of microcredit which have attracted media attention from around the world and much debate in the microcredit community. These are of critical policy interest because they represent the first in a series of rigorous assessments of the impact of credit access on borrowers. By and large, the studies found that access to credit has some positive impacts, but that it is not a silver bullet for the problems of the poor. IPA researchers and staff conducted interviews with major media outlets, wrote articles, and developed summary materials to inform the debate.
- IPA has worked with the staff of more than 50 development organizations to develop rigorous research designs. During this process, IPA puts a particular focus on training its partners on the research process, goals and methodologies. IPA researchers and staff have also participated in formal training programs around the world involving roughly 50 local researchers, policymakers of developing and developed countries, and practitioners from a variety of sectors every year.
- IPA's network of research affiliates includes more than 30 academics, all recognized experts in the field of economics and other social sciences. In addition, IPA works with and offers research support services to a larger network of researchers.
- IPA has attracted financial support from a diverse group of funders indicating broad support for its mission and capacity to address key development challenges.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The financial statement presentation conforms with accounting principles generally accepted in the United States of America for non-profit organizations, which require that IPA report information regarding their financial position and changes in net assets according to three classes of net assets, as follows:

Unrestricted net assets

Net assets that are not subject to donor-imposed stipulations and are, therefore, available for the general operations of IPA.

INNOVATIONS FOR POVERTY ACTION

Notes to Financial Statements

December 31, 2011 and 2010

Temporarily restricted net assets

Net assets which include resources that have been limited by donor-imposed stipulations that either expire with the passage of time and/or can be fulfilled and removed by the actions of IPA pursuant to those stipulations are considered temporarily restricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. At December 31, 2011 and 2010, IPA did not possess any temporarily restricted net assets.

Permanently restricted net assets

Net assets which include funds whereby the donors have stipulated that the principal contributed be invested and maintained in perpetuity. Income earned from these investments is available for expenditures according to restrictions, if any, imposed by donors. At December 31, 2011 and 2010, IPA did not possess any permanently restricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and money market funds. IPA's policy is to place its temporary cash investments with high quality financial institutions.

Restricted Cash

Restricted cash represents amounts required by the donor to be kept in segregated bank accounts. These funds are available for transfer to IPA's operating account after the related expenditures have been incurred.

Concentrations of Credit Risk

IPA maintains cash balances at various financial institutions which at times may temporarily exceed federally insured limits. Domestic accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2011 and 2010, IPA's cash and cash equivalents including its restricted cash were maintained at financial institutions in amounts in excess of federally insured amounts, of which approximately \$682,000 and \$345,000, respectively, were maintained at various foreign financial institutions.

Property and Equipment

Acquisitions of property and equipment in excess of \$2,500 and all expenditures for betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are stated at cost less accumulated depreciation. Property and equipment used in operations are depreciated using the straight-line method over their estimated useful lives between three to eight years.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction expires (i.e., when a stipulated time restriction ends and/or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from

INNOVATIONS FOR POVERTY ACTION

Notes to Financial Statements

December 31, 2011 and 2010

restrictions. Temporarily restricted revenues and expensed during the same fiscal year are recorded as unrestricted revenues and expenses in the accompanying statements of activities.

Grants and Contracts

Revenue from cost reimbursement-based contracts is recognized when reimbursable costs are incurred under the terms of the contracts. Revenue from performance-based contracts is recognized when performance objectives pursuant to the contract have been accomplished. Contract payments in excess of qualified cost or performance are accounted for as deferred revenue, if any.

Contributed Services and Supplies

Contributed services are reported in the financial statements for voluntary donations of services when these services (1) create or enhance non-financial assets or (2) require specialized skills provided by individuals possessing these skills and are services which would typically be purchased if not made by donation. Contributed services and supplies are reported at the estimated fair value at the date of the contribution. Contributed services and supplies in the amount of approximately \$179,000 and \$151,000 were recognized in 2011 and 2010, respectively.

Functional Expenses

The costs of providing the various programs and other activities of IPA have been summarized on a functional basis in the accompanying statement of activities, which includes all expenses incurred for the year. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management allocates the direct costs of its operations to its programs and services based upon the percentage of direct labor costs charged to each program and supporting services by IPA staff.

Accounting for Income Taxes

IPA follows Accounting Standards Codification (“ASC”) 740. ASC 740-10 clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This section provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is ‘more-likely-than-not’ to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

IPA is exempt from federal income taxation by virtue of being an organization described in Section 501(c)(3) of the Internal Revenue Code. Nevertheless, IPA may be subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The tax years ending December 31, 2009, 2010 and 2011 are still open to audit for both federal and state purposes. Management determined that there are no uncertain tax positions within its financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenues, support and expenses during the reporting period. Actual results could differ from those estimates.

INNOVATIONS FOR POVERTY ACTION

Notes to Financial Statements

December 31, 2011 and 2010

Reclassifications

Certain information in the fiscal 2010 financial statements has been reclassified to conform to the fiscal 2011 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as reflected in the fiscal 2010 financial statements.

3. PRIOR PERIOD ADJUSTMENTS

Management determined that IPA's financial statements as of December 31, 2009 contained the following errors: (1) an overstatement of accounts receivable of \$17,481,909, (2) an understatement of deferred revenue of \$4,489,303, and (3) an overstatement of accounts payable and accrued expenses of \$392,755. Unrestricted net assets as of January 1, 2010, have been increased by \$2,442,610 and temporarily restricted net assets as of January 1, 2010, have been reduced by \$24,021,067 to correct the aggregate effect of these errors. The aforementioned adjustments decreased the change in net assets by \$8,113,470 for the year ended December 31, 2009.

4. ACCOUNTS RECEIVABLE

Receivables that are expected to be collected within one year are recorded at net realizable value. Grants that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Accounts receivable at December 31, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 4,890,763	\$ 5,540,418
Less: allowance for doubtful accounts	(76,000)	(9,485)
	<u>\$ 4,814,763</u>	<u>\$ 5,530,933</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2011</u>	<u>2010</u>
Vehicles	\$ 165,320	\$ 37,380
Improvements	9,024	4,709
Computer equipment	22,296	14,431
Other equipment	<u>282,706</u>	<u>275,645</u>
Total	479,346	332,165
Less: Accumulated depreciation	<u>(253,201)</u>	<u>(152,475)</u>
Property and equipment, net	<u>\$ 226,145</u>	<u>\$ 179,690</u>

INNOVATIONS FOR POVERTY ACTION

Notes to Financial Statements

December 31, 2011 and 2010

Depreciation expense was \$100,726 and \$55,716 for the years ended December 31, 2011 and 2010, respectively.

6. SHORT-TERM DEBT

IPA has a bank line-of-credit available in the amount of \$250,000. There were no borrowings during the year and no amounts were due under this agreement as of December 31, 2011 and 2010.

7. LEASES

During 2009, IPA entered into a lease agreement for its headquarters which expires June 30, 2012. The lease has been amended twice to incorporate additional space. IPA rented other office space in various locations, some on a month to month basis and others under leases expiring through December 2012. Total rental expenses for 2011 and 2010 amounted to approximately \$330,000 and \$282,000, of which approximately \$180,000 and \$170,000, respectively, related to foreign operations.

Estimated future minimum lease payments are as follows:

2012	\$ 117,155
2013	28,877
2014	24,789
2015	17,983
Thereafter	320
	<u>\$ 189,124</u>

8. RELATED PARTIES

During the year ended 2010, IPA generated revenues providing services to Stickk.com of which approximately \$89,000 was outstanding and is reported as part of accounts receivable and others in the statements of financial position as of December 31, 2011 and 2010. Stickk.com is co-founded by Dean Karlan, the founder of IPA.

9. CONTINGENCIES

IPA has received grants and contracts for specific purposes that are subject to review, audit and adjustment by the donors. Such audits could lead to requests for reimbursement to such donors for any expenditures or claims disallowed under the terms of the agreements. Based on prior experience, management believes such disallowances, if any, will not be material to the financial statements.

10. SUBSEQUENT EVENTS

IPA has evaluated its December 31, 2011 financial statements for subsequent events through June 13, 2012, the date the financial statements were available to be issued. IPA is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

INNOVATIONS FOR POVERTY ACTION
Schedule of Functional Expense
For the year ended December 31, 2011

	Program Services	General and Administrative	Fundraising	Total
Payroll and benefits	\$ 10,621,836	\$ 1,540,182	\$ 10,479	\$ 12,172,497
Field and survey expenses	10,579,536	-	17,517	10,597,053
Vehicle rental and fuel costs	616,020	-	-	616,020
Professional fees	163,621	206,748	32,499	402,868
Occupancy	441,128	136,639	-	577,767
Office expense	314,652	64,586	102	379,340
Computer/network	156,275	61,938	20	218,233
Travel	1,778,032	25,296	1,278	1,804,606
Conferences and training	323,495	9,786	206	333,487
Administrative expenses	231,345	59,900	7,650	298,895
Insurance	330	34,966	-	35,296
Interest expense	193	1,615	-	1,808
Other	34,893	190,676	1,682	227,251
	<u>34,893</u>	<u>190,676</u>	<u>1,682</u>	<u>227,251</u>
 Total expenses	 <u>\$ 25,261,356</u>	 <u>\$ 2,332,332</u>	 <u>\$ 71,433</u>	 <u>\$ 27,665,121</u>

This Schedule should be read in conjunction with the accompanying financial statements and notes thereto.

INNOVATIONS FOR POVERTY ACTION
Schedule of Functional Expense
For the year ended December 31, 2010

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Payroll and benefits	\$ 7,238,165	\$ 816,494	\$ 4,576	\$ 8,059,235
Field and survey expenses	7,467,652	-	-	7,467,652
Professional fees	141,383	116,011	-	257,394
Occupancy	353,685	56,194	-	409,879
Office expense	297,132	47,423	207	344,762
Computer/network	189,351	41,586	-	230,937
Travel	1,438,253	27,289	-	1,465,542
Conferences and training	92,047	1,714	-	93,761
Administrative expenses	109,287	30,156	31	139,474
Insurance	105,051	13,144	-	118,195
Interest expense	53	2,830	-	2,883
Other	<u>359,177</u>	<u>12,054</u>	<u>-</u>	<u>371,231</u>
Total expenses	<u>\$ 17,791,236</u>	<u>\$ 1,164,895</u>	<u>\$ 4,814</u>	<u>\$ 18,960,945</u>

This Schedule should be read in conjunction with the accompanying financial statements and notes thereto.