

INNOVATIONS FOR POVERTY ACTION

FINANCIAL STATEMENTS

DECEMBER 31, 2012

INNOVATIONS FOR POVERTY ACTION

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Independent Auditors' Report

To the Board of Directors
Innovations for Poverty Action
New Haven, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of Innovations for Poverty Action, which comprise the statement of financial position as of December 31, 2012 and the related statements of activities 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider 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 Innovations for Poverty Action as of December 31, 2012, 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.

Emphasis of Matter

As disclosed in Note 10 to the financial statements, cash and cash equivalents and net assets as of January 1, 2012 have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2013 on our consideration of Innovations for Poverty Action's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Innovations for Poverty Action's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
September 27, 2013

**INNOVATIONS FOR POVERTY ACTION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012**

ASSETS

Cash and cash equivalents	\$	8,506,702
Restricted cash		1,211,562
Grants receivable		11,652,048
Contributions receivable, net		196,020
Other receivable		154,263
Prepaid expenses and other assets		240,873
Advances to employees and subcontractors		154,022
Property and equipment, net		<u>256,766</u>
Total Assets	\$	<u><u>22,372,256</u></u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$	1,098,752
Deferred revenue		19,831,113
Total liabilities		<u>20,929,865</u>
Net Assets		
Unrestricted		1,246,371
Temporarily restricted		196,020
Total net assets		<u>1,442,391</u>
Total Liabilities and Net Assets	\$	<u><u>22,372,256</u></u>

The accompanying notes are an integral part of the financial statements

**INNOVATIONS FOR POVERTY ACTION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Changes in Unrestricted Net Assets

Revenue and support:	
Grants and contracts	\$ 34,541,132
Contributions	2,175,618
Interest income	12,856
Total revenue and support	<u>36,729,606</u>
Expenses:	
Program services	31,415,706
Management and general	3,428,847
Fundraising	118,440
Total expenses	<u>34,962,993</u>
Increase in unrestricted net assets	1,766,613

Changes in Temporarily Restricted Net Assets

Contributions	<u>196,020</u>
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Increase in Net Assets

1,962,633

Net Assets (Deficit) - Beginning of Year, as Restated

(520,242)

Net Assets - End of Year

\$ 1,442,391

The accompanying notes are an integral part of the financial statements

**INNOVATIONS FOR POVERTY ACTION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Cash Flows from Operating Activities	
Increase in net assets	\$ 1,962,633
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	85,033
(Increase) decrease in operating assets:	
Restricted cash	21,363
Grants receivable	(2,243,703)
Contributions receivable, net	(196,020)
Other receivable	(154,263)
Prepaid expenses and other assets	(160,383)
Advances to employees and subcontractors	73,321
Increase in operating liabilities:	
Accounts payable and accrued expenses	87,548
Deferred revenue	1,304,521
Net cash provided by operating activities	<u>780,050</u>
Cash Flows from Investing Activities	
Purchases of property and equipment	<u>(115,654)</u>
Net cash used in investing activities	<u>(115,654)</u>
Net Increase in Cash and Cash Equivalents	664,396
Cash and Cash Equivalents - Beginning of Year	<u>7,842,306</u>
Cash and Cash Equivalents - End of Year	<u>\$ 8,506,702</u>
Cash Paid During the Year for Interest	\$ 2,158

The accompanying notes are an integral part of the financial statements

INNOVATIONS FOR POVERTY ACTION NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Organization - Innovations for Poverty Action (the Organization) was founded in 2002 with the goal of serving as the link between academic research and real-world problems faced by the poor in developing countries. The Organization 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, the Organization's work helps practitioners better allocate their resources and improve their operations. The Organization 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 - The Organization 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, the Organization'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 the Organization's budget is devoted to conducting impact evaluations, the Organization 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 the Organization is to help resources be allocated to effective programs and policies. The Organization's communication strategy targets donors, to help guide them to programs and ideas that have been proven effective, as well as organizations, to help guide their programming decisions toward more effective ideas and implementation strategies. We do this through nontechnical communication on individual 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 toward better decisions and resource allocation.

INNOVATIONS FOR POVERTY ACTION NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION (Continued)

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

Accomplishments - The Organization is a relatively young organization that has experienced encouraging growth in the past few years. The Organization currently has operations in 51 countries around the world and 350 research projects underway. The Organization'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 the Organization'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 the Organization's notable accomplishments to-date include:

- The Organization has contributed to or directly managed more than 100 completed evaluations. These evaluations produced results that are of direct interest for practitioners, and offer guidance for improving services and policies. For example, the Organization's work in the area of measuring the impact of access to credit on businesses and households is groundbreaking. In the past year, the Organization's research affiliates completed two major studies of the impact of 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 to 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. The Organization researchers and staff conducted interviews with major media outlets, wrote articles and developed summary materials to inform the debate.
- The Organization has worked with the staff of more than 50 development organizations to develop rigorous research designs. During this process, the Organization puts a particular focus on training its partners on the research process, goals and methodologies. The Organization 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.
- The Organization's network of research affiliates includes more than 30 academics, all recognized experts in the field of economics and other social sciences. In addition, the Organization works with and offers research support services to a larger network of researchers.

**INNOVATIONS FOR POVERTY ACTION
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation - The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions.

Unrestricted Net Assets - Unrestricted net assets represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Directors.

Temporarily Restricted Net Assets - Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure.

Permanently Restricted Net Assets - Permanently restricted net assets represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit the Organization to expend the income earned thereon. There are no permanently restricted net assets at December 31, 2012.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less. The Organization maintains deposits in financial institutions that may, at times, exceed federal depository insurance limits. Management believes that the Organization's deposits are not subject to significant credit risk.

Restricted Cash - Restricted cash represents amounts from grants required by the grantor to be kept in segregated bank accounts. These funds are available for transfer to the Organization's operating account after the related expenditures are incurred.

Accounts Receivable - The Organization has accounts receivable related to grants and third-party reimbursements. Based on historical experience, grants are considered fully collectible and an allowance for doubtful accounts is not made. The Organization maintains other receivables that are considered delinquent and written off when all attempts to collect from individuals or other payer sources have been exhausted. When appropriate, management maintains an allowance for doubtful accounts, which is based on a review of significant balances and past collection experience. There was no allowance recognized as of December 31, 2012.

Property and Equipment - Property and equipment acquisitions and improvements thereon that exceed \$2,500 are capitalized at cost and depreciated on a straight-line basis over their estimated useful lives. Repairs and maintenance are charged to expense as incurred.

INNOVATIONS FOR POVERTY ACTION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contracts - Other than certain awards to fund capital expenditures, governmental grants and contracts are generally considered to be exchange transactions rather than contributions. Revenue from cost-reimbursement grants and contracts is recognized to the extent of costs incurred. Revenue from performance-based grants and contracts is recognized to the extent of performance achieved. Grant and contract receipts in excess of revenue recognized are presented as deferred revenue.

Contributions - Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions receivable expected to be collected in more than one year are discounted to their present value. The Organization reports nongovernmental contributions and grants of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit their use. 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 statement of activities as net assets released from restrictions. Contributions received whose restrictions are met in the same period are presented with unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

In-Kind Contributions and Contributed Services and Supplies - The Organization recognizes donated services at their estimated fair value if they create or enhance nonfinancial assets or require specialized skills and would typically be purchased if not provided by donation. The Organization receives services from a large number of volunteers who give significant amounts of their time to the Organization's programs but do not meet the criteria for financial statement recognition. General volunteer services do not meet these criteria for recognition.

In-kind contributions are reflected as contributions at their fair value at date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. The Organization benefited from donated professional services that were valued by the individuals providing the services at \$175,000 during the year ended December 31, 2012. This amount has been reported as both in-kind contribution revenue and in-kind consulting expense on the statement of activities.

Income Taxes - The Organization is exempt from federal and state income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. The Organization's informational returns for the years ended December 31, 2009 through 2012 are subject to examination by the Internal Revenue Service and various states.

Subsequent Events - In preparing these financial statements, management has evaluated subsequent events through September 27, 2013, which represents the date the financial statements were available to be issued.

INNOVATIONS FOR POVERTY ACTION
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2012 are expected to be collected as follows:

Receivable in less than one year	\$ 150,000
Receivable in one to five years	50,000
Total contributions receivable	<u>200,000</u>
Less discount	(980)
Less allowance for uncollectible pledges	<u>(3,000)</u>
Net Contributions Receivable	\$ <u><u>196,020</u></u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2012:

Vehicles	\$ 244,617
Leasehold improvements	42,068
Computer equipment	242,973
Other equipment	61,043
	<u>590,701</u>
Less accumulated depreciation	<u>(333,935)</u>
Net Property and Equipment	\$ <u><u>256,766</u></u>

Depreciation expense was \$85,033 for the year ended December 31, 2012.

NOTE 5 - LINE OF CREDIT

In November 2012, the Organization entered into a line of credit with Citibank in the amount of \$2,500,000. This agreement replaced a previous line of credit in the amount of \$250,000. The interest rate on the line of credit is Prime, which was 3.25% at December 31, 2012. There were no outstanding balances on the line of credit as of December 31, 2012.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent contributions that are due over time. Temporarily restricted net assets restricted for time purposes as of December 31, 2012 were \$196,020.

INNOVATIONS FOR POVERTY ACTION
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - LEASES

The Organization has entered into multiple lease agreements for its headquarters that expire at various dates through December 2015. The original leases have been amended multiple times to incorporate additional office space. The Organization leases office space in various domestic and foreign locations, some on a month-to-month basis and others under leases expiring through January 2019. Total rental expenses for the year ended December 31, 2012 amounted to approximately \$341,000, of which approximately \$140,500 related to foreign operations.

Estimated future minimum lease payments are as follows:

2013	\$ 368,755
2014	282,391
2015	200,107
2016	320
2017	<u>-</u>
	<u>\$ 851,573</u>

NOTE 8 - CONTINGENCIES

The Organization has received grants and contracts for specific purposes that are subject to review, audit and adjustment by the grantors. Such audits could lead to requests for reimbursements 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.

NOTE 9 - EMPLOYEE BENEFITS

The Organization maintains a defined contribution plan in which all of the Organization's employees are automatically enrolled once they have met certain eligibility requirements. Employees are eligible for a matching contribution from the Organization of up to 3% of salary, which will vest immediately after 90 days. Contribution expense recognized by the Organization was \$126,286 for the year ended December 31, 2012.

NOTE 10 - PRIOR PERIOD RESTATEMENT

During the current year, it was identified that \$5,388,015 of grant and contract revenue was improperly recognized in the prior years. Therefore, net assets as of January 1, 2012 were overstated by this amount. Because it is not practicable to determine the effects of such errors on the Organization's financial position prior to December 31, 2011, the impact of the errors on the change in net assets for the year ended December 31, 2011 has not been determined. The Organization has restated its net assets as of January 1, 2012.

**INNOVATIONS FOR POVERTY ACTION
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - PRIOR PERIOD RESTATEMENT (Continued)

In addition to this, it was identified that restricted cash as of January 1, 2012 was overstated and cash and cash equivalents was understated in the amount of \$6,455,186 in the prior year.

The following sets forth the restated amounts of selected items within the financial statements as of December 31, 2012:

<u>Caption</u>	<u>As Previously Reported</u>	<u>Prior Period Adjustment</u>	<u>As Restated</u>
In the statement of activities for the year ended December 31, 2012:			
Net Assets (Deficit) - Beginning of Year	\$ 4,867,773	\$ (5,388,015)	\$ (520,242)
In the statement of cash flows for the year ended December 31, 2012:			
Cash and Cash Equivalents - Beginning of Year	1,387,120	6,455,186	7,842,306