

INNOVATIONS FOR POVERTY ACTION

FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

INNOVATIONS FOR POVERTY ACTION

CONTENTS

Independent Auditors' Report	1-2
Statements of Financial Position - December 31, 2013 and 2012	3
Statements of Activities for the Years Ended December 31, 2013 and 2012	4
Statements of Cash Flows for the Years Ended December 31, 2013 and 2012	5
Notes to Financial Statements	6-10

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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 statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits 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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 25, 2014 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 25, 2014

**INNOVATIONS FOR POVERTY ACTION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012**

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 4,746,489	\$ 8,506,702
Grants receivable, net	18,556,510	11,652,048
Contributions receivable, net	50,000	196,020
Other receivable	24,778	154,263
Prepaid expenses and other assets	546,143	240,873
Restricted cash	350,088	1,211,562
Advances to employees and subcontractors	441,014	154,022
Property and equipment, net	354,550	256,766
Total Assets	\$ 25,069,572	\$ 22,372,256
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,690,200	\$ 1,098,752
Deferred revenue	21,700,064	19,831,113
Total liabilities	23,390,264	20,929,865
Net Assets		
Unrestricted	1,629,308	1,246,371
Temporarily restricted	50,000	196,020
Total net assets	1,679,308	1,442,391
Total Liabilities and Net Assets	\$ 25,069,572	\$ 22,372,256

The accompanying notes are an integral part of the financial statements

**INNOVATIONS FOR POVERTY ACTION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
Changes in Unrestricted Net Assets		
Revenue and support:		
Grants and contracts	\$ 38,983,019	\$ 34,541,132
Contributions	1,535,300	2,175,618
Interest income	7,226	12,856
Net assets released from restrictions	146,020	-
Total revenue and support	40,671,565	36,729,606
Expenses:		
Program services	37,609,730	31,415,706
Management and general	2,278,105	3,428,847
Fundraising	400,793	118,440
Total expenses	40,288,628	34,962,993
Increase in unrestricted net assets	382,937	1,766,613
Changes in Temporarily Restricted Net Assets		
Support and revenue:		
Contributions	-	196,020
Net assets released from restrictions	(146,020)	-
Increase (decrease) in temporarily restricted net assets	(146,020)	196,020
Increase in Net Assets	236,917	1,962,633
Net Assets (Deficit) - Beginning of Year	1,442,391	(520,242)
Net Assets - End of Year	\$ 1,679,308	\$ 1,442,391

The accompanying notes are an integral part of the financial statements

**INNOVATIONS FOR POVERTY ACTION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2013**

	2013	2012
Cash Flows from Operating Activities		
Increase in net assets	\$ 236,917	\$ 1,962,633
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	192,798	85,033
(Increase) decrease in operating assets:		
Grants receivable, net	(6,904,462)	(2,243,703)
Contributions receivable, net	146,020	(196,020)
Other receivable	129,485	(154,263)
Prepaid expenses and other assets	(305,270)	(160,383)
Restricted cash	861,474	21,363
Advances to employees and subcontractors	(286,992)	73,321
Increase in operating liabilities:		
Accounts payable and accrued expenses	591,448	87,548
Deferred revenue	1,868,951	1,304,521
Net cash provided by (used in) operating activities	(3,469,631)	780,050
Cash Flows from Investing Activities		
Purchases of property and equipment	(290,582)	(115,654)
Net cash used in investing activities	(290,582)	(115,654)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,760,213)	664,396
Cash and Cash Equivalents - Beginning of Year	8,506,702	7,842,306
Cash and Cash Equivalents - End of Year	\$ 4,746,489	\$ 8,506,702
Cash Paid During the Year for Interest	\$ 1,895	\$ 2,158

The accompanying notes are an integral part of the financial statements

INNOVATIONS FOR POVERTY ACTION NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Activities - Innovations for Poverty Action (the Organization) is a not-for-profit organization dedicated to discovering and promoting effective solutions to global poverty problems. In close partnership with the decision makers, policymakers, practitioners, investors and donors working with the poor around the world, the Organization designs and evaluates potential solutions to poverty problems using randomized evaluations, the most rigorous evaluation method available. The Organization also mobilizes and supports these decision makers to use these solutions to build better programs and policies at scale. Since the Organization's founding in 2002, the results of its research have improved the lives of over 50 million people around the world.

In collaboration with over 250 leading academics and implementing organizations, there are results from over 200 completed studies with 235 in progress around the world. These studies cover solutions for effective agriculture, education, health, finance, governance, social protection and post-conflict recovery. Collectively, there are approximately 1,000 colleagues in 12 permanent offices supporting 17 countries, conducting research and routinely consulting with governments, foundations, nongovernment organizations and others to present evidence that can inform their work.

Accomplishments - In 2013, the Organization celebrated ten years of producing high-quality evidence about what works, and what does not work, to improve the lives of the poor. It was a year of celebration for our accomplishments. More so, it was a time to prepare the Organization for the next phase as it continues to pursue the vision of a world with More Evidence and Less Poverty.

To date, the Organization has designed and evaluated more than 200 potential solutions to poverty problems using the most rigorous evaluation methods available. There are over 235 more evaluations in progress, mobilizing decision makers to use the evidence to improve opportunities for the poor. This evidence has already influenced policy and practice through multiple channels:

- **Innovations for Poverty Action partners change their approach based on study results.** Results from the Organization's fingerprinting study in Malawi have led to the creation of countrywide credit bureaus, which will create a fingerprinting database to reduce bank default risk.
- **Innovations for Poverty Action influences global debates.** The Organization's findings show that cash transfers to the poor need not be conditional in order to make a difference. This is stimulating discussion about one of the central aspects of most national transfer programs.
- **Innovations for Poverty Action helps create a culture of evidence-based decision making.** The Organization and its partners at the Jameel Latif Poverty Action Lab at MIT supported the launch of the Quipu Commission in Peru to convene government ministries and researchers to identify key issues that can drive better policies.
- **Nongovernment organizations, governments and corporations use Innovations for Poverty Action's evidence to guide program design.** The mobile telecom company Millicom/TIGO is working with the Organization on a mobile savings product in response to its work on commitment savings.

**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, 2013 and 2012.

Use of Estimates - The preparation of financial statements in conformity with GAAP 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.

Property and Equipment - Property and equipment acquisitions and improvements thereon that exceed \$5,000 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 \$56,000 and \$175,000 during the years ended December 31, 2013 and 2012, respectively. These amounts are included in contribution revenue and program service expense on the statements 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, 2010 through 2013 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 25, 2014, 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, 2013 are expected to be collected as follows:

	<u>2013</u>	<u>2012</u>
Receivable in less than one year	\$ 50,000	\$ 150,000
Receivable in one to five years	-	50,000
Total contributions receivable	<u>50,000</u>	<u>200,000</u>
Less discount	-	(980)
Less allowance for uncollectible pledges	<u>-</u>	<u>(3,000)</u>
Net Contributions Receivable	<u>\$ 50,000</u>	<u>\$ 196,020</u>

NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>2013</u>	<u>2012</u>
Leasehold improvements	\$ 328,987	\$ 42,068
Computer equipment	244,861	242,973
Vehicles	244,617	244,617
Other equipment	<u>61,043</u>	<u>61,043</u>
	879,508	590,701
Less accumulated depreciation	<u>(524,958)</u>	<u>(333,935)</u>
Net Property and Equipment	<u>\$ 354,550</u>	<u>256,766</u>

Depreciation expense was \$192,798 and \$85,033 for the years ended December 31, 2013 and 2012, respectively.

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. The interest rate on the line of credit is Prime, which was 3.25% at December 31, 2013 and 2012. There were no outstanding balances on the line of credit as of December 31, 2013 and 2012.

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

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent contributions that are due over time. Temporarily restricted net assets due in future periods as of December 31, 2013 and 2012, are \$50,000 and \$196,020, respectively. Net assets in the amount of \$146,020 were released from restriction during the year ended December 31, 2013 by satisfying the corresponding time restriction.

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 years ended December 31, 2013 and 2012, amounted to approximately \$686,000 and \$341,000, respectively, of which approximately \$470,000 and \$140,500 related to foreign operations.

Estimated future minimum lease payments are as follows:

2014	\$ 369,497
2015	211,968
2016	<u>320</u>
	<u>\$ 581,785</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 \$130,313 and \$126,286 for the years ended December 31, 2013 and 2012, respectively.