

INNOVATIONS FOR POVERTY ACTION

FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

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 statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses 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, 2014 and 2013, 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 29, 2015 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 29, 2015

**INNOVATIONS FOR POVERTY ACTION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 5,011,782	\$ 5,096,577
Grants receivable, net	22,890,881	18,556,510
Contributions receivable, net	176,862	50,000
Other receivable	188,451	24,778
Prepaid expenses and other assets	608,328	546,143
Advances to employees and subcontractors	560,666	441,014
Property and equipment, net	<u>245,388</u>	<u>354,550</u>
Total Assets	\$ <u>29,682,358</u>	\$ <u>25,069,572</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 2,354,355	\$ 1,690,200
Deferred revenue	25,381,454	21,700,064
Line of credit	500,000	-
Total liabilities	<u>28,235,809</u>	<u>23,390,264</u>
Net Assets		
Unrestricted	1,446,549	1,629,308
Temporarily restricted	-	50,000
Total net assets	<u>1,446,549</u>	<u>1,679,308</u>
Total Liabilities and Net Assets	\$ <u>29,682,358</u>	\$ <u>25,069,572</u>

The accompanying notes are an integral part of the financial statements

**INNOVATIONS FOR POVERTY ACTION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Changes in Unrestricted Net Assets		
Revenue and support:		
Grants and contracts	\$ 40,005,431	\$ 38,983,019
Contributions	2,560,340	1,535,300
Interest income	3,036	7,226
Net assets released from restrictions	50,000	146,020
Total revenue and support	42,618,807	40,671,565
Expenses:		
Program services	36,273,898	32,309,134
Management and general	6,272,850	7,698,688
Fundraising	254,818	280,806
Total expenses	42,801,566	40,288,628
Increase (decrease) in unrestricted net assets	(182,759)	382,937
Changes in Temporarily Restricted Net Assets		
Net assets released from restrictions	(50,000)	(146,020)
Increase (Decrease) in Net Assets	(232,759)	236,917
Net Assets - Beginning of Year	1,679,308	1,442,391
Net Assets - End of Year	\$ 1,446,549	\$ 1,679,308

The accompanying notes are an integral part of the financial statements

**INNOVATIONS FOR POVERTY ACTION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses	\$ 14,879,049	\$ 3,273,875	\$ 170,713	\$ 18,323,637
Travel	4,966,391	503,625	14,043	5,484,059
Professional fees	3,346,879	1,176,858	42,075	4,565,812
Subgrants	4,170,450	14,681	-	4,185,131
Outside services	1,907,926	1,219	-	1,909,145
Program supplies	1,722,981	5,352	-	1,728,333
Other operating expenses	926,340	329,160	16,788	1,272,288
Office expense	1,051,519	137,663	3,377	1,192,559
Computer/network	819,620	368,790	2,255	1,190,665
Occupancy	943,614	192,837	-	1,136,451
Motor vehicle	1,015,605	5,704	-	1,021,309
Conferences and trainings	416,513	125,731	5,567	547,811
Depreciation	40,558	76,918	-	117,476
Insurance	66,428	50,427	-	116,855
Interest expense	25	10,010	-	10,035
Total Expenses	<u>\$ 36,273,898</u>	<u>\$ 6,272,850</u>	<u>\$ 254,818</u>	<u>\$ 42,801,566</u>

The accompanying notes are an integral part of the financial statements

**INNOVATIONS FOR POVERTY ACTION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses	\$ 14,087,432	\$ 4,312,674	\$ 144,412	\$ 18,544,518
Travel	5,177,285	418,640	17,223	5,613,148
Professional fees	1,875,471	857,552	96,885	2,829,908
Subgrants	2,906,921	-	-	2,906,921
Outside services	1,602,313	56,465	-	1,658,778
Program supplies	1,869,453	613	-	1,870,066
Other operating expenses	1,137,926	688,695	11,876	1,838,497
Office expense	501,120	358,310	2,494	861,924
Computer/network	605,047	326,041	5,416	936,504
Occupancy	600,907	328,311	-	929,218
Motor vehicles	1,047,087	25,082	-	1,072,169
Conferences and trainings	823,107	105,271	2,500	930,878
Depreciation	62,712	130,086	-	192,798
Insurance	12,353	89,052	-	101,405
Interest expense	-	1,896	-	1,896
Total Expenses	\$ <u>32,309,134</u>	\$ <u>7,698,688</u>	\$ <u>280,806</u>	\$ <u>40,288,628</u>

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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ (232,759)	\$ 236,917
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	117,476	192,798
(Increase) decrease in operating assets:		
Grants receivable, net	(4,334,371)	(6,904,462)
Contributions receivable, net	(126,862)	146,020
Other receivable	(163,673)	129,485
Prepaid expenses and other assets	(62,185)	(305,270)
Advances to employees and subcontractors	(119,652)	(286,992)
Increase in operating liabilities:		
Accounts payable and accrued expenses	664,155	591,448
Deferred revenue	3,681,390	1,868,951
Net cash used in operating activities	<u>(576,481)</u>	<u>(4,331,105)</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	<u>(8,314)</u>	<u>(290,582)</u>
Net cash used in investing activities	<u>(8,314)</u>	<u>(290,582)</u>
Cash Flows from Financing Activities		
Proceeds from line of credit	<u>500,000</u>	<u>-</u>
Net cash provided by financing activities	<u>500,000</u>	<u>-</u>
Net Decrease in Cash and Cash Equivalents	(84,795)	(4,621,687)
Cash and Cash Equivalents - Beginning of Year	<u>5,096,577</u>	<u>9,718,264</u>
Cash and Cash Equivalents - End of Year	<u>\$ 5,011,782</u>	<u>\$ 5,096,577</u>
Cash Paid During the Year for Interest	\$ 10,032	\$ 11,381

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 research and policy nonprofit that discovers and promotes effective solutions to global poverty problems. The Organization brings together researchers and decision-makers to design, rigorously evaluate and refine these solutions and their applications, ensuring that the evidence created is used to improve opportunities for the world's poor. 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 350 leading academics and 400 implementing organizations, there are results from over 275 completed studies with 245 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 18 countries, conducting research and routinely consulting with governments, foundations, nongovernment organizations and others to present evidence that can inform their work.

Accomplishments - In 2014, the Organization:

- Worked on nearly 250 projects across Latin America, Africa, Asia and the United States.
- Finalized a large six-country study showing that a comprehensive approach to the ultra-poor, the approximately one billion people who live on less than \$1.25 a day, boosted livelihoods, income and health.
- Responded to the Ebola crisis in Sierra Leone, where the Organization collected data from households, businesses and local markets on the economic and socio-economic impacts of the crisis and provided rapid feedback to the policymakers and relief organizations working on the ground.
- Got results from studies on labeling remittances for education in the Philippines, text message reminders for malaria treatment in Ghana and predicting local violence in Liberia, among many others.
- Brought experts from top universities around the world to Peru, Malawi, Burkina Faso and elsewhere to share the latest research with local officials, NGOs and community organizations.
- Had its work featured in the *New York Times*, *Foreign Affairs*, *The Malawi Business Times* and *New York Magazine*, among many others.

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.

INNOVATIONS FOR POVERTY ACTION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2014 and 2013.

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.

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.

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

INNOVATIONS FOR POVERTY ACTION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 during the year ended December 31, 2013. This amount is included in contribution revenue and program service expense on the statement of activities. There were no donated services during the year ended December 31, 2014.

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.

Foreign Currency Translation - The Organization uses the functional currency of their country offices. The Organization's reporting currency is the U.S. dollar. Assets and liabilities of the Organization's foreign operations are translated into U.S. dollars at year-end exchange rates. Revenue and expense accounts and cash flows are translated using an average of exchange rates in effect during the period. Exchange gains and losses from transactions denominated in a foreign currency are recognized as a component of support and revenue in current operations.

Reclassifications - Certain amounts reported in prior periods have been reclassified in order to conform to the current year presentation.

Subsequent Events - In preparing these financial statements, management has evaluated subsequent events through September 29, 2015, which represents the date the financial statements were available to be issued.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable of \$176,862 and \$50,000 as of December 31, 2014 and 2013, respectively, are all receivable within one year.

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

NOTE 4 - PROPERTY AND EQUIPMENT

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

	2014	2013
Leasehold improvements	\$ 337,335	\$ 328,987
Computer equipment	244,827	244,861
Vehicles	244,617	244,617
Other equipment	61,043	61,043
	887,822	879,508
Less accumulated depreciation	(642,434)	(524,958)
Net Property and Equipment	\$ 245,388	\$ 354,550

Depreciation expense was \$117,476 and \$192,798 for the years ended December 31, 2014 and 2013, respectively.

NOTE 5 - LINE OF CREDIT

The Organization has a line of credit with Citibank in the amount of \$1,250,000. The interest rate on the line of credit is Prime, which was 3.25% at December 31, 2014 and 2013. The line of credit is collateralized by substantially all of the Organization's assets. The outstanding balance on the line of credit was \$500,000 as of December 31, 2014. There was no outstanding balance as of December 31, 2013.

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 were \$50,000. Net assets in the amount of \$50,000 were released from restriction during the year ended December 31, 2014 by satisfying the corresponding time restriction.

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 years ended December 31, 2014 and 2013, amounted to approximately \$805,000 and \$686,000, respectively, of which approximately \$652,000 and \$470,000 related to foreign operations.

Estimated future minimum lease payments are as follows:

2015	\$ 587,404
2016	314,507
2017	168,074
2018	115,813
2019	<u>46,047</u>
	<u>\$ 1,231,845</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 \$96,802 and \$130,313 for the years ended December 31, 2014 and 2013, respectively.

NOTE 10 - FOREIGN OPERATIONS

In connection with its mission, the Organization maintains facilities outside the United States in 18 countries. As of December 31, 2014 and 2013, assets in other countries, including cash, totaled \$1,107,608 and \$1,409,370, property and equipment, net of accumulated depreciation, amounted to \$105,477 and \$144,631 and liabilities in other countries were \$254,170 and \$157,835, respectively. Total overseas support and revenue received from foreign sources amounted to \$11,299,877 and \$12,062,403 for the years ended December 31, 2014 and 2013, respectively. Account balances relating to foreign operations are reflected in the financial statements in United States dollars.