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INNOVATIONS FOR POVERTY ACTION

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

INNOVATIONS FOR POVERTY ACTION

CONTENTS

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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, 2015 and 2014, 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, 2015 and 2014, 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 July 31, 2016 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
July 31, 2016

INNOVATIONS FOR POVERTY ACTION

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 3,423,497	$ 5,011,782
Grants receivable, net	14,335,391	22,890,881
Contributions receivable, net	269,194	176,862
Other receivable	82,922	188,451
Prepaid expenses and other assets	369,139	1,168,994
Property and equipment, net	140,709	245,388
Total Assets	$ 18,620,852	$ 29,682,358
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 3,912,387	$ 2,354,355
Deferred revenue	22,646,030	25,381,454
Line of credit	850,000	500,000
Total liabilities	27,408,417	28,235,809
Net Assets		
Unrestricted	(8,912,565)	1,446,549
Temporarily restricted	125,000	-
Total net assets	(8,787,565)	1,446,549
Total Liabilities and Net Assets	$ 18,620,852	$ 29,682,358

The accompanying notes are an integral part of the financial statements

INNOVATIONS FOR POVERTY ACTION

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Changes in Unrestricted Net Assets		
Revenue and support:		
Grants and contracts	$ 35,693,475	$ 40,005,431
Contributions	3,270,122	2,560,340
Interest income	2,565	3,036
Net assets released from restrictions	75,000	50,000
Total revenue and support	39,041,162	42,618,807
Expenses:		
Program services	33,714,500	36,273,898
Management and general	8,609,152	6,272,850
Fundraising	274,273	254,818
Total expenses	42,597,925	42,801,566
Decrease in unrestricted net assets	(3,556,763)	(182,759)
Changes in Temporarily Restricted Net Assets		
Contributions	200,000	-
Net assets released from restrictions	(75,000)	(50,000)
Increase (decrease) in temporarily restricted net assets	125,000	(50,000)
Decrease in Net Assets before Write-Down of Grants Receivable	(3,431,763)	(232,759)
Write-Down of Grants Receivable	(6,802,351)	-
Decrease in Net Assets	(10,234,114)	(232,759)
Net Assets - Beginning of Year	1,446,549	1,679,308
Net Assets - End of Year	$ (8,787,565)	$ 1,446,549

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, 2015

	Program Services	Management and General	Fundraising	Total
Personnel expenses	$ 13,535,128	$ 4,813,378	$ 155,553	$ 18,504,059
Other operating expenses	1,782,214	267,004	15,258	2,064,476
Subgrants	5,408,602	-	-	5,408,602
Travel	3,742,370	424,433	16,837	4,183,640
Professional fees	2,402,852	651,710	68,991	3,123,553
Bad debt	-	1,500,000	-	1,500,000
Program supplies	1,419,163	1,481	-	1,420,644
Outside services	1,307,635	2,860	-	1,310,495
Computer/network	752,402	404,615	2,944	1,159,961
Office expense	835,890	142,576	6,248	984,714
Occupancy	837,046	170,055	-	1,007,101
Conferences and trainings	849,988	91,673	8,442	950,103
Motor vehicle	610,327	4,389	-	614,716
Insurance	188,651	33,653	-	222,304
Depreciation	42,230	75,508	-	117,738
Interest expense	2	25,817	-	25,819
Total Expenses	$ 33,714,500	$ 8,609,152	$ 274,273	$ 42,597,925

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

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

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, 2015 AND 2014

	2015	2014
Cash Flows from Operating Activities		
Decrease in net assets	$ (10,234,114)	$ (232,759)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	117,738	117,476
Bad debt	1,500,000	-
Write-down of grants receivable	6,802,351	-
(Increase) decrease in operating assets:		
Grants receivable, net	253,139	(4,334,371)
Contributions receivable, net	(92,332)	(126,862)
Other receivable	105,529	(163,673)
Prepaid expenses and other assets	799,855	(181,837)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	1,558,032	664,155
Deferred revenue	(2,735,424)	3,681,390
Net cash used in operating activities	(1,925,226)	(576,481)
Cash Flows from Investing Activities		
Purchases of property and equipment	(13,059)	(8,314)
Net cash used in investing activities	(13,059)	(8,314)
Cash Flows from Financing Activities		
Proceeds from line of credit	350,000	500,000
Net cash provided by financing activities	350,000	500,000
Net Decrease in Cash and Cash Equivalents	(1,588,285)	(84,795)
Cash and Cash Equivalents - Beginning of Year	5,011,782	5,096,577
Cash and Cash Equivalents - End of Year	$ 3,423,497	$ 5,011,782
Cash Paid During the Year for Interest	$ 25,819	$ 10,035

The accompanying notes are an integral part of the 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 the lives of the world's poor.

In recent decades, trillions of dollars have been spent on programs designed to reduce global poverty, but clear evidence on which programs succeed is rare, and when evidence does exist, decision-makers often do not know about it. The Organization exists to bring together leading researchers and these decision-makers to ensure that the evidence leads to tangible impact on the world. Since the Organization's founding in 2002, they have worked with over 400 leading academics to conduct over 600 evaluations in 51 countries. This research has informed hundreds of successful programs that now impact millions of individuals worldwide.

Accomplishments

In 2015, the Organization:

- Worked on over 275 studies across Latin America, Africa, Asia and the United States.
- Published in *Science* 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, and worked with governments around the world to promote this approach, leading to a commitment of over 3 million households by the government of Ethiopia.
- Founder, Dean Karlan, testified before U.S. Congress on the future of multilateral investment banks.
- Published 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 Kenya, Colombia, the Philippines, and elsewhere to share the latest research with local officials, NGOs and community organizations.
- Had its work featured in *The New York Times*, *The New Yorker, The Wall Street Journal, NPR*, and *Scientific American*, 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.

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, 2015 and 2014.

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.

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.

Grants receivable are stated at the amount management ultimately expects to collect. Management maintains an allowance for doubtful accounts based on a review of specific accounts and general historical experience. Management established an allowance for uncollectible grants of $1,500,000 as of December 31, 2015.

During the year ended December 31, 2015, management performed a detailed analysis of the accounting practices as they relate to the recognition of certain grants receivable. The Organization conducts multi-year projects in various countries funded by several different grantors under several grant awards. Prior to 2015, the Organization's practice was to recognize excess grant expenditures (expenditures incurred within a particular project that exceeded a current grant award by a current grantor) as receivables based upon the belief that the overages would be covered by a subsequent grant award by the grantors within the same ongoing long-term project. Management had determined such receivables to be fully collectible given prior history and the ongoing relationship with the grantor within the project. However, during 2015, and upon management's review, it was determined that the Organization would only recognize receivables to the extent of the committed grant amount. As a result, management determined that a write-down of $6,802,351 for the year ended December 31, 2015 was necessary.

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.

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, software and advertising that were valued by the individuals providing the services at $221,093 during the year ended December 31, 2015. 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 July 31, 2016, which represents the date the financial statements were available to be issued.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2015 and 2014, are expected to be collected as follows:

	2015	2014
Receivable in less than one year	$ 219,194	$ 176,862
Receivable in one to five years	50,000	-
Total Contributions Receivable	$ 269,194	$ 176,862

An allowance for uncollectible contributions receivable was not deemed necessary for the years ended December 31, 2015 and 2014.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2015 and 2014:

	2015	2014
Leasehold improvements	$ 337,335	$ 337,335
Computer equipment	257,885	244,827
Vehicles	244,617	244,617
Other equipment	61,043	61,043
	900,880	887,822
Less accumulated depreciation	(760,171)	(642,434)
Net Property and Equipment	$ 140,709	$ 245,388

Depreciation expense was $117,738 and $117,476 for the years ended December 31, 2015 and 2014, 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, 2015 and 2014. The line of credit is collateralized by substantially all of the Organization’s assets.

The outstanding balance on the line of credit was $850,000 and $500,000 as of December 31, 2015 and 2014, respectively.

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, 2015 were $125,000. Net assets in the amount of $75,000 and $50,000 were released from restriction during the years ended December 31, 2015 and 2014, respectively, by satisfying the corresponding time restriction.

NOTE 7 - OPERATING LEASES

The Organization has entered into multiple operating lease agreements for its headquarters that expire at various dates through December 2016. 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 November 2020. Total rental expenses for the years ended December 31, 2015 and 2014, amounted to approximately $731,000 and $805,000, respectively, of which approximately $471,000 and $652,000 related to foreign operations.

Estimated future minimum lease payments are as follows:

Year Ending December 31		
2016	$	532,390
2017		213,060
2018		144,215
2019		96,837
2020		49,530
	$	1,036,032

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.

In connection with its mission, the Organization maintains facilities outside the United States in 18 countries. Compliance with laws and regulations within each of these countries is subject to review by the corresponding governmental agencies. Management has identified a potential tax liability related to doing business in various foreign countries and has hired an expert for assistance; however management is unable to make a reasonable estimate of such liability as of December 31, 2015.

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 $259,466 and $96,802 for the years ended December 31, 2015 and 2014, respectively.

NOTE 10 - FOREIGN OPERATIONS

As of December 31, 2015 and 2014, assets in other countries, including cash, totaled $1,617,586 and $1,187,608, property and equipment, net of accumulated depreciation, amounted to $88,977 and $105,477 and liabilities in other countries were $412,458 and $254,170, respectively. Total overseas support and revenue received from foreign sources amounted to $9,047,098 and $11,299,877 for the years ended December 31, 2015 and 2014, respectively. Account balances relating to foreign operations are reflected in the financial statements in United States dollars.

NOTE 11 - FUTURE OPERATIONS

Due to the significant decrease in net assets as of December 31, 2015, which was mainly due to the write-down as identified in Note 2, management has developed a formal action plan that refocuses their activities with the overall goal of strategic and sustainable growth. While immediate action is necessary to manage cash flow through increased contributions and increased indirect cost recovery, the action plan involves changes to occur through 2019. Highlights of this plan include immediate management of cash flow through accelerating invoicing through earlier month-end closes, reducing overhead and country office expenditures, and increased fundraising and collection efforts. Other key factors in this plan includes streamlining operations to focus on full recovery of project and country office costs, building robust systems of controls and compliance with real time accounting, which would include strengthening the monitoring of compliance with laws and regulations, generate new products and business models with activities that utilize the existing infrastructure and perform a five-year fundraising campaign with a focus on rebuilding the net assets of the Organization. With support from the Board of Directors and strict adherence to the above plan, management believes they can reverse the current net asset deficit by the end of 2019.