



**FINANCIAL STATEMENTS TOGETHER WITH
REPORT OF INDEPENDENT AUDITORS**

OCTOBER 31, 2018 AND 2017

GRASSROOTS INTERNATIONAL, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Grassroots International, Inc.

We have audited the accompanying financial statements of Grassroots International, Inc. (a Massachusetts nonprofit organization), which comprise the statement of financial position as of October 31, 2018, and the related statements of activities and changes in net assets, cash flows and functional expenses 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.

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined 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 auditor's 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 auditor considers 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 Grassroots International, Inc. as of October 31, 2018, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Report on Summarized Comparative Information

We have previously audited Grassroots International, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 6, 2018. In our opinion, the summarized comparative information herein as of and for the year ended October 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink, appearing to read "BJHC PC". The letters are bold and stylized, with some overlapping.

Topsfield, Massachusetts
February 22, 2019

GRASSROOTS INTERNATIONAL, INC.
STATEMENTS OF FINANCIAL POSITION
OCTOBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents, substantially all in interest-bearing accounts	\$ 546,500	\$ 255,515
Grants and unconditional promises to give	5,234	24,673
Investments	2,517,062	1,363,862
Prepaid expenses and other	18,676	21,991
Cash and cash equivalents, restricted for program fund	1,161,259	-
Fixed and other assets, net	34,888	37,007
	<hr/>	
Total assets	<u>\$ 4,283,619</u>	<u>\$ 1,703,048</u>
LIABILITIES		
Grants payable	\$ 221,500	\$ 70,073
Accounts payable and accrued expenses	135,607	108,834
	<hr/>	
Total liabilities	<u>357,107</u>	<u>178,907</u>
NET ASSETS		
Without donor restrictions:		
Undesignated	326,189	299,467
Board-designated	1,170,738	741,864
With donor restrictions	2,429,585	482,810
	<hr/>	
Total net assets	<u>3,926,512</u>	<u>1,524,141</u>
	<hr/>	
Total liabilities and net assets	<u>\$ 4,283,619</u>	<u>\$ 1,703,048</u>

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

GRASSROOTS INTERNATIONAL, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED OCTOBER 31, 2018
(with comparative totals for 2017)

	Without Donor Restrictions		With Donor Restrictions	2018 Total	2017 Total
	Undesignated	Board-designated			
OPERATING SUPPORT AND REVENUES					
Grants and contributions	\$ 1,517,046	\$ -	\$ 6,120,555	\$ 7,637,601	\$ 4,406,202
Special events	54,569	-	-	54,569	19,800
In-kind contributions	50,264	-	-	50,264	31,476
Net investment and other income (loss)	(58,566)	-	26,804	(31,762)	120,258
	1,563,313	-	6,147,359	7,710,672	4,577,736
Net assets released from program restrictions	4,200,584	-	(4,200,584)	-	-
Total operating support and revenues	5,763,897	-	1,946,775	7,710,672	4,577,736
OPERATING EXPENSES:					
PROGRAM SERVICES					
Humanitarian/social justice	4,742,726	-	-	4,742,726	3,331,575
Education	190,674	-	-	190,674	135,704
Total program services	4,933,400	-	-	4,933,400	3,467,279
SUPPORT SERVICES					
Management and general	410,865	-	-	410,865	325,439
Fundraising and development	611,661	-	-	611,661	542,327
Total support services	1,022,526	-	-	1,022,526	867,766
Total expenses	5,955,926	-	-	5,955,926	4,335,045
CHANGE IN NET ASSETS FROM OPERATIONS	(192,029)	-	1,946,775	1,754,746	242,691
NON-OPERATING REVENUES -					
Contribution of fund net assets	-	-	647,625	647,625	-
Net assets released from program restrictions	647,625	-	(647,625)	-	-
Total non-operating support and revenues	647,625	-	-	647,625	-
CHANGE IN NET ASSETS	455,596	-	1,946,775	2,402,371	242,691
NET ASSETS, beginning of year	299,467	741,864	482,810	1,524,141	1,281,450
Board designation of net assets	(428,874)	428,874	-	-	-
NET ASSETS, end of year	\$ 326,189	\$ 1,170,738	\$ 2,429,585	\$ 3,926,512	\$ 1,524,141

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

GRASSROOTS INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets from operations	\$ 1,754,746	\$ 242,691
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,094	5,230
Realized and unrealized (gains) and losses on investments	124,032	(77,927)
Cash provided by (used in) changes in:		
Grants and unconditional promises to give	19,439	11,126
Prepaid expenses and other	3,315	7,102
Grants payable	151,427	(54,727)
Accounts payable and accrued expenses	26,773	17,046
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,084,826</u>	<u>150,541</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to fixed and other assets	(2,975)	(2,627)
Net purchases of investment securities	(1,277,232)	(365,031)
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,280,207)</u>	<u>(367,658)</u>
CASH FLOWS FROM FINANCING ACTIVITIES -		
Contribution of fund net assets	647,625	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>647,625</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS	1,452,244	(217,117)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>255,515</u>	<u>472,632</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,707,759</u>	<u>\$ 255,515</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest and taxes	<u>\$ -</u>	<u>\$ -</u>
RECONCILIATION TO CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS ON THE STATEMENT OF FINANCIAL POSITION:		
Cash and cash equivalents	\$ 546,500	\$ 255,515
Cash and cash equivalents, restricted for program fund	1,161,259	-
	<u>\$ 1,707,759</u>	<u>\$ 255,515</u>

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

GRASSROOTS INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2018
(with comparative totals for 2017)

	PROGRAM SERVICES		SUPPORT SERVICES		2018 Total	2017 Total
	Humanitarian/ Social Justice	Education	Management and General	Fundraising/ Development		
Cash grants - general funds	\$ 4,139,052	\$ -	\$ -	\$ -	\$ 4,139,052	\$ 2,850,172
Salaries and wages	391,177	119,688	195,588	266,624	973,077	734,034
Payroll taxes and benefits	122,376	37,444	61,188	83,411	304,419	242,216
Consultants and contracted services	4,096	3,966	7,900	51,879	67,841	72,561
Public relations and special projects	-	426	175	31,573	32,174	18,652
Travel, meals and lodging	55,670	9,265	28,333	20,640	113,909	76,211
Occupancy costs	23,490	7,187	11,745	16,010	58,432	53,991
Depreciation and amortization	2,048	627	1,024	1,396	5,094	5,230
Legal and accounting	-	-	65,273	-	65,273	16,812
Direct mail	-	-	-	4,415	4,415	13,818
Printing, postage and delivery	-	11,072	1,638	93,572	106,282	151,018
Telephone	3,264	999	1,632	2,225	8,120	7,070
Office, board expense and events	1,553	-	32,054	33,242	66,849	78,082
Bank service charges	-	-	4,315	6,674	10,989	14,446
Films and publications	-	-	-	-	-	732
Total expenses	<u>\$ 4,742,726</u>	<u>\$ 190,674</u>	<u>\$ 410,865</u>	<u>\$ 611,661</u>	<u>\$ 5,955,926</u>	<u>\$ 4,335,045</u>

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

GRASSROOTS INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2018 AND 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES:

Grassroots International, Inc., "Grassroots", (a Massachusetts corporation, not for profit) is a human rights and international development organization that supports social change movements in the Third World. Grassroots funds movement building, community-led sustainable development projects and human rights defense, particularly around "Resource Rights" in the Middle East, Latin America, the Caribbean and other areas, and educates and advocates on those issues in the United States.

SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation and Classification and Reporting of Net Assets

The accompanying financial statements are prepared on the accrual basis of accounting.

Grassroots classifies net assets, revenues, gains and losses based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions represent the portion of net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.
- Net assets with donor restrictions represent the portion of net assets subject to donor- (or certain grantor-) imposed restrictions. Certain donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates resources to be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Statements

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Grassroots' financial statements for the year ended October 31, 2017, from which the summarized information was taken.

Management's Review

In preparing these financial statements, management has evaluated events and transactions for potential

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GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2018 AND 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

Management's Review (continued)

recognition or disclosure through February 22, 2019, the date the financial statements were available to be issued. Grassroots is not aware of any material subsequent events which would require recognition or disclosure in the accompanying financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and highly liquid investments with an initial maturity of three months or less. Included in cash and cash equivalents in the Statements of Financial Position are money market accounts totaling \$1,627,095 and \$211,842 at October 31, 2018 and 2017, respectively. Also included in cash is a short-term certificate of deposit totaling \$27,446 and \$27,405 at October 31, 2018 and 2017, respectively.

Grant, Contribution and Promises to Give Revenue

Contributions are recognized when the donor makes a promise to give to Grassroots that is, in substance, unconditional. Contributions that are unrestricted by the donor are reported as increases in net assets without donor restrictions. All other grantor or donor-restricted grants and contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Grants and unconditional promises to give in the Statements of Financial Position are all receivable in one year or less.

In-kind Contributions

Grassroots receives in-kind contributions of investment securities throughout the year. Contributed securities and other goods are recognized at fair market value when received.

Contributed Services

Grassroots receives professional legal services and the services of student interns in program and administrative functions. In-kind professional legal services were valued at fair market value when received and totaled \$50,264 and \$6,288 in 2018 and 2017, respectively. Because the nature of the intern services received neither creates or enhances non-financial assets nor requires specialized skills, their value has not been recorded in the accompanying financial statements.

Investments and Investment Income

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Net investment income consists of interest, dividends, realized and unrealized gains and losses less external and direct internal investment expenses. Investment income and gains restricted by a donor, if any, are reported as increases in net assets without donor restrictions if the restrictions are met (either by the passage of time or by use) in the reporting period in which the income and gains are recognized.

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GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2018 AND 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

Investment Fair Values

Investments measured at fair value are classified and disclosed in one of the following categories:

Level I: Quoted prices are available in active markets for identical investments as of the reporting date.

Level II: Pricing inputs are other than quoted prices in active markets of comparable investments, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III: Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment.

All Grassroots marketable security investments include listed equity or debt instruments which are publicly traded, and whose fair value is therefore classified and disclosed as Level I. These investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Investment income, primarily interest and dividends, is recorded when earned and considered available for unrestricted use unless otherwise restricted by the donor. Purchases and sales of securities are reflected on a trade-date basis. Realized and unrealized gains and losses are determined on the basis of specific identification.

Fixed and Other Assets

Property and equipment acquisitions are recorded at cost. Purchases of property and equipment in excess of \$1,000 are capitalized. Donated fixed assets are recorded at fair market value at the date of gift. Grassroots provides for depreciation of its office equipment using the straight-line method over the estimated useful lives of three and five years. Depreciation of leasehold improvements is provided using the straight-line method over an estimated useful life of thirty-nine years. Maintenance and repairs are charged to expense in the period incurred. The cost and accumulated depreciation of assets retired or sold are removed from the balance sheet and any gain or loss is credited or charged to income.

Trademark costs and the related legal expenses associated with reserving the name “*Grassroots International*” are recorded at cost and are amortized using the straight-line method over 15 years.

Management periodically evaluates whether events or circumstances have occurred indicating the carrying value of long-lived assets may not be recovered.

Advertising

Grassroots expenses advertising costs as incurred.

(Continued)

GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2018 AND 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

Functional Expenses

The costs of providing various programs and other activities have been reported on a functional basis in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on usage or other equitable bases established by management.

Income Tax Status and Uncertainty of Income Taxes

Grassroots is a nonprofit organization exempt from federal income taxes (not a private foundation) under section 501(c)(3) of the Internal Revenue Code. Management has evaluated its tax positions applying a “more likely than not” standard, and believes there are no material uncertainties in income taxes.

Recent Accounting Guidance

In February 2016, the FASB issued ASU 2016-02, *Accounting for Leases*, which applies a right-to-use (“ROU”) model requiring a lessee to record, for all leases with a lease term of more than twelve (12) months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of twelve (12) months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five (5) criteria. Statement of financial position recognition of finance and operating leases is similar, but the pattern of expense recognition in the statements of activities, as well as the effect on the statements of cash flows, differs depending on the lease classification. In addition, lessees and lessors are required to provide certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard is effective for fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of the pending adoption of ASU 2016-02.

2. INVESTMENTS AND INVESTMENT INCOME (LOSS)

Investments consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
October 31, 2018:				
Fixed income mutual funds	\$ 756,970	\$ -	\$ 19,295	\$ 737,675
Equity mutual funds	1,244,424	10,521	82,617	1,172,328
Common stocks	591,993	23,909	24,241	591,661
Real estate investment trusts	15,732	318	652	15,398
	<u>\$2,609,119</u>	<u>\$34,748</u>	<u>\$126,805</u>	<u>\$2,517,062</u>
October 31, 2017:				
Fixed income mutual funds	\$ 366,307	\$ -	\$592	\$ 365,715
Equity mutual funds	709,875	40,584	-	750,459
Common stocks	230,369	6,050	-	236,419
Real estate investment trusts	11,515	-	246	11,269
	<u>\$1,318,066</u>	<u>\$46,634</u>	<u>\$838</u>	<u>\$1,363,862</u>

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GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2018 AND 2017

2. INVESTMENTS AND INVESTMENT INCOME (LOSS) (continued)

Net investment income (loss) is comprised of the following for the years ended October 31:

	2018	2017
Interest and dividend income	\$ 89,520	\$ 40,858
Unrealized gain (loss) in market value of investments	(143,045)	24,445
Realized gain on sale of investments	19,013	53,482
	<u>(34,512)</u>	<u>118,785</u>
Less investment expenses	(22,688)	(15,119)
	<u>\$ (57,200)</u>	<u>\$ 103,666</u>

3. RESTRICTED CASH AND CASH EQUIVALENTS

In 2018, Grassroots assumed the sponsorship of the remaining assets of Building Equity and Alignment for Impact (BEA); a fund created in 2013 by an unincorporated consortium of several grassroots organizations and innovators in philanthropy to advance the progress of the environmental justice movement. Using these assets, Grassroots created the BEAI Fund (“the Fund”) which promotes four interlinked elements: (1) support for community organizing at the forefront of change, (2) build partnerships across sectors and geographies, (3) advance a just transition and (4) build the capacity of the grassroots sector.

As compensation for managing and administering the Fund, Grassroots charges the Fund 15% on the first \$1,000,000 and 10% on amounts above \$1,000,000, up to \$217,000 annually.

At October 31, 2018, \$1,161,259 was held in a restricted money market account.

4. FIXED AND OTHER ASSETS

Fixed assets consist of the following at October 31:

	2018	2017
Office furniture and equipment	\$16,105	\$18,581
Leasehold improvements	46,331	46,331
	<u>62,436</u>	<u>64,912</u>
Less accumulated depreciation	(33,411)	(34,680)
	<u>\$29,025</u>	<u>\$30,232</u>

Depreciation expense was \$4,183 and \$4,516 for 2018 and 2017, respectively.

Other (intangible) assets consist of the following at October 31:

	2018	2017
Trademark costs	\$10,907	\$10,907
Less accumulated amortization	(5,044)	(4,132)
	<u>\$ 5,863</u>	<u>\$ 6,775</u>

Amortization expense was \$911 and \$714 for 2018 and 2017, respectively.

(Continued)

GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2018 AND 2017

5. GRANTS PAYABLE

Grants authorized but unpaid at year-end are expected to be disbursed in the current fiscal year.

6. LEASE COMMITMENT

Grassroots leases its business premises under a five-year lease agreement expiring February 28, 2022. Current monthly fixed rent under this agreement is \$3,614 per month and increases 1% per year (on March 1) throughout the lease term. Grassroots is also responsible for an annual operating cost escalator.

The annual future minimum lease commitment over each of the four years of the lease is as follows:

March 1, 20XX – February 28, 20XX	Yearly Rental Commitment
2018-2019	\$43,796
2019-2020	\$44,234
2020-2021	\$44,676
2021-2022	\$45,123

Rent expense was \$44,210 and \$40,038 for 2018 and 2017, respectively.

7. DEFINED CONTRIBUTION PLAN

Grassroots maintains a 401(k) retirement plan for eligible employees. Eligible employees may make voluntary pre-tax deferrals of salary and wages. Eligible employees may receive annual discretionary employer profit sharing contributions each year. Grassroots' made 4% discretionary contributions totaling \$37,633 and \$28,701, in 2018 and 2017, respectively.

8. FINANCIAL INSTRUMENTS AND CREDIT RISK

Grassroots manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, Grassroots has not experienced losses in any of these accounts. Credit risk associated with grants receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from individual donors, foundations and businesses supportive of Grassroots' mission. Investments are made by diversified investment managers whose performance is monitored by management and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the investment committee believe the investment policies and guidelines are prudent for the long-term welfare of Grassroots.

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GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2018 AND 2017

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at October 31, 2018 and 2017:

	2018	2017
Humanitarian/social justice program support	\$1,268,326	\$482,810
BEAI Fund	\$1,161,259	-

10. BOARD-DESIGNATED NET ASSETS WITHOUT DONOR RESTRICTIONS

25th Anniversary Fund

The Board of Directors designated the net revenues from the 25th Anniversary fundraising campaign (approximately \$342,000) be used to offset unrestricted net operating losses and to subsidize the implementation of Grassroots’ Strategic Plan. In 2018, the balance of temporarily restricted net assets from the sale of donated real estate was combined with these assets (see Note 9). The balance of this fund was \$640,738 at October 31, 2018.

Minimum Operating Reserve Activity

The Board has designated \$530,000 (approximately three (3) months operating expense) of net assets without donor restrictions as a Minimum Operating Reserve (“MOR”) which cannot be spent without Board approval. The MOR balance is reconsidered annually in October. Expenditure of principal is restricted to times when net assets without donor restrictions (net of Board-designated net assets) have fallen below a trigger level of \$100,000, and expenditure of investment income is not currently subject to restriction.

MOR activity for the years ended October 31, 2018 and 2017, is as follows:

MOR net assets, beginning of year	\$400,000	\$350,000
Investment designation	130,000	50,000
Investment income	-	-
Appropriations	-	-
MOR net assets, end of year	\$530,000	\$400,000

MOR Investment Policy

Grassroots has adopted a conservation of principal approach with a primary investment objective of fixed income investments to generate current income and a secondary investment objective of conservative growth.

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GRASSROOTS INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2018 AND 2017

10. BOARD-DESIGNATED NET ASSETS WITHOUT DONOR RESTRICTIONS

Strategies Employed for Achieving Objectives

Grassroots has determined that a preservation of capital objective is most appropriate. This objective is designed to preserve the real value of its assets and to maintain spending in real terms. The Board cannot pay out more, on average over time, than the average real return it earns from its investment portfolio. The Board expects to achieve the return and risk characteristics consistent with the following allocation for its long-term reserves:

Cash and money market funds	5%
Equity securities	35%
Fixed income securities	60%

Grassroots manages its MOR consistent with the Massachusetts Uniform Prudent Management of Institutional Funds Act (“UPMIFA”).

11. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Statement of Financial Position date, comprise the following:

Cash and cash equivalents	\$546,500
Operating investments	381,472
	<u>\$927,972</u>

MOR and 25th Anniversary Fund assets are subject to Board spending restrictions and are excluded in the table above, however, these amounts could be made available if necessary.

12. FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, benefits and payroll taxes which are allocated on the basis of time and effort. Occupancy, insurance, depreciation, travel, postage, telephone and office operation expenses are allocated on the basis of the salaries’ allocation. Public relations and related constituent communication and development costs are allocated primarily to fundraising. Software purchases and support contracts are allocated as to the functional use of the software.