



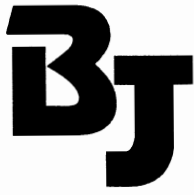
REPORT ON AUDIT OF COMBINED FINANCIAL STATEMENTS

OCTOBER 31, 2015 AND 2014

GRASSROOTS INTERNATIONAL, INC. AND AFFILIATE
REPORT ON AUDIT OF COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2015 AND 2014

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Bernard, Johnson & Company, P.C.

Certified Public Accountants and Business Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Grassroots International, Inc. and Affiliate

We have audited the accompanying combined financial statements of Grassroots International, Inc. and Affiliate (Massachusetts nonprofit organizations), which comprise the combined statement of financial position as of October 31, 2015, and the related combined statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Grassroots International, Inc. and Affiliate as of October 31, 2015, and the changes in their net assets and their cash flows for the years 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. and Affiliate's 2014 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated December 31, 2014. In our opinion, the summarized comparative information herein as of and for the year ended October 31, 2014, is consistent, in all material respects, with the combined audited financial statements from which it has been derived.

Barard Johnson & Company P.C.

Topsfield, Massachusetts
December 29, 2015

GRASSROOTS INTERNATIONAL, INC. AND AFFILIATE

COMBINED STATEMENTS OF FINANCIAL POSITION

OCTOBER 31, 2015

(with combined comparative totals for 2014)

ASSETS

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents, substantially all in interest bearing accounts	\$ 548,674	\$ 117,679
Grants and pledges receivable	45,791	77,277
Investment securities	726,640	887,916
Prepaid expenses and other	33,042	32,333
Investment real estate	-	249,460
Fixed and other assets, net	34,650	38,302
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,388,797</u>	<u>\$ 1,402,967</u>

LIABILITIES AND NET ASSETS

Liabilities:

Grants payable	\$ 93,100	\$ 55,600
Accounts payable and accrued expenses	52,247	86,315
	<u> </u>	<u> </u>
Total liabilities	<u>145,347</u>	<u>141,915</u>

Net assets:

Unrestricted:		
General	162,443	162,443
Board-designated	691,864	706,864
Temporarily restricted:		
General	389,143	391,745
	<u> </u>	<u> </u>
Total net assets	<u>1,243,450</u>	<u>1,261,052</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 1,388,797</u>	<u>\$ 1,402,967</u>

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

GRASSROOTS INTERNATIONAL, INC. AND AFFILIATE

COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED OCTOBER 31, 2015
(with combined comparative totals for 2014)

	Unrestricted		Temporarily Restricted		2015 Total	2014 Total
	Undesignated	Board-designated	General	Donor-advised		
SUPPORT AND REVENUES:						
Grants and contributions	\$ 1,027,295	\$ -	\$ 770,040	\$ -	\$ 1,797,335	\$ 1,871,566
In-kind contributions	-	-	207,765	-	207,765	679,820
Investment and other income	5,373	-	3,500	-	8,873	87,038
	1,032,668	-	981,305	-	2,013,973	2,638,424
Net assets released from restrictions	998,907	(15,000)	(983,907)	-	-	-
Total support and revenues	2,031,575	(15,000)	(2,602)	-	2,013,973	2,638,424
EXPENSES:						
PROGRAM SERVICES:						
Humanitarian/social justice	1,166,682	-	-	-	1,166,682	1,604,525
Education	261,127	-	-	-	261,127	257,187
Total program services	1,427,809	-	-	-	1,427,809	1,861,712
SUPPORT SERVICES:						
Management and general	260,860	-	-	-	260,860	266,438
Fundraising	342,906	-	-	-	342,906	344,416
Total support services	603,766	-	-	-	603,766	610,854
Total expenses	2,031,575	-	-	-	2,031,575	2,472,566
CHANGE IN NET ASSETS	-	(15,000)	(2,602)	-	(17,602)	165,858
NET ASSETS, beginning of year	162,443	706,864	391,745	-	1,261,052	1,095,194
NET ASSETS, end of year	\$ 162,443	\$ 691,864	\$ 389,143	\$ -	\$ 1,243,450	\$ 1,261,052

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

GRASSROOTS INTERNATIONAL, INC. AND AFFILIATE

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (17,602)	\$ 165,858
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	3,652	3,819
Realized and unrealized (gains)/losses on investments	20,508	(14,684)
Noncash investment real estate contribution	249,460	(249,460)
Cash provided by (used in) changes in:		
Grants and pledges receivable	31,486	(16,184)
Prepaid expenses and other	(709)	(3,639)
Grants payable	37,500	(15,850)
Accounts payable and accrued expenses	(34,068)	8,677
	<hr/>	<hr/>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	290,227	(121,463)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to fixed and other assets	-	(2,008)
Net sales of investment securities	140,768	136,033
Decrease in cash equivalents restricted for donor-advised grants	-	10,120
	<hr/>	<hr/>
NET CASH PROVIDED BY INVESTING ACTIVITIES	140,768	144,145
NET INCREASE IN CASH AND CASH EQUIVALENTS	430,995	22,682
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<hr/>	<hr/>
	117,679	94,997
CASH AND CASH EQUIVALENTS, END OF YEAR	<hr/> <hr/>	<hr/> <hr/>
	\$ 548,674	\$ 117,679
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest and taxes	<hr/> <hr/>	<hr/> <hr/>
	\$ -	\$ -

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

GRASSROOTS INTERNATIONAL, INC. AND AFFILIATE

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2015
(with combined comparative totals for 2014)

	PROGRAM SERVICES		SUPPORT SERVICES		Combined	Uncombined
	Humanitarian/ Social Justice	Education	Management and General	Fundraising	2015 Total	2014 Total
GRANTS:						
Cash grants - general funds	\$ 771,669	\$ -	\$ -	\$ -	\$ 771,669	\$ 792,545
Cash grants - board-designated funds	9,450	-	-	-	9,450	-
In-kind material aid grants	-	-	-	-	-	430,360
Material aid shipping grants	-	-	-	-	-	19,984
Total grants	<u>781,119</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>781,119</u>	<u>1,242,889</u>
Salaries and wages	261,021	67,528	129,861	190,895	649,305	580,066
Payroll taxes and benefits	71,341	18,456	35,493	52,175	177,465	154,090
Consultants and contracted services	3,535	22,805	5,329	39,110	70,779	111,631
Public relations, special projects and crisis response	-	8,312	-	2,078	10,390	11,170
Travel, meals and lodging	20,267	7,883	17,725	7,885	53,760	49,704
Occupancy costs	19,360	5,008	9,632	14,158	48,158	48,302
Depreciation and amortization	1,468	380	730	1,074	3,652	3,819
Legal and accounting	-	-	11,553	-	11,553	10,000
Direct mail	-	11,220	3,206	1,603	16,029	12,186
Printing, postage and delivery	-	110,353	33,869	15,766	159,988	187,579
Telephone	2,612	676	1,299	1,910	6,497	6,967
Office, board expense and events	5,911	8,456	8,708	10,363	33,438	34,963
Bank service charges	-	-	3,325	5,889	9,214	9,999
Films and publications	48	50	129	-	227	487
Total expenses	<u>\$ 1,166,682</u>	<u>\$ 261,127</u>	<u>\$ 260,860</u>	<u>\$ 342,906</u>	<u>\$ 2,031,575</u>	<u>\$ 2,463,852</u>

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

GRASSROOTS INTERNATIONAL, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS
OCTOBER 31, 2015 AND 2014

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.

Grassroots' affiliate, Grassroots International Real Estate, Inc., "Affiliate", (a Massachusetts corporation, not for profit) was organized in 2014 exclusively for the purpose of holding title to real estate, collecting income generated by the real estate, and remitting the income after expenses (if any) to Grassroots. Affiliate's sole real estate holding was sold in 2015.

SIGNIFICANT ACCOUNTING POLICIES:

Presentation of Combined Financial Statements and Classification and Reporting of Net Assets

The accompanying combined financial statements include the accounts of Grassroots and Affiliate which are under common control and management. All inter-organization transactions and balances have been eliminated.

Grassroots and Affiliate report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

A description of the three net asset classes follows:

- Unrestricted net assets represent the portion of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for the support of Grassroots and Affiliate, as well as funds invested in property and equipment and Board-designated assets.
- Temporarily restricted net assets represent contributions and grants whose use by Grassroots and Affiliate is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of Grassroots and Affiliate pursuant to those stipulations.
- Permanently restricted net assets represent contributions whose use by Grassroots and Affiliate is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of Grassroots pursuant to those stipulations. Grassroots and Affiliate have no permanently restricted net assets at October 31, 2015 or 2014.

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.

(Continued)

GRASSROOTS INTERNATIONAL, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS
OCTOBER 31, 2015 AND 2014

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

Management's Review

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through December 29, 2015, the date the financial statements were available to be issued.

Comparative Financial Statements

The accompanying combined 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' combined financial statements for the year ended October 31, 2014, from which the summarized information was taken.

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 Statement of Financial Position are money market accounts totaling \$325,473 and \$4,553 at October 31, 2015 and 2014, respectively. Also included in cash is a short-term certificate of deposit totaling \$27,295 at October 31, 2015 and \$27,255 at October 31, 2014.

Grant, Contribution and Pledge 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 unrestricted net assets. All other grantor or donor-restricted grants and contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Grants and pledges receivable in the Statement of Financial Position are all receivable in one year or less.

Investment Securities 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. Interest, dividends, realized and unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor, if any, are reported as increases in unrestricted net assets 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.

Investment Real Estate

Investment in real estate held by the Affiliate is reported at its fair value based on the local tax assessed value in the Statement of Financial Position. Net rental income is included in the change in net assets.

(Continued)

GRASSROOTS INTERNATIONAL, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS
OCTOBER 31, 2015 AND 2014

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 combined financial statements.

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

In-kind Donations

In 2014, Grassroots provided material aid and relief goods such as medical supplies, seeds, clothing, milk powder and educational materials to many of its program areas. Donated goods were solicited, packaged and shipped by partner organizations under contract with Grassroots. Upon shipment, Grassroots received an invoice indicating the contents and value of the donated goods. Grassroots solicited grants and contributions to defray the associated shipping and procurement costs paid from operating funds and restricted contributions.

These shipments are reflected in the accompanying 2014 combined financial statements, based upon the estimated wholesale value assigned by the partner organizations, as temporarily restricted in-kind donations and as temporarily restricted humanitarian material aid grants of \$430,360.

Grassroots also receives several in-kind contributions of investment securities throughout the year. The Affiliate received a restricted in-kind contribution of residential real estate in 2014. These contributions are valued at fair market value on the date of receipt.

Donated Services

Grassroots receives the services of student interns in program and administrative functions. Because the nature of the services received neither creates or enhances non-financial assets nor requires specialized skills, their value has not been recorded in the accompanying combined financial statements.

(Continued)

GRASSROOTS INTERNATIONAL, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS
OCTOBER 31, 2015 AND 2014

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

Depreciation and Amortization

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.

Functional expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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. Grassroots information tax returns are subject to examination by the Internal Revenue Service and the Massachusetts Division of Public Charities, generally for three (3) years after they were filed.

The Affiliate is a nonprofit organization exempt from federal income taxes (not a private foundation) under section 501(c)(2) of the Internal Revenue Code.

2. INVESTMENT SECURITIES

Fair value measurement was determined using Level I inputs and investment securities consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
October 31, 2015:				
Fixed income mutual funds	\$726,148	\$ 492	\$ -	\$726,640
October 31, 2014:				
Equity mutual fund	\$ 62,771	\$ 1,247	\$ -	\$ 64,018
Fixed income mutual funds	802,885	9,826	3,869	808,842
Municipal bonds	15,000	56	-	15,056
	<u>\$880,656</u>	<u>\$11,129</u>	<u>\$3,869</u>	<u>\$887,916</u>

(Continued)

GRASSROOTS INTERNATIONAL, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS
OCTOBER 31, 2015 AND 2014

2. INVESTMENT SECURITIES (continued)

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

	2015	2014
Interest and dividend income	\$ 23,805	\$27,991
Unrealized gain (loss) in market value of investments	(6,768)	15,556
Realized loss on sale of investments	(13,739)	(872)
	<u>\$ 3,298</u>	<u>\$42,675</u>

3. INVESTMENT REAL ESTATE

The Affiliate received a restricted in-kind contribution of residential real estate having a fair value of \$457,225. The real estate was comprised of land and a multi-unit building located at 1245-1247 Moore Street, Lakewood Colorado. The Affiliate sold the real estate in 2015; and the proceeds of which will be used to support projects emphasizing organizing for social change. During 2015, \$158,351 was released from restriction for that purpose.

4. FIXED AND OTHER ASSETS

Fixed assets consist of the following at October 31:

	2015	2014
Office furniture and equipment	\$24,750	\$34,134
Leasehold improvements	46,331	46,331
	<u>71,081</u>	<u>80,465</u>
Less accumulated depreciation	41,264	47,511
	<u>\$29,817</u>	<u>\$32,954</u>

Depreciation expense was \$3,137 and \$3,304 for 2015 and 2014, respectively.

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

	2015	2014
Trademark costs	\$7,735	\$7,735
Less accumulated amortization	2,902	2,387
	<u>\$4,833</u>	<u>\$5,348</u>

Amortization expense was \$515 for 2015 and 2014.

5. LEASE COMMITMENT

Effective March 1, 2012, Grassroots leases its business premises under a five-year lease agreement expiring February 28, 2017. Current monthly fixed rent under this agreement is \$3,322 per month and increases 5% per year (on March 1) throughout the lease term. Grassroots is also responsible for an annual operating cost escalator.

(Continued)

GRASSROOTS INTERNATIONAL, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS
OCTOBER 31, 2015 AND 2014

5. LEASE COMMITMENT (continued)

Grassroots sublets 425 square feet of its premises to an outside party under a tenant-at-will agreement. Monthly rental income under this agreement was \$675 at October 31, 2015. The tenant is responsible for its share of taxes and common area costs. Grassroots holds a \$600 security deposit.

Grassroots also rented an office in New York City as a tenant-at-will at a monthly rental of \$250 per month through July, 2014.

At October 31, 2015, the annual future minimum lease commitment and rental income without adjustment for CPI are as follows:

Fiscal Year	Rental Income	Rental Commitment
2016	\$8,100	\$41,200
2017	\$8,100	\$13,956

Rent is reflected in the accompanying financial statements net of related income from the sublease.

6. RETIREMENT PLAN

Grassroots maintains a 401(k) retirement plan for eligible employees. Eligible employees may receive discretionary employer contributions each year. Grassroots' made no discretionary contributions in 2015 and \$382 in 2014.

7. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Grassroots' investment portfolio had a fair market value at October 31, 2015 of \$726,640 representing 52% of its total asset base. The fair market value of these investments is not federal-insured and is subject to market fluctuation.

Grassroots maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Grassroots has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

8. GRANTS PAYABLE

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

(Continued)

GRASSROOTS INTERNATIONAL, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS
OCTOBER 31, 2015 AND 2014

9. TEMPORARILY RESTRICTED NET ASSETS

General temporarily restricted net assets consist of the following at October 31, 2015 and 2014:

	2015	2014
Humanitarian/social justice program support	\$389,143	\$391,745

10. DONOR-ADVISED RESTRICTED NET ASSETS

Grassroots' Donor-Advised Fund (the "Sharing the Harvest Fund") was established to allow donors, within certain limits, to influence the use of the income or principal of the contributions to support social justice work in the United States and abroad. A donor may only make recommendations as to distribution of the principal and earnings. Ultimate decisions regarding the use of the resources of this Fund are reserved to Grassroots. Grassroots has responsibility for all aspects of the administration of the Fund and, in recognition of the costs associated with those administrative responsibilities, Grassroots is entitled to charge the Fund paid ratably at the establishment of the Fund and on each of the first two anniversaries of that date. Additional charges are paid to Grassroots to support the costs of monitoring, evaluation and reporting of grants made by the Fund to Grassroots' partners. This Fund's resources were exhausted in 2014.

11. BOARD-DESIGNATED UNRESTRICTED NET ASSETS

25th Anniversary Fund

The Board of Directors designated the net revenues from the 25th Anniversary fundraising campaign (approximately \$576,000) be used to offset unrestricted net operating losses and to subsidize the implementation of Grassroots' Strategic Plan. For the fiscal years ended October 31, 2015 and 2014, the Board approved the use of \$15,000 (each year). At October 31, 2015, the balance in the 25th Anniversary Board-designated net assets was \$341,864.

Minimum Operating Reserve Activity

The Board has designated \$350,000 (approximately three (3) months operating expense) of unrestricted net assets 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 unrestricted net assets (net of Board designated assets) have fallen below a trigger level of \$100,000, and expenditure of investment income is not currently subject to restriction.

(Continued)

GRASSROOTS INTERNATIONAL, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS
OCTOBER 31, 2015 AND 2014

11. BOARD-DESIGNATED UNRESTRICTED NET ASSETS (continued)

Fund activity for the years ended October 31, 2015 and 2014, is as follows:

MOR net assets, beginning of year	\$350,000
Investment designation	-
Investment income	-
Appropriations	-
MOR net assets, end of year	<u>\$350,000</u>

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.

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”).