



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

OCTOBER 31, 2016 AND 2015

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, 2016, 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, 2016, 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. 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 29, 2015. In our opinion, the summarized comparative information herein as of and for the year ended October 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BJHC PC

Topsfield, Massachusetts
January 26, 2017

GRASSROOTS INTERNATIONAL, INC.
STATEMENTS OF FINANCIAL POSITION
OCTOBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents, substantially all in interest bearing accounts	\$ 472,632	\$ 548,674
Grants and pledges receivable	35,799	45,791
Investments	923,131	726,640
Prepaid expenses and other	29,093	33,042
Fixed and other assets, net	<u>37,383</u>	<u>34,650</u>
Total assets	<u>\$ 1,498,038</u>	<u>\$ 1,388,797</u>
LIABILITIES		
Grants payable	\$ 124,800	\$ 93,100
Accounts payable and accrued expenses	<u>91,788</u>	<u>52,247</u>
Total liabilities	<u>216,588</u>	<u>145,347</u>
NET ASSETS		
Unrestricted:	196,090	162,443
Undesignated	691,864	691,864
Board-designated		
Temporarily restricted	<u>393,496</u>	<u>389,143</u>
Total net assets	<u>1,281,450</u>	<u>1,243,450</u>
Total liabilities and net assets	<u>\$ 1,498,038</u>	<u>\$ 1,388,797</u>

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

GRASSROOTS INTERNATIONAL, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED OCTOBER 31, 2016
(with comparative totals for 2015)

	Unrestricted		Temporarily Restricted	2016 Total	2015 Total
	Undesignated	Board-designated			
SUPPORT AND REVENUES					
Grants and contributions	\$ 1,191,585	\$ -	\$ 1,097,486	\$ 2,289,071	\$ 1,797,335
In-kind contributions	11,058	-	-	11,058	207,765
Investment and other income	84,880	-	37,500	122,380	8,873
	1,287,523	-	1,134,986	2,422,509	2,013,973
Net assets released from restrictions	1,130,633	-	(1,130,633)	-	-
Total support and revenues	2,418,156	-	4,353	2,422,509	2,013,973
EXPENSES:					
PROGRAM SERVICES					
Humanitarian/social justice	1,475,991	-	-	1,475,991	1,166,682
Education	269,712	-	-	269,712	261,127
Total program services	1,745,703	-	-	1,745,703	1,427,809
SUPPORT SERVICES					
Management and general	270,233	-	-	270,233	260,860
Fundraising	368,573	-	-	368,573	342,906
Total support services	638,806	-	-	638,806	603,766
Total expenses	2,384,509	-	-	2,384,509	2,031,575
CHANGE IN NET ASSETS	33,647	-	4,353	38,000	(17,602)
NET ASSETS, beginning of year	162,443	691,864	389,143	1,243,450	1,261,052
NET ASSETS, end of year	\$ 196,090	\$ 691,864	\$ 393,496	\$ 1,281,450	\$ 1,243,450

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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 38,000	\$ (17,602)
Adjustments to reconcile change in net assets to net cash provided by in operating activities:		
Depreciation and amortization	4,584	3,652
Realized and unrealized (gains)/losses on investments	(30,471)	20,508
Noncash investment real estate contribution	-	249,460
Cash provided by (used in) changes in:		
Grants and pledges receivable	9,992	31,486
Prepaid expenses and other	3,949	(709)
Grants payable	31,700	37,500
Accounts payable and accrued expenses	39,541	(34,068)
	<u>97,295</u>	<u>290,227</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to fixed and other assets	(7,317)	-
Net sales (purchases) of investment securities	(166,020)	140,768
	<u>(173,337)</u>	<u>140,768</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(76,042)	430,995
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
	<u>548,674</u>	<u>117,679</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		
	<u>\$ 472,632</u>	<u>\$ 548,674</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest and taxes	\$ -	\$ -

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

GRASSROOTS INTERNATIONAL, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2016
(with comparative totals for 2015)

	PROGRAM SERVICES		SUPPORT SERVICES		2016 Total	2015 Total
	Humanitarian/ Social Justice	Education	Management and General	Fundraising		
GRANTS:						
Cash grants - general funds	\$ 1,053,457	\$ -	\$ -	\$ -	\$ 1,053,457	\$ 771,669
Cash grants - board-designated funds	-	-	-	-	-	9,450
In - kind material aid grants	727	-	-	-	727	-
Material aid shipping grants	750	-	-	-	750	-
Total grants	1,054,934	-	-	-	1,054,934	781,119
Salaries and wages	274,586	72,224	136,271	198,273	681,354	649,305
Payroll taxes and benefits	83,809	22,044	41,593	60,517	207,963	177,465
Consultants and contracted services	2,921	50,108	10,555	52,886	116,470	70,779
Public relations, special projects and crisis response	-	10,311	-	2,578	12,889	10,390
Travel, meals and lodging	27,971	9,920	4,157	13,765	55,813	53,760
Occupancy costs	21,187	5,573	10,515	15,299	52,574	48,158
Depreciation and amortization	1,847	486	917	1,334	4,584	3,652
Legal and accounting	-	-	21,834	-	21,834	11,553
Direct mail	-	1,811	517	259	2,587	16,029
Printing, postage and delivery	-	81,402	24,473	11,402	117,277	159,988
Telephone	2,598	683	1,289	1,876	6,446	6,497
Office, board expense and events	6,138	14,575	13,995	3,386	38,094	33,438
Bank service charges	-	-	3,968	6,998	10,966	9,214
Films and publications	-	575	149	-	724	227
Total expenses	\$ 1,475,991	\$ 269,712	\$ 270,233	\$ 368,573	\$ 2,384,509	\$ 2,031,575

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

GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

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 reports information regarding its 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 support, as well as funds invested in property and equipment and Board-designated assets.
- Temporarily restricted net assets represent contributions and grants whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of Grassroots pursuant to those stipulations.
- Permanently restricted net assets represent contributions whose use 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 has no permanently restricted net assets at October 31, 2016 or 2015.

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.

Management's Review

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through January 26, 2017, 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.

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GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

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, 2015, 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 \$262,904 and \$325,473 at October 31, 2016 and 2015, respectively. Also included in cash is a short-term certificate of deposit totaling \$27,350 at October 31, 2016 and \$27,295 at October 31, 2015.

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.

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. 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.

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GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

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. 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.

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GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

In-kind Donations

Grassroots receives several in-kind contributions of investment securities throughout the year. These contributions are valued at fair market value on the date of receipt.

Donated Services

Grassroots receives professional services and the services of student interns in program and administrative functions. In-kind professional services were valued at fair market value and totaled \$11,058 in 2016. 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.

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.

2. INVESTMENTS

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, 2016:				
Fixed income mutual funds	\$611,068	\$10,997	\$ 1,441	\$620,624
Equity mutual funds	98,079	-	2,055	96,024
Common stocks	195,059	19,341	7,917	206,483
	<u>\$904,206</u>	<u>\$30,338</u>	<u>\$11,413</u>	<u>\$923,131</u>
October 31, 2015:				
Fixed income mutual funds	\$726,148	\$ 492	\$ -	\$726,640

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GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

2. INVESTMENT SECURITIES (continued)

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

	2016	2015
Interest and dividend income	\$28,683	\$23,805
Unrealized gain (loss) in market value of investments	18,344	(6,768)
Realized gain (loss) on sale of investments	12,127	(13,739)
	<u>\$59,154</u>	<u>\$ 3,298</u>

3. FIXED AND OTHER ASSETS

Fixed assets consist of the following at October 31:

	2016	2015
Office furniture and equipment	\$29,421	\$24,750
Leasehold improvements	46,331	46,331
	75,752	71,081
Less accumulated depreciation	42,686	41,264
	<u>\$33,066</u>	<u>\$29,817</u>

Depreciation expense was \$4,069 and \$3,137 for 2016 and 2015, respectively.

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

	2016	2015
Trademark costs	\$7,735	\$7,735
Less accumulated amortization	3,418	2,902
	<u>\$4,317</u>	<u>\$4,833</u>

Amortization expense was \$515 for 2016 and 2015.

4. LEASE COMMITMENT

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.

Grassroots sublets a portion of its premises to an outside party under a tenant-at-will agreement. Monthly rental income under this agreement was \$400 at October 31, 2016. The tenant is responsible for its share of taxes and common area costs. Grassroots holds a \$600 security deposit.

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GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

4. LEASE COMMITMENT (continued)

At October 31, 2016, the annual future minimum lease commitment and rental income without adjustment for CPI are as follows:

Fiscal Year	Rental Income	Rental Commitment
2017	\$1,600	\$13,952

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

Grassroots is currently negotiating the terms of a new five (5) year lease requiring annual cost escalators of 1% per year. Five year annual rent beginning March 1, 2017 is expected to be \$43,362, \$43,796, \$44,234, \$44,676 and \$45,123.

5. DEFINED CONTRIBUTION PLAN

Grassroots maintains a 401(k) retirement plan for eligible employees. Eligible employees may receive discretionary employer contributions each year. Grassroots' made 4% discretionary contributions in 2016 totaling \$26,985 and no contributions in 2015.

6. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Grassroots' investment portfolio had a fair market value at October 31, 2016 of \$923,131 representing 62% 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.

7. GRANTS PAYABLE

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

8. TEMPORARILY RESTRICTED NET ASSETS

General temporarily restricted net assets consist of the following at October 31, 2016 and 2015:

	2016	2015
Humanitarian/social justice program support	\$393,496	\$389,143

(Continued)

GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

9. 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 year ended October 31, 2015, the Board approved the use of \$15,000. At October 31, 2016, 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.

Fund activity for the years ended October 31, 2016 and 2015, 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").