



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

OCTOBER 31, 2020 AND 2019

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, 2020, 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 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, 2020, and the changes in its net assets and its 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 5, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BJHC PC

Topsfield, Massachusetts
June 21, 2021

GRASSROOTS INTERNATIONAL, INC.
STATEMENTS OF FINANCIAL POSITION
OCTOBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents, substantially all in interest-bearing accounts	\$ 1,181,665	\$ 1,260,175
Grants and unconditional promises to give	326,009	1,500
Certificate of deposit	27,570	27,515
Investments	4,564,904	2,867,237
Prepaid expenses and other	44,052	52,332
Cash and cash equivalents, restricted for program fund	3,741,146	2,152,041
Fixed and other assets, net	34,871	39,562
	<hr/>	
Total assets	<u>\$ 9,920,217</u>	<u>\$ 6,400,362</u>
LIABILITIES		
Grants payable	\$ 1,340,404	\$ 833,715
Accounts payable and accrued expenses	198,074	178,404
Note payable, bank	252,083	-
	<hr/>	
Total liabilities	<u>1,790,561</u>	<u>1,012,119</u>
NET ASSETS		
Without donor restrictions:		
Undesignated	2,045,697	955,127
Board-designated	3,810,738	1,220,738
With donor restrictions	2,273,221	3,212,378
	<hr/>	
Total net assets	<u>8,129,656</u>	<u>5,388,243</u>
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Total liabilities and net assets	<u>\$ 9,920,217</u>	<u>\$ 6,400,362</u>

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

GRASSROOTS INTERNATIONAL, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED OCTOBER 31, 2020
(with comparative totals for 2019)

	Without Donor Restrictions		With Donor Restrictions	2020 Total	2019 Total
	Undesignated	Board-designated			
OPERATING SUPPORT AND REVENUES					
Grants and contributions	\$ 5,223,447	\$ -	\$ 5,595,695	\$ 10,819,142	\$ 6,501,806
Special events	-	-	-	-	6,712
In-kind contributions	-	-	-	-	6,800
Net investment and other income	171,416	-	9,247	180,663	202,191
	5,394,863	-	5,604,942	10,999,805	6,717,509
Net assets released from program restrictions	6,544,099	-	(6,544,099)	-	-
Total operating support and revenues	11,938,962	-	(939,157)	10,999,805	6,717,509
OPERATING EXPENSES:					
PROGRAM SERVICES					
Humanitarian/social justice	6,695,449	-	-	6,695,449	3,899,546
Education	328,341	-	-	328,341	249,476
Total program services	7,023,790	-	-	7,023,790	4,149,022
SUPPORT SERVICES					
Management and general	588,887	-	-	588,887	505,206
Fundraising and development	645,715	-	-	645,715	601,550
Total support services	1,234,602	-	-	1,234,602	1,106,756
Total expenses	8,258,392	-	-	8,258,392	5,255,778
CHANGE IN NET ASSETS	3,680,570	-	(939,157)	2,741,413	1,461,731
NET ASSETS, beginning of year	955,127	1,220,738	3,212,378	5,388,243	3,926,512
Board designation of net assets	(2,590,000)	2,590,000	-	-	-
NET ASSETS, end of year	\$ 2,045,697	\$ 3,810,738	\$ 2,273,221	\$ 8,129,656	\$ 5,388,243

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

GRASSROOTS INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets from operations	\$ 2,741,413	\$ 1,461,731
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,319	6,420
Realized and unrealized gains on investments	(85,696)	(45,301)
Cash provided by (used in) changes in:		
Grants and unconditional promises to give	(324,509)	3,734
Prepaid expenses and other	8,280	(33,656)
Grants payable	506,689	612,215
Accounts payable and accrued expenses	19,670	42,797
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,874,166</u>	<u>2,047,940</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned and retained in certificate of deposit	(55)	(69)
Purchases of fixed assets	(3,628)	(11,094)
Net purchases of investment securities	(1,612,689)	(304,874)
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,616,372)</u>	<u>(316,037)</u>
CASH FLOWS FROM FINANCING ACTIVITIES -		
Proceeds from note payable, bank	<u>252,083</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS	1,509,877	1,731,903
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,412,216</u>	<u>1,680,313</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,922,093</u>	<u>\$ 3,412,216</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
RESTRICTED CASH AND CASH EQUIVALENTS ON THE STATEMENT OF FINANCIAL POSITION:		
Cash and cash equivalents	\$ 1,181,665	\$ 1,260,175
Cash and cash equivalents, restricted for program fund	3,741,146	2,152,041
	<u>\$ 4,922,811</u>	<u>\$ 3,412,216</u>

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

GRASSROOTS INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2020
(with comparative totals for 2019)

	PROGRAM SERVICES		SUPPORT SERVICES		2020 Total	2019 Total
	Humanitarian/ Social Justice	Education	Management and General	Fundraising/ Development		
Cash grants - general funds	\$ 5,813,214	\$ -	\$ -	\$ -	\$ 5,813,214	\$ 3,105,174
Salaries and wages	560,758	201,298	330,703	345,081	1,437,840	1,184,847
Payroll taxes and benefits	172,461	61,909	101,708	106,130	442,208	364,877
Consultants and contracted services	71,527	37,521	59,022	50,710	218,780	142,961
Printing, postage and delivery	3,000	2,080	1,864	80,432	87,376	101,716
Occupancy costs	25,971	9,322	15,315	15,981	66,589	65,225
Travel, meals and lodging	40,840	1,391	22,011	1,391	65,633	116,114
Office, board expense and events	567	2,510	35,270	18,536	56,883	91,556
Public relations and special projects	-	9,757	53	9,390	19,200	25,443
Bank service charges	-	-	5,071	10,371	15,442	13,774
Legal and accounting	-	-	13,647	-	13,647	17,235
Telephone	3,867	1,388	2,280	2,380	9,915	9,013
Depreciation and amortization	3,244	1,165	1,913	1,997	8,319	6,420
Direct mail	-	-	-	3,316	3,316	10,938
Films and publications	-	-	30	-	30	485
Total expenses	\$ 6,695,449	\$ 328,341	\$ 588,887	\$ 645,715	\$ 8,258,392	\$ 5,255,778

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

GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019

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. 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-) imposed restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and strategic initiatives.
- 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.

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, 2019, from which the summarized information was taken.

Management's Review

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through June 21, 2021, 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, 2020 AND 2019

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued):

Recent Accounting Guidance

Grassroots has adopted Accounting Standards Update (ASU) no. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendment clarifies guidance on how an entity determines whether a transfer of assets is a contribution or exchange transaction. The amendment also clarifies the determination of conditional contributions based on evaluating whether there is a right of return and a barrier to overcome. The amendment has been applied using the modified prospective method. There was no cumulative effect of applying ASU 2018-08.

Grassroots also adopted Accounting Standards Update (ASU) no. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU no. 2020-07 requires entities to present contributed nonfinancial assets as a separate line item in the Statement of Activities and provide additional disclosures about contributions of nonfinancial assets. There was no cumulative effect of applying ASU 2020-07.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and on deposits and highly liquid investments with an initial maturity of three months or less. Included in cash and cash equivalents (with and without restrictions) in the Statements of Financial Position are money market accounts totaling \$4,649,054 and \$3,161,490 at October 31, 2020 and 2019, respectively.

Certificate of Deposit

The certificate of deposit consists of one (1) six-month certificate maturing January 31, 2021.

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.

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.

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GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued):

Investment Fair Values (continued)

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.

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 receivable in one year or less.

Donated Services and Assets

Grassroots receives significant in-kind contributions of time and pro bono services from members of the community and volunteers related to program operations, special events, and fund-raising campaigns. Donated services are recognized as contributions if the services a) create or enhance nonfinancial assets or b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Grassroots recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation.

Grassroots receives professional legal services and the services of student interns in program and administrative functions. In-kind professional legal services are valued at the standard hourly rates charged for those services and totaled \$6,800 in 2019. There were no in-kind professional legal services received during the year ended October 31, 2020. 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.

Donated legal services are included in management and general on the Statement of Functional Expenses. There were no donor-imposed restrictions associated with the donated services.

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GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued):

Advertising

Grassroots expenses advertising costs as incurred. There were no advertising costs for 2020 or 2019.

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.

2. 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:

	2020	2019
Cash and cash equivalents	\$ 1,181,665	\$ 1,260,175
Accounts receivable	326,009	1,500
Operating investments	1,651,735	109,490
	\$ 3,159,409	\$ 1,371,165

Minimum Operating Reserve and Strategic Initiatives Fund assets are subject to Board spending restrictions (See Note 12) and are excluded in the table above, however, these amounts could be made available if necessary.

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, 2020 and 2019, \$3,741,146 and \$2,152,041, respectively, was held in cash and short-term funds.

(Continued)

GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019

4. INVESTMENTS AND INVESTMENT INCOME

Investments consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
October 31, 2020				
Fixed income mutual funds	\$ 2,878,300	\$ 59,972	\$ (5,134)	\$ 2,933,138
Equity mutual funds	1,004,600	83,634	(32,054)	1,056,180
Common stocks	585,504	35,315	(63,565)	557,254
Real estate investment trusts	22,780	1,009	(5,457)	18,332
	<u>\$ 4,491,184</u>	<u>\$ 179,930</u>	<u>\$ (106,210)</u>	<u>\$ 4,564,904</u>
October 31, 2019				
Fixed income bonds	\$ 100,000	\$ -	\$ (641)	\$ 99,359
Fixed income mutual funds	926,458	24,329	-	950,787
Equity mutual funds	1,160,177	56,269	-	1,216,446
Common stocks	613,339	62,625	(98,879)	577,085
Real estate investment trusts	21,392	2,399	(231)	23,560
	<u>\$ 2,821,366</u>	<u>\$ 145,622</u>	<u>\$ (99,751)</u>	<u>\$ 2,867,237</u>

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

	2020	2019
Interest and dividend income	\$ 112,443	\$ 136,338
Unrealized gain in market value of investments	19,422	136,091
Realized gain (loss) on sale of investments	66,274	(90,791)
	<u>198,139</u>	<u>181,638</u>
Less investment expenses	(26,907)	(30,795)
	<u>\$ 171,232</u>	<u>\$ 150,843</u>

5. FIXED AND OTHER ASSETS

Fixed assets consist of the following at October 31:

	2020	2019
Office furniture and equipment	\$ 28,019	\$ 27,199
Leasehold improvements	46,331	46,331
	<u>74,350</u>	<u>73,530</u>
Less accumulated depreciation	(43,516)	(38,918)
	<u>\$ 30,834</u>	<u>\$ 34,612</u>

(Continued)

GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019

5. FIXED AND OTHER ASSETS (continued)

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

	2020	2019
Trademark costs	\$ 10,907	\$ 10,907
Less accumulated amortization	(6,870)	(5,957)
	<u>\$ 4,037</u>	<u>\$ 4,950</u>

Depreciation expense was \$7,406 and \$5,508 for 2020 and 2019, respectively. Amortization expense was \$913 and \$912 for 2020 and 2019, respectively.

6. GRANTS PAYABLE

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

7. NOTE PAYABLE, BANK

On April 22, 2020, Grassroots received loan proceeds in the amount of \$252,083 under the Paycheck Protection Program (“PPP”). Established as part of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), the PPP provides for loans to qualifying organizations in amounts up to 2.5 times average monthly payroll expenses. PPP loans and accrued interest are forgivable after a “covered period” as long as the borrower maintains payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities. Forgiveness is reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two or five years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period. Grassroots has recorded a note payable and will record forgiveness upon being legally released from the loan obligation. No forgiveness income has been recorded for the year ended October 31, 2020. On May 26, 2021, Grassroots received a complete discharge of this loan together with accrued interest.

8. LEASE COMMITMENTS

Grassroots leases its business premises under a five-year lease agreement expiring February 28, 2022. Current monthly fixed rent under this agreement is \$3,908 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
2020-2021	\$ 44,676
2021-2022	\$ 45,123

On April 1, 2019, Grassroots entered into a one-year agreement to lease another separate office through March, 2020. Grassroots continued to rent the space on a month-to-month basis through October 31, 2020. The monthly fixed rent under this agreement was \$450.

Rent expense was \$52,428 and \$49,169 for 2020 and 2019, respectively.

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GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019

9. DEFINED CONTRIBUTION PLAN

Grassroots maintains a defined contribution retirement plan under section 401(k) of the IRC (the “Plan”) for eligible employees. Eligible employees may make voluntary pre-tax deferrals of salary and wages. The Plan allows Grassroots to make annual discretionary employer profit sharing contributions. Employer (4%) discretionary employer contributions were \$54,243 and \$45,635, in 2020 and 2019, respectively, and are included in payroll taxes and benefits in the accompanying Statements of Functional Expenses.

10. 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.

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at October 31, 2020 and 2019:

	2020	2019
Humanitarian/social justice program support	\$ 1,371,325	\$ 1,060,337
BEAI Fund	901,896	2,152,041
	<u>\$ 2,273,221</u>	<u>\$ 3,212,378</u>

12. BOARD-DESIGNATED NET ASSETS WITHOUT DONOR RESTRICTIONS

Strategic Initiatives Fund

The Board has designated a portion of its resources without donor restrictions to be used to offset unrestricted net operating losses and to subsidize the implementation of Grassroots’ Strategic Plan. The Board designated an additional \$2,500,000 to this fund in 2020. The balance of this fund was \$3,140,738 and \$640,738 at October 31, 2020 and 2019, respectively.

Minimum Operating Reserve

The Board has also designated \$670,000 (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.

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GRASSROOTS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019

12. BOARD-DESIGNATED NET ASSETS WITHOUT DONOR RESTRICTIONS (continued)

MOR activity for the years ended October 31, 2020 and 2019, is as follows:

	2020	2019
MOR net assets, beginning of year	\$ 580,000	\$ 530,000
Investment designation	90,000	50,000
MOR net assets, end of year	<u>\$ 670,000</u>	<u>\$ 580,000</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”).

13. 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.

(Continued)

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14. COVID-19

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. Grassroots is closely monitoring its liquidity and actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on Grassroots' operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on Grassroots' employees, volunteers, and vendors, all of which at present, cannot be determined. The widespread launch of mass COVID-19 vaccinations has begun in Massachusetts, however, the ultimate success of the vaccine and the length of time to complete the vaccination process is also unknown at this time. Accordingly, the extent to which COVID-19 may impact Grassroots' financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

15. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through June 21, 2021, the date the financial statements were available to be issued.

Subsequent to year-end, Grassroots submitted a Paycheck Protection Program (PPP) Loan Forgiveness Application to their lender (see Note 7). The PPP Loan Forgiveness Application was approved by the SBA on May 26, 2021 and forgiven in full.

16. RECLASSIFICATION

Certain amounts in the 2019 comparative financial statements have been reclassified to conform to the 2020 presentation.