
GEOHAZARDS INTERNATIONAL

FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

with Report of Independent Auditors

GEOHAZARDS INTERNATIONAL

CONTENTS

	<u>Page</u>
Report of Independent Auditors	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Statements of Functional Expenses	5-6
Notes to Financial Statements	7-15

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
GeoHazards International
Palo Alto, California

We have audited the accompanying statements of financial position of GeoHazards International (GHI) (a nonprofit organization) as of December 31, 2012, and 2011, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain 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 auditor 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 GeoHazards International as of December 31, 2012, and 2011 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

PMB Helin Donovan, LLP



San Francisco, California
June 18, 2013

GEOHAZARDS INTERNATIONAL

STATEMENTS OF FINANCIAL POSITION

as of December 31, 2012 and 2011

	2012	2011
ASSETS		
Assets:		
Cash and cash equivalents	\$ 62,499	\$ 13,857
Donation receivable	17,445	5,345
Grants receivable	109,946	124,452
Investments at fair value	1,006,431	1,154,403
Other current assets	17,410	10,542
Total Assets	<u>\$ 1,213,731</u>	<u>\$ 1,308,599</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 25,151	\$ 19,871
Accrued expenses	29,166	28,139
Deferred rent liability	13,826	-
Contract advances	-	25,880
Total Liabilities	<u>68,143</u>	<u>73,890</u>
 Net Assets:		
Unrestricted net assets	753,648	977,388
Temporarily restricted net assets	<u>391,940</u>	<u>257,321</u>
Total Net Assets	<u>1,145,588</u>	<u>1,234,709</u>
Total Liabilities and Net Assets	<u>\$ 1,213,731</u>	<u>\$ 1,308,599</u>

The accompanying notes are an integral part of these financial statements

GEOHAZARDS INTERNATIONAL

STATEMENTS OF ACTIVITIES
for the years ended December 31, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue:						
Grants:						
Federal	\$ -	\$ -	\$ -	\$ 143,474	\$ -	\$ 143,474
Corporations and foundations	439,358	314,500	753,858	203,215	84,000	287,215
Contributions	104,577	-	104,577	117,312	-	117,312
Investment income	138,517	-	138,517	11,060	-	11,060
Other income	6,027	-	6,027	22,845	-	22,845
Net assets released from restrictions	179,881	(179,881)	-	441,352	(441,352)	-
Total Support and Revenue	868,360	134,619	1,002,979	939,258	(357,352)	581,906
Operating Expenses:						
Program services	717,290	-	717,290	848,811	-	848,811
Supporting services:						
Management and general	285,036	-	285,036	88,730	-	88,730
Fundraising	89,774	-	89,774	153,617	-	153,617
Total Operating Expenses	1,092,100	-	1,092,100	1,091,158	-	1,091,158
Changes in Net Assets	(223,740)	134,619	(89,121)	(151,900)	(357,352)	(509,252)
NET ASSETS:						
Beginning of year	977,388	257,321	1,234,709	1,129,288	614,673	1,743,961
End of year	<u>\$ 753,648</u>	<u>\$ 391,940</u>	<u>\$ 1,145,588</u>	<u>\$ 977,388</u>	<u>\$ 257,321</u>	<u>\$ 1,234,709</u>

The accompanying notes are an integral part of these financial statements

GEOHAZARDS INTERNATIONAL

STATEMENTS OF CASH FLOWS for the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATIONS:		
Changes in Net Assets	\$ (89,121)	\$ (509,252)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Donated securities	(8,531)	(1,968)
(Appreciation)/depreciation in investments	(114,749)	23,368
(Increase)/decrease in operating assets:		
Donation receivable	(12,100)	(5,345)
Grants receivable	14,506	84,303
Other current assets	(6,868)	(1,879)
Increase/(decrease) in operating liabilities:		
Accounts payable	5,280	(3,201)
Accrued expenses	1,027	2,482
Deferred rent liability	13,826	-
Contract advances	<u>(25,880)</u>	<u>(21,007)</u>
Net cash used by operating activities	<u>(222,610)</u>	<u>(432,499)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of securities	303,525	316,592
Purchase of investments	(8,525)	-
Dividends reinvested	<u>(23,748)</u>	<u>(32,315)</u>
Total cash provided by investing activities	<u>271,252</u>	<u>284,277</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	<u>-</u>	<u>-</u>
Net increase/(decrease) in cash balances	48,642	(148,222)
CASH AND EQUIVALENTS:		
Beginning of year	<u>13,857</u>	<u>162,079</u>
End of year	\$ <u><u>62,499</u></u>	\$ <u><u>13,857</u></u>
Supplemental disclosure of cash flow information:		
Donated securities	\$ <u><u>8,531</u></u>	\$ <u><u>1,968</u></u>

The accompanying notes are an integral part of these financial statements

GEOHAZARDS INTERNATIONAL

STATEMENT OF FUNCTIONAL EXPENSES

for the year ended December 31, 2012

	Program Services	Management and General	Fundraising	Total
Personnel Expenses:				
Salaries and wages	\$ 230,349	\$ 140,489	\$ 54,386	\$ 425,224
Employee benefits and payroll taxes	34,104	21,543	8,340	63,987
Total Personnel Expenses	264,453	162,032	62,726	489,211
Consulting and professional fees	211,693	46,880	30	258,603
Computers and equipment	7,507	209	-	7,716
Conferences and meetings	38,485	6,031	481	44,997
Insurance	-	6,812	-	6,812
Occupancy	-	139,735	-	139,735
Other	4,449	3,108	211	7,768
Postage and shipping	2,998	75	695	3,768
Printing and publications	914	3,718	1,479	6,111
Supplies	5	1,132	-	1,137
Telephone	1,880	5,807	751	8,438
Travel and per diem	101,007	13,296	3,501	117,804
Indirect cost allocation	83,899	(103,799)	19,900	-
Total Expenses	\$ <u>717,290</u>	\$ <u>285,036</u>	\$ <u>89,774</u>	\$ <u>1,092,100</u>

The accompanying notes are an integral part of these financial statements

GEOHAZARDS INTERNATIONAL

STATEMENT OF FUNCTIONAL EXPENSES

for the year ended December 31, 2011

	Program Services	Management and General	Fundraising	Total
Personnel Expenses:				
Salaries and wages	\$ 227,534	\$ 109,645	\$ 60,955	\$ 398,134
Employee benefits and payroll taxes	27,229	24,452	9,923	61,604
Total Personnel Expenses	254,763	134,097	70,878	459,738
Consulting and professional fees	283,470	40,080	11,318	334,868
Computers and equipment	3,122	1,885	499	5,506
Conferences and meetings	20,255	2,925	24,545	47,725
Insurance	-	3,173	-	3,173
Occupancy	-	69,939	-	69,939
Other	9,514	2,602	394	12,510
Postage and shipping	435	334	1,261	2,030
Printing and publications	565	4,164	1,955	6,684
Repairs and maintenance	-	30	-	30
Supplies	248	1,735	67	2,050
Telephone	3,208	5,910	128	9,246
Travel and per diem	92,790	20,087	10,852	123,729
Project construction	13,930	-	-	13,930
Indirect cost allocation	166,511	(198,231)	31,720	-
Total Expenses	\$ <u>848,811</u>	\$ <u>88,730</u>	\$ <u>153,617</u>	\$ <u>1,091,158</u>

The accompanying notes are an integral part of these financial statements

GEOHAZARDS INTERNATIONAL

Notes to the financial statements
December 31, 2012

1. Organization and Summary of Significant Accounting Policies:

Organization

GeoHazards International (GHI) was established in 1991 as a non-profit organization to improve the safety of communities at risk from geological hazards. Current GHI initiatives include projects in India, Haiti, Nepal, Pakistan, Peru, Bhutan and Indonesia. Other programs include public education and outreach to raise awareness of earthquake risk.

Basis of Accounting

The financial statements of GHI have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

Pursuant to Accounting Standards Codification No. 958, *Financial Statements of Not-for-Profit Entities*, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of GHI and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions, but may be designated for a specific purpose by action of the Board of Trustees or otherwise limited by contractual arrangements with outside parties.

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed restrictions that can be fulfilled either by actions of GHI pursuant to those stipulations and/or expire with the passage of time.

Permanently Restricted Net Assets - Net assets that are subject to donor-imposed restrictions that GHI maintain them permanently. Generally, the donors of these assets permit GHI to use all or part of the income earned on related investments for general or specific purposes. At December 31, 2012 and 2011, GHI had no permanently restricted net assets.

GEOHAZARDS INTERNATIONAL

Notes to the financial statements (continued)
December 31, 2012

1. Organization and Summary of Significant Accounting Policies: (continued)

Description of program and supporting services

The following program and supporting services are included in the accompanying financial statements:

Federal Grants

GHI recognizes revenue when it incurs expenses in accordance with the related grant award. The federal government reimburses GHI for its costs plus an approved allowance to cover its indirect costs. Expenses incurred in excess of billings are recorded as federal grants receivable.

Grants, Contributions, and Revenue Recognition

GHI recognizes revenue at fair value when a donor/grantor makes an unconditional promise to give. GHI records these contributions as unrestricted or temporarily restricted, depending upon the existence and nature of any donor-imposed restrictions. Amounts received that are designated for future periods or designated for specific purposes are reported as temporarily restricted support. When a temporary restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions expended in the year of receipt are reflected as unrestricted.

GHI does not anticipate any significant uncollectible grants or contributions for services rendered or expenses incurred.

General and Administrative Expenses

General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of GHI.

Fund Raising

Fundraising expenses include the necessary costs to encourage and secure financial support from the government, individuals, foundations and corporations.

GEOHAZARDS INTERNATIONAL

Notes to the financial statements (continued) December 31, 2012

1. Organization and Summary of Significant Accounting Policies: (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates include the functional allocation of expenses and fair valuation of investments. Accordingly, actual results could differ from those estimates.

Indirect Costs

Certain contracts awarded by federal and other agencies generally allow a charge for indirect costs, based on certain criteria which may vary by contract, (IDC rate). The applicable IDC rate is determined on an annual provisional basis and subject to later adjustment as a result of audit and/or review by the granting agency.

Property and Equipment and Depreciation

All acquisitions of property and equipment in excess of \$2,000 and expenditures for repairs, maintenance renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment is recorded at cost or, if donated, the approximate fair market value on the date of donation. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis, primarily five years for furniture and equipment.

Cash and Cash Equivalents

Cash and cash equivalents consist of a checking account and savings account. For purposes of the statement of cash flows, cash equivalents include highly liquid debt instruments with a purchased maturity of three months or less.

Compensated Absences

GHI accrues a liability for earned vacations to which employees are entitled depending on their length of service and other factors. The accompanying financial statements include accrued vacation benefits of \$19,069 and \$17,725 for the years ended December 31, 2012 and 2011, respectively.

GEOHAZARDS INTERNATIONAL

Notes to the financial statements (continued)
December 31, 2012

1. Organization and Summary of Significant Accounting Policies: (continued)

Contract Advances

Contract advances represent cash advances received from funding agencies in advance of the performance of the related tasks.

Functional Allocation of Expenses

Expenses that apply to more than one functional category have been allocated between program, management and general, and fundraising, based on the time spent on these functions by specific employees. Other costs are charged directly to the appropriate functional category.

Fair Value of Financial Instruments

GHI is required to disclose estimated fair values of its financial instruments. The fair value estimates presented herein are based on relevant information available to management as of December 31, 2012 and 2011. Because the reporting requirements exclude certain financial instruments and all non-financial instruments the aggregate fair value amounts presented herein do not represent management's estimate of the underlying value of GHI.

GHI's financial instruments consist principally of cash and cash equivalents, grants receivable, investments, other assets, accounts payable, accrued expenses and contract advances. GHI believes all of the financial instruments' recorded values approximate fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price methodology). Fair value that includes a hierarchy used to classify inputs used in measuring fair value. The hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels which are either observable or unobservable. Observable inputs reflect market data obtained from independent sources while unobservable inputs reflect an entity's view of market assumptions in the absence of observable market information.

The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The three levels of the fair value hierarchy defined by Accounting Standard Codification 820 are as follows:

GEOHAZARDS INTERNATIONAL

Notes to the financial statements (continued)
December 31, 2012

1. Organization and Summary of Significant Accounting Policies: (continued)

Fair Value of Financial Instruments (continued)

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to GHI for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. These generally provide the most reliable evidence and are used to measure fair value whenever available. GHI's Level 1 assets and liabilities include equities and mutual funds. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2: Fair value is based upon significant inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable for substantially the full term of the asset or liability through corroboration with observable market data as of the reporting date. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, model-derived valuations whose inputs are observable or whose significant value drivers are observable and other observable inputs.

Level 3: Fair value is based on significant unobservable inputs which reflect the entity's or third party pricing service assumptions about the assumptions market participants would use in pricing an asset or liability. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques.

2. Concentration of Credit Risk:

Financial instruments that potentially subject GHI to credit risk are limited to cash and cash equivalents in excess of the federal insurance amount. During 2012, GHI periodically maintained cash in banks in excess of the limit insured by the federal government. At December 31, 2012 and 2011, GHI did not exceed the insured limits at any one institution.

GEOHAZARDS INTERNATIONAL

Notes to the financial statements (continued) December 31, 2012

3. Grants Receivable:

Grants receivable include federal and non-federal grants. All grants are deemed to be fully collectible by management and are composed of the following amounts at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Amount due in:		
2012	\$ -	\$ 119,452
2013	109,946	5,000
Total	<u>\$ 109,946</u>	<u>\$ 124,452</u>

4. Property and Equipment:

Property and equipment is valued as stated in Note 1 and is summarized as follows:

	<u>2012</u>	<u>2011</u>
Furniture	\$ 5,176	\$ 5,176
Office equipment	9,748	9,748
Computer equipment	24,813	24,813
Less: Accumulated depreciation	<u>(39,737)</u>	<u>(39,737)</u>
Property and equipment, net	<u>\$ -</u>	<u>\$ -</u>

There was no depreciation expense for the years ended 2012 and 2011.

5. Fair Value of Financial Instruments:

The following table sets forth GHI's assets and liabilities that are measured at fair value on a recurring basis as of the December 31, 2012 and 2011:

Description	Level 1	Level 2	Level 3	2012
Equities	\$ 972	\$ -	\$ -	\$ 972
Mutual Funds	<u>1,005,459</u>	<u>-</u>	<u>-</u>	<u>1,005,459</u>
Total	<u>\$1,006,431</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,006,431</u>

Description	Level 1	Level 2	Level 3	2011
Equities	\$ 904	\$ -	\$ -	\$ 904
Mutual Funds	<u>1,153,499</u>	<u>-</u>	<u>-</u>	<u>1,459,079</u>
Total	<u>\$1,154,403</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,154,403</u>

GEOHAZARDS INTERNATIONAL

Notes to the financial statements (continued) December 31, 2012

6. Investments:

Investments are stated at fair value and at December 31, consisted of the following:

	2012		2011	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equities	\$ 980	\$ 972	\$ 928	\$ 904
Mutual Funds	<u>841,495</u>	<u>1,005,459</u>	<u>1,066,040</u>	<u>1,153,499</u>
Total	<u>\$ 842,475</u>	<u>\$ 1,006,431</u>	<u>\$ 1,066,968</u>	<u>\$ 1,154,403</u>

Investment income consisted of:

	2012	2011
Interest and dividends	\$ 23,768	\$ 34,428
Appreciation/(depreciation) in investments	<u>114,749</u>	<u>(23,368)</u>
Total	<u>\$ 138,517</u>	<u>\$ 11,060</u>

7. Temporarily Restricted Net Assets:

Contributions that are restricted by a grantor agency or a donor are reported as an increase in unrestricted net assets if the restriction expires, or the conditions are met in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. As of December 31, temporarily restricted net assets consist of:

	2012	2011
Time restricted		
Catalyst Foundation	\$ -	\$ 10,000
Purpose restricted		
Improve Hospital Earthquake Safety in India	65,199	85,022
Reducing risk, raising awareness and limit losses in Aizawl, India	287,774	-
School Awareness and Contents		
Hazards Mitigation – India	14,129	21,065
Consultancy Services – GEM Foundation	-	118,074
Frame Infill Network	24,838	23,160
Total	<u>\$ 391,940</u>	<u>\$ 257,321</u>

GEOHAZARDS INTERNATIONAL

Notes to the financial statements (continued)
December 31, 2012

8. Net Assets Released from Restrictions:

Net assets released from restrictions during the year by incurring expenses satisfying the restricted purposes were as follows:

	2012	2011
Time restricted		
Catalyst Foundation	\$ 10,000	\$ 5,000
Purpose restricted		
Improve Hospital Earthquake Safety in India	19,823	18,950
Reducing risk, raising awareness and limit losses in Aizawl, India	9,726	-
School Awareness and Contents Hazards Mitigation – India	6,936	19,390
Consultancy Services – GEM Foundation	118,074	210,281
Tsunami Evacuation Raised Earth Park Prototype for Padang	7,570	123,244
Improving School Earthquake Safety in Rural Peru	-	62,047
Consultancy Services for Historic, Structural and Seismic Review – India	-	600
Frame Infill Network	7,752	1,840
Total	\$ <u>179,881</u>	\$ <u>441,352</u>

9. Employee Benefits:

GHI has established a 403(b) savings and retirement plan for its employees. GHI matches employee contributions to the plan, up to a maximum of 3% of each employee's earnings. All full-time and part-time employees are eligible to join the plan after six months of employment. For the years ended December 31, 2012 and 2011, GHI contributed \$10,977 to \$9,086 to the plan, respectively.

10. Commitments:

GHI's office lease was amended in March 2013 and the term of the lease was extended until March 2015. Monthly rent is initially set at \$12,074.

Future minimum lease payments under the lease at December 31, 2012 are:

Year Ended December 31:	
2013	\$147,050
2014	149,937
2015	<u>37,665</u>
Total	<u>\$334,652</u>

GEOHAZARDS INTERNATIONAL

Notes to the financial statements (continued)
December 31, 2012

10. Commitments: (continued)

Rental expense for years 2012 and 2011 amounted to \$139,735 and \$69,939, respectively.

11. Tax Exempt Status:

GHI is a not-for-profit organization, exempt from federal income tax under Section 501(c)(3) of the U.S Internal Revenue Code (the Code), and contributions to it are tax deductible as prescribed by the Code. GHI is also exempt from California income tax under Section 23701d of Revenue and Taxation Code. Accordingly, no provision for income taxes has been included in these financial statements.

GHI assesses its accounting for uncertainties in income taxes recognized in its financial statements and prescribes a threshold of “more likely than not” for recognition and derecognition of tax positions taken or expected to be taken in the tax returns. There was no material impact on GHI’s financial statements as a result of the adoption of assessing these uncertainties.

GHI is generally no longer subject to tax examinations relating to federal and state tax returns for years prior to 2008.

12. Related Party Transactions

Kornberg Associates, a firm related to a current Board member, provided architectural services in arms-length transactions, to GHI. Expenses incurred in 2012 and 2011 amounted to \$39,886 and \$20,000, respectively.

In February 2013, GHI rented office space on a month to month basis in Menlo Park from a board member of GHI.

13. Subsequent Events:

On April 24, 2013, GHI obtained a \$300,000 line of credit from Heritage Bank of Commerce.

GHI has evaluated all subsequent events through June 18, 2013, the date of this report, and determined there are no material recognized or unrecognized subsequent events.