

**Earthworks**

Financial Statements  
and Independent Auditors' Report

December 31, 2013 and 2012

# Earthworks

Financial Statements  
December 31, 2013 and 2012

## Contents

Independent Auditors' Report.....	1-2
<i>Audited Financial Statements</i>	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6-12
<i>Supplemental Information</i>	
Schedule of Functional Expenses.....	13

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Earthworks

We have audited the accompanying financial statements of Earthworks, which comprise the statement of financial position as of December 31, 2013, the related statements of activities and cash flows 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 of 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 Earthworks as of December 31, 2013, 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.

***Other Matters***

The financial statements of Earthworks as of December 31, 2012, were audited by other auditors whose report, dated March 26, 2013, expressed an unqualified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information included on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The summarized comparative information for the year ended December 31, 2012 on page 13 was subjected to the auditing procedures applied in the audit of the basic financial statements by other independent auditors, whose report, dated March 26, 2013, indicated that such information is fairly stated in all material respects to the basic financial statements as a whole.

*Rogers & Company PLLC*

Vienna, Virginia  
March 28, 2014

## Earthworks

### Statements of Financial Position December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 685,275	\$ 401,516
Grants and contributions receivable	68,203	117,340
Prepaid expenses	298	20,378
Property and equipment, net	<u>10,983</u>	<u>4,985</u>
Total assets	<u>\$ 764,759</u>	<u>\$ 544,219</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	<u>\$ 115,202</u>	<u>\$ 93,162</u>
Total liabilities	<u>115,202</u>	<u>93,162</u>
<b>Net Assets</b>		
Unrestricted	20,057	14,057
Temporarily restricted	<u>629,500</u>	<u>437,000</u>
Total net assets	<u>649,557</u>	<u>451,057</u>
Total liabilities and net assets	<u>\$ 764,759</u>	<u>\$ 544,219</u>

## Earthworks

### Statements of Activities For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>Unrestricted Revenue</b>		
Corporate and foundation grants	\$ 1,069,801	\$ 933,918
Individual contributions	252,790	203,456
In-kind contributions	38,793	-
Registrations	15,767	-
Other income	13,462	41,416
Investment income	1,716	848
Net assets released from restrictions	617,661	527,456
 Total revenue	 2,009,990	 1,707,094
<b>Expenses</b>		
Program services:		
Energy	989,796	834,200
Mining	503,964	409,292
General programming	187,253	132,237
Earthworks partnership programs	153,265	74,805
 Total program services	 1,834,278	 1,450,534
Supporting services:		
Management and general	86,483	76,917
Fundraising	104,229	67,483
 Total expenses	 2,024,990	 1,594,934
 Change in unrestricted net assets	 (15,000)	 112,160
<b>Change in Temporarily Restricted Net Assets</b>		
Corporate and foundation grants	810,161	536,143
Individual contributions	21,000	6,000
Net assets released from restrictions	(617,661)	(527,456)
 Change in temporarily restricted net assets	 213,500	 14,687
 <b>Change in Net Assets</b>	 198,500	 126,847
 <b>Net Assets</b> , beginning of year	 451,057	 324,210
 <b>Net Assets</b> , end of year	 \$ 649,557	 \$ 451,057

*See accompanying notes.*

## Earthworks

### Statements of Cash Flows For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 198,500	\$ 126,847
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,211	4,398
Change in operating assets and liabilities:		
(Increase) decrease in:		
Grants and contributions receivable	49,137	(17,601)
Prepaid expenses	20,080	7,902
Increase in:		
Accounts payable and accrued expenses	22,040	27,505
Net cash provided by operating activities	<u>294,968</u>	<u>149,051</u>
<b>Cash Flows from Financing Activity</b>		
Purchases of property and equipment	<u>(11,209)</u>	<u>(2,729)</u>
Net cash used in financing activity	<u>(11,209)</u>	<u>(2,729)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	283,759	146,322
<b>Cash and Cash Equivalents, beginning of year</b>	<u>401,516</u>	<u>255,194</u>
<b>Cash and Cash Equivalents, end of year</b>	<u><u>\$ 685,275</u></u>	<u><u>\$ 401,516</u></u>

See accompanying notes.

## Earthworks

Notes to Financial Statements  
December 31, 2013 and 2012

### 1. Nature of Operations

Earthworks is a nonprofit organization dedicated to protecting communities and the environment from the impacts of irresponsible mineral and energy development while seeking sustainable solutions. Earthworks' operations are principally funded by volunteer contributions and grants from its members.

### 2. Summary of Significant Accounting Policies

#### Basis of Accounting and Presentation

Earthworks' financial statements are prepared on the accrual basis of accounting and are in accordance with generally accepted accounting principles for not-for-profit organizations. Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of Earthworks' operations.
- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of Earthworks or the passage of time.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### Cash Equivalents

Earthworks considers as cash equivalents all cash in banks, short-term certificates of deposit, money market funds, and all highly liquid instruments with a maturity period of 90 days or less at the time of purchases.

#### Grants and Contributions Receivable

These amounts are recorded at net realizable value. Earthworks provides an allowance for bad debts using the allowance method, which is based on management's judgment considering historical information. Accounts are individually analyzed for collectability, and will be reserved based on individual evaluation and specific circumstances. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At December 31, 2013 and 2012, amounts are deemed to be fully collectible. No discount has been calculated for 2013 and 2012, as all are due within one year.



## Earthworks

Notes to Financial Statements  
December 31, 2013 and 2012

### 2. Summary of Significant Accounting Policies (continued)

#### Property and Equipment

Property and equipment valued at greater than \$1,000 with a useful life of more than one year are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the related lease terms. Expenditures for major repairs and improvements are capitalized, while expenditures for minor repairs and maintenance are expensed when incurred.

#### Revenue Recognition

Grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Earthworks reports grants and contributions as temporarily restricted support if they are received with grantor or donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received.

All other sources of revenue are recognized when earned.

#### Functional Allocation of Expenses

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

#### Subsequent Events

Earthworks follows the guidance of FASB Accounting Standards Codification (ASC) 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before the financial statements are issued. In preparing these financial statements, Earthworks has evaluated events and transactions for potential recognition or disclosure through March 28, 2014, the date the financial statements were available to be issued.

## Earthworks

Notes to Financial Statements  
December 31, 2013 and 2012

### 2. Summary of Significant Accounting Policies (continued)

#### Reclassifications

Certain reclassifications were made to the 2012 financial statements to conform to the 2013 presentation. These reclassifications had no effect on the change in net assets as previously reported.

### 3. Concentration of Credit Risk

Financial instruments that potentially subject Earthworks to significant concentrations of credit risk consist of cash and cash equivalents. Earthworks maintains cash deposit and transaction accounts with various financial institutions and these values, from time to time, may exceed insurable limits under the Federal Depository Insurance Corporation (FDIC). Earthworks has not experienced any credit losses on its cash and cash equivalents to date as it relates to FDIC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

### 4. Property and Equipment

Property and equipment consists of the following at December 31:

	2013	2012
Furniture and equipment	\$ 42,067	\$ 30,858
Leasehold improvements	36,164	36,164
Total property and equipment	78,231	67,022
Less: accumulated depreciation and amortization	(67,248)	(62,037)
Property and equipment, net	<u>\$ 10,983</u>	<u>\$ 4,985</u>

Depreciation and amortization expense was \$5,211 and \$4,398 for the years ended December 31, 2013 and 2012, respectively.

## Earthworks

Notes to Financial Statements  
December 31, 2013 and 2012

### 5. Line of Credit

Earthworks has an unsecured bank line of credit facility under which it may borrow up to a maximum of \$50,000, repayment of which is due on demand. Outstanding balances bear interest at 10%. At December 31, 2013 and 2012, there was no outstanding balance due under this loan agreement. The bank line of credit is subject to annual renewal.

### 6. Temporarily Restricted Net Assets

Temporarily restricted net assets are purpose restricted for the following programs as of December 31:

	2013	2012
Energy	\$ 203,000	\$ 147,000
Mining	365,000	234,000
Fundraising	14,500	-
Earthworks Partnership Programs	47,000	56,000
Total temporarily restricted net assets	<u>\$ 629,500</u>	<u>\$ 437,000</u>

### 7. Programs

Earthworks administers the following programs:

#### Energy

The Energy Program includes the Oil & Gas Accountability Project as well as our work on other energy minerals such as coal and tar sands. This program works to change federal, state, and local government policy and support communities impacted by existing and proposed energy extraction, to raise awareness about unconventional shale oil and gas and hydraulic fracturing (aka fracking), and to reduce the destructive impacts of all forms of energy extraction

#### Mining

The Mining Program includes U.S. mining reform efforts, international mining work, and the No Dirty Gold campaign. This program focuses on legislative and regulatory strategies on campaigns to protect specific places from mining impacts, and on market strategies and efforts to involve consumers and jewelers in placing pressure on mining companies to improve mining practices, and to protect communities and the environment in the U.S. and overseas.

## Earthworks

Notes to Financial Statements  
December 31, 2013 and 2012

### 7. Programs (continued)

#### General Programming

- *Media / Communications*: Website, newsletter, and other methods to promote and publicize the work of Earthworks and its allies, including public opinion research.
- *Research / Publications*: Analysis of policy proposals, development of policy proposals, research into impacts of mining in the form of fact sheets, issue papers, and reports.
- *Advocacy Technology / Tool (Capacity Building)*: Investment geared toward improving outreach, research, and advocacy capacity through expenditures on technology, data management, electronic tools, membership, and capacity to reach communities.
- Research and information provided to the public and members in the form of mailings, fact sheets, electronic (email) updates and alerts, newsletters, and responses to direct inquiries.

#### Earthworks Partnership Programs

Earthworks provides back-office services (including payroll, accounting, and administration), a legal framework, and capacity building support to a variety of small programs (single staff or volunteer-only organizations) that share Earthworks' mission of protecting communities and the environment from the negative impacts of mineral development.

For the years ended December 31, 2013 and 2012, Earthworks recognized \$3,780 and \$2,150, respectively, in agent fees that are included in other income in the accompanying statements of activities and served as the fiscal sponsor of the following projects:

- *Ethical Metalsmiths*: This project seeks to stimulate demand and supply for responsibly-sourced materials for metalsmiths and jewelers.
- *Common Ground United*: This project provides a platform allowing diverse organizations, from local to national, to express a united voice concerning the projection of our water, cultural, ecological, and economic resources and the health and safety of our citizens from the adverse impacts of all extractive resource developments.

## Earthworks

Notes to Financial Statements  
December 31, 2013 and 2012

### 7. Programs (continued)

- *Alaskans for Responsible Mining*: A voluntary association of nongovernmental organizations working together to raise public awareness of the impacts of the extractive industry to Alaska's watersheds, wildlife, fisheries, communities, and public health; and to reform Alaska's inadequate mining laws.
- *Arizona Mining Coalition*: This project seeks to raise public awareness and protect indigenous sacred sites and recreational areas in the state of Arizona from irresponsible mineral development.
- *ShaleTest*: To collect environmental data around natural gas facilities, including natural gas drilling operations; to establish baseline air and water testing; to perform post drilling testing and comprehensive testing around natural gas processing facilities in areas where natural gas drilling is occurring throughout the United States; and to provide environmental testing to lower income families and neighborhoods that are affected by natural gas exploration.

### 8. In-Kind Contributions

From time to time, Earthworks receives contributions in the form of donated goods or materials. Such contributions are recorded at their estimated fair value using comparable market rates at the time of donation. During the year ended December 31, 2013, Earthworks, on behalf of the ShaleTest program, received donated property and equipment valued at \$38,793. This amount is not included in property and equipment in the accompanying statements of financial position as the equipment belongs to ShaleTest, a separate, unincorporated organization (see Note 7), and Earthworks therefore does not have ownership of the equipment. Accordingly, this amount is included as in-kind contributions and expense in the accompanying statements of activities.

### 9. Employee Retirement Plan

Earthworks sponsors a 403(b)(7) tax sheltered retirement plan that is available to all full-time and part-time employees of Earthworks. Contributions made by the employees are subject to the limits set by the tax code. Generally, Earthworks will match employee contributions for all participating employees who have completed at least one full year of employment, up to 5% of their gross annual salary. Employer contributions totaled \$28,972 and \$23,144 for the years ended December 31, 2013 and 2012, respectively.

## Earthworks

Notes to Financial Statements  
December 31, 2013 and 2012

### 10. Operating Leases

Earthworks leases office space in Washington, DC under the terms of an operating lease that is set to expire on May 31, 2016. The lease terms include base rent payable in monthly installments of \$4,939 with a 3% annual escalation clause. Deferred rent, which represents the difference between scheduled rent increases and straight-line rental payments is not recorded in the accompanying financial statements due to immateriality. Earthworks also leases equipment under operating leases, which are set to expire in 2016.

In addition, Earthworks has an operating lease for a satellite office in Montana through December 31, 2016, which calls for monthly payments of \$440 with no annual escalation.

During 2013, Earthworks entered into a one-year lease agreement for office space in California. The terms of the lease call for a base rent of \$577 payable monthly.

Future minimum lease payments for the leases noted above are as follows for the years ending December 31:

2014	\$	75,287
2015		70,919
2016		<u>32,957</u>
Total future minimum lease payments	\$	<u><u>179,163</u></u>

Earthworks also leases office space for various field offices on a month-to-month basis. Earthworks' total occupancy expense for the years ended December 31, 2013 and 2012 was \$98,709 and \$84,326, respectively.

### 11. Tax Status

Earthworks is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is exempt from income taxes except for taxes on unrelated business activities. No tax expense is recorded in the accompanying financial statements for the years ended December 31, 2013 and 2012, as there were no unrelated business activities.

Management has evaluated Earthworks' tax positions and has concluded that Earthworks has taken no uncertain tax positions that qualify for either recognition or disclosure in the accompanying financial statements.

## **SUPPLEMENTAL INFORMATION**

---

## Earthworks

Schedule of Functional Expenses  
For the Year Ended December 31, 2013  
*(with comparative totals for the year ended December 31, 2012)*

	Program Services				Supporting Services		Total 2013	Total 2012
	Energy	Mining	General Programming	Partnership Programs	Management and General	Fundraising		
Salaries and related expenses	\$ 421,134	\$ 289,170	\$ 83,343	\$ 33,241	\$ 47,452	\$ 36,734	\$ 911,074	\$ 799,471
Professional fees	137,844	27,585	17,891	53,094	17,763	16,999	271,176	168,640
Travel	82,794	23,415	11,465	9,580	12	2,626	129,892	119,449
Other employee benefits	57,895	39,637	11,714	6,972	6,706	4,915	127,839	117,055
Grants and assistance	61,500	-	-	38,793	-	-	100,293	15,000
Occupancy expenses	48,204	32,717	8,943	100	4,523	4,222	98,709	84,326
Payroll taxes	34,878	23,916	6,995	2,541	4,021	2,860	75,211	67,344
Conferences and meetings	58,287	930	11,741	768	695	33	72,454	13,618
Printing, design, and duplication	7,119	8,613	14,686	1,629	34	10,860	42,941	47,094
Telecommunications	18,896	13,037	2,413	1,996	1,139	883	38,364	36,252
Advertising	9,122	19,633	1,285	395	-	775	31,210	19,499
Pension plan contributions	13,842	9,584	2,806	-	1,644	1,096	28,972	23,144
Employee recruiting and training	10,279	1,871	2,629	595	-	2,848	18,222	302
Postage and delivery	1,262	955	3,643	2,023	378	7,497	15,758	19,622
Supplies	6,872	2,815	2,910	975	226	1,725	15,523	15,724
Publication and subscriptions	3,791	1,341	73	109	16	7,191	12,521	3,695
Insurance	4,060	2,974	663	-	503	244	8,444	6,175
Bank charges and fees	2,239	1,652	457	151	707	194	5,400	5,883
Depreciation and amortization	2,499	1,716	499	-	285	212	5,211	4,398
Video and photo	3,600	-	400	-	-	-	4,000	500
Payroll expenses	1,730	1,172	343	-	207	132	3,584	3,153
Equipment rental and maintenance	1,624	981	304	-	172	117	3,198	21,222
Membership dues	250	-	2,000	-	-	370	2,620	2,505
State registration fees	-	-	-	-	-	1,696	1,696	350
Miscellaneous expenses	75	250	50	303	-	-	678	513
<b>Total Expenses</b>	<b>\$ 989,796</b>	<b>\$ 503,964</b>	<b>\$ 187,253</b>	<b>\$ 153,265</b>	<b>\$ 86,483</b>	<b>\$ 104,229</b>	<b>\$ 2,024,990</b>	<b>\$ 1,594,934</b>