

Earthworks

Financial Statements
and Independent Auditors' Report

December 31, 2018 and 2017

Earthworks

Financial Statements
December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Earthworks

We have audited the accompanying financial statements of Earthworks, which comprise the statements of financial position as of December 31, 2018 and 2017; the related statements of activities, functional expenses, and cash flows 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

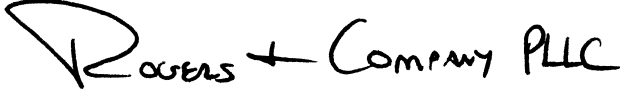
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 Earthworks as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, flowing style.

Vienna, Virginia
April 12, 2019

Earthworks

Statements of Financial Position December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 1,461,834	\$ 1,874,145
Grants and contributions receivable	220,332	334,337
Due from affiliate	9,970	67
Prepaid expenses	3,345	21,541
Property and equipment, net	292,052	130,695
Website development, net	23,526	29,868
	<hr/>	<hr/>
Total assets	<u>\$ 2,011,059</u>	<u>\$ 2,390,653</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 228,474	\$ 168,977
	<hr/>	<hr/>
Total liabilities	<u>228,474</u>	<u>168,977</u>
Net Assets		
Without donor restrictions:		
Undesignated	190,438	206,324
Board-designated	243,000	343,000
	<hr/>	<hr/>
Total without donor restrictions	433,438	549,324
With donor restrictions	1,349,147	1,672,352
	<hr/>	<hr/>
Total net assets	<u>1,782,585</u>	<u>2,221,676</u>
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 2,011,059</u>	<u>\$ 2,390,653</u>

Earthworks

Statement of Activities For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Corporate and foundation grants	\$ 495,385	\$ 2,169,828	\$ 2,665,213
Individual contributions	576,311	268,429	844,740
Registrations	-	-	-
Other income	82,097	-	82,097
Interest income	5,208	-	5,208
Net assets released from restrictions	2,761,462	(2,761,462)	-
Total revenue	3,920,463	(323,205)	3,597,258
Expenses			
Program services:			
Energy	2,167,658	-	2,167,658
Mining	690,769	-	690,769
General programming	369,137	-	369,137
Earthworks partnership programs	248,685	-	248,685
Total program services	3,476,249	-	3,476,249
Supporting services:			
Management and general	199,886	-	199,886
Fundraising	360,214	-	360,214
Total supporting services	560,100	-	560,100
Total expenses	4,036,349	-	4,036,349
Change in Net Assets	(115,886)	(323,205)	(439,091)
Net Assets, beginning of year	549,324	1,672,352	2,221,676
Net Assets, end of year	\$ 433,438	\$ 1,349,147	\$ 1,782,585

See accompanying notes.

Earthworks

Statement of Activities For the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Corporate and foundation grants	\$ 456,727	\$ 2,712,015	\$ 3,168,742
Individual contributions	1,040,895	274,743	1,315,638
Registrations	31,011	-	31,011
Other income	19,631	-	19,631
Interest income	3,490	-	3,490
Net assets released from restrictions	2,088,450	(2,088,450)	-
Total revenue	3,640,204	898,308	4,538,512
Expenses			
Program services:			
Energy	1,459,173	-	1,459,173
Mining	524,913	-	524,913
General programming	287,282	-	287,282
Earthworks partnership programs	570,386	-	570,386
Total program services	2,841,754	-	2,841,754
Supporting services:			
Management and general	129,379	-	129,379
Fundraising	330,820	-	330,820
Total supporting services	460,199	-	460,199
Total expenses	3,301,953	-	3,301,953
Change in Net Assets	338,251	898,308	1,236,559
Net Assets, beginning of year	211,073	774,044	985,117
Net Assets, end of year	\$ 549,324	\$ 1,672,352	\$ 2,221,676

See accompanying notes.

Earthworks

Statement of Functional Expenses For the Year Ended December 31, 2018

	Program Services				Supporting Services		Total
	Energy	Mining	General Programming	Earthworks Partnership Programs	Management and General	Fundraising	
Salaries and related expenses	\$ 941,206	\$ 354,156	\$ 161,229	\$ 27,350	\$ 109,462	\$ 182,775	\$ 1,776,178
Professional fees	243,041	127,479	9,768	145,882	17,863	27,644	571,677
Other employee benefits	164,315	64,650	29,010	-	20,509	33,438	311,922
Travel	217,863	25,106	3,687	11,679	12	3,511	261,858
Occupancy expenses	70,848	27,664	10,213	336	6,809	12,483	128,353
Payroll taxes	75,941	28,964	13,155	2,117	8,908	14,917	144,002
Grants and assistance	211,030	5,278	-	38,796	-	-	255,104
Printing, design, and duplication	10,481	3,203	19,217	2,141	214	22,443	57,699
Pension plan contributions	27,586	13,182	6,018	-	4,056	6,813	57,655
Postage and delivery	5,516	173	1,051	511	42	22,065	29,358
Telecommunications	16,019	7,229	1,227	1,034	379	1,333	27,221
Advertising	934	1,709	18	-	5	2,447	5,113
Video and photo	21,384	14,000	-	-	-	-	35,384
Supplies	33,068	7,062	4,781	5,568	3,848	1,781	56,108
Conferences and meetings	18,523	2,655	66,993	3,700	-	551	92,422
Depreciation and amortization	73,510	4,523	2,035	-	1,466	2,487	84,021
Loss on disposal of assets	-	-	-	-	3,269	-	3,269
Equipment rental and maintenance	4,086	407	183	-	122	224	5,022
Insurance	4,444	474	213	-	8,025	261	13,417
Web and E-Advocacy	8,799	1,538	7,556	9,516	144	263	27,816
Employee recruiting and training	10,874	125	27,522	-	-	2,233	40,754
Bank charges and fees	150	135	45	55	8,511	-	8,896
Publication and subscriptions	7,890	658	3,201	-	356	7,811	19,916
Payroll expenses	-	-	-	-	5,667	-	5,667
Membership dues	150	-	2,000	-	-	465	2,615
State registration fees	-	399	15	-	129	14,269	14,812
Miscellaneous expenses	-	-	-	-	90	-	90
Total Expenses	\$ 2,167,658	\$ 690,769	\$ 369,137	\$ 248,685	\$ 199,886	\$ 360,214	\$ 4,036,349

See accompanying notes.

Earthworks

Statement of Functional Expenses For the Year Ended December 31, 2017

	Program Services				Supporting Services		Total
	Energy	Mining	General Programming	Earthworks Partnership Programs	Management and General	Fundraising	
Salaries and related expenses	\$ 699,863	\$ 315,364	\$ 139,041	\$ 46,112	\$ 82,622	\$ 174,535	\$ 1,457,537
Professional fees	111,118	37,241	8,500	187,165	15,160	15,753	374,937
Other employee benefits	94,074	45,653	20,056	-	12,109	25,326	197,218
Travel	108,648	14,758	4,809	35,740	71	5,926	169,952
Occupancy expenses	59,217	26,994	10,077	1,250	6,046	12,093	115,677
Payroll taxes	57,766	24,027	10,674	3,510	6,297	13,293	115,567
Grants and assistance	90,250	10,466	-	39,812	-	-	140,528
Printing, design, and duplication	10,135	4,625	12,945	7,675	204	29,496	65,080
Pension plan contributions	23,303	11,500	5,117	-	3,001	6,325	49,246
Postage and delivery	2,753	640	486	1,537	139	14,801	20,356
Telecommunications	12,701	8,346	727	1,028	436	1,264	24,502
Advertising	8,573	1,015	5,156	45	-	115	14,904
Video and photo	1,515	-	225	-	-	-	1,740
Supplies	19,439	11,129	2,450	12,307	803	3,169	49,297
Conferences and meetings	56,034	2,261	41,183	222,128	-	531	322,137
Depreciation and amortization	45,849	1,492	678	-	408	814	49,241
Equipment rental and maintenance	3,599	421	191	-	115	230	4,556
Insurance	7,322	2,332	1,060	-	636	1,272	12,622
Web and E-Advocacy	21,425	1,721	8,111	11,686	10	21	42,974
Employee recruiting and training	12,891	449	3,471	-	293	291	17,395
Bank charges and fees	5,566	2,726	1,147	173	667	1,323	11,602
Publication and subscriptions	4,128	281	10,690	-	69	8,332	23,500
Payroll expenses	2,439	1,073	488	-	293	585	4,878
Membership dues	450	-	-	-	-	2,370	2,820
State registration fees	115	399	-	218	-	12,955	13,687
Miscellaneous expenses	-	-	-	-	-	-	-
Total Expenses	\$ 1,459,173	\$ 524,913	\$ 287,282	\$ 570,386	\$ 129,379	\$ 330,820	\$ 3,301,953

See accompanying notes.

Earthworks

Statements of Cash Flows For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ (439,091)	\$ 1,236,559
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	84,021	49,241
Loss on disposal of assets	3,269	-
Change in operating assets and liabilities:		
(Increase) decrease in:		
Grants and contributions receivable	114,005	(208,136)
Due from affiliate	(9,903)	-
Prepaid expenses	18,196	(21,304)
Increase in:		
Accounts payable and accrued expenses	59,497	25,465
Net cash (used in) provided by operating activities	(170,006)	1,081,825
Cash Flows from Financing Activities		
Purchase of website development	(1,500)	(29,868)
Purchases of property and equipment	(240,805)	(26,299)
Net cash used in financing activities	(242,305)	(56,167)
Net (Decrease) Increase in Cash and Cash Equivalents	(412,311)	1,025,658
Cash and Cash Equivalents, beginning of year	1,874,145	848,487
Cash and Cash Equivalents, end of year	\$ 1,461,834	\$ 1,874,145

See accompanying notes.

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Notes to Financial Statements
December 31, 2018 and 2017

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. Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for an operating reserve.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some 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 that resources 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.

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 purchase.

Earthworks

Notes to Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Grants and Contributions Receivable

Receivables 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, 2018 and 2017, all amounts are deemed to be fully collectible. No discount has been calculated for 2018 and 2017, as all are due within one year.

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.

Website Development

Website development consists of costs related to the design and development of Earthworks' website, net of accumulated amortization. Amortization is computed over an estimated useful life of five years.

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 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Net assets with donor restrictions are reported as net assets without donor restrictions if the restrictions are met in the same period as received.

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Notes to Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

All other sources of revenue are recognized when earned.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs

Advertising costs are expensed as incurred, and approximated \$5,113 and \$14,904 during the years ended December 31, 2018 and 2017, respectively.

Adopted Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Earthworks has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented. The implementation had no impact on previously reported net assets.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its statements of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in 2020.

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Notes to Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

In preparing these financial statements, Earthworks has evaluated events and transactions for potential recognition or disclosure through April 12, 2019, the date the financial statements were available to be issued.

Reclassification

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation. These reclassifications have no effect on the change in net assets previously reported.

3. Liquidity and Availability

Earthworks has \$1,682,166 of financial assets available within one year of the statement of financial position date. None of the of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The contributions receivable are subject to time restrictions, but will be collected within one year. Earthworks strives to maintain liquidity financial assets sufficient to cover 60 days of general expenditures. As part of this liquidity management, Earthworks invests cash in excess of daily requirements in money market funds and sweep accounts.

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:

Cash and cash equivalents	\$ 1,461,834
Grants and contributions receivable	<u>220,332</u>
Total available for general expenditures	<u><u>\$ 1,682,166</u></u>

4. 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 Deposit 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.

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Notes to Financial Statements
December 31, 2018 and 2017

4. Concentration of Credit Risk (continued)

Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

5. Property and Equipment

Property and equipment consists of the following at December 31:

	2018	2017
Furniture and equipment	\$ 429,354	\$ 269,735
Leasehold improvements	3,723	3,723
Total property and equipment	433,077	273,458
Less: accumulated depreciation and amortization	(141,025)	(142,763)
Property and equipment, net	<u>\$ 292,052</u>	<u>\$ 130,695</u>

6. Website Development

Intangible assets consist of the following at December 31:

	2018	2017
Website development	\$ 31,368	\$ 29,868
Less: accumulated amortization	(7,842)	-
Website development, net	<u>\$ 23,526</u>	<u>\$ 29,868</u>

7. 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, 2018 and 2017, there was no outstanding balance due under this loan agreement. The bank line of credit is subject to annual renewal.

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Notes to Financial Statements
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8. Net Assets with Donor Restrictions

Net assets with donor restrictions are purpose restricted for the following programs as of December 31:

	<u>2018</u>	<u>2017</u>
Energy	\$ 720,025	\$ 1,119,885
Mining	509,858	383,081
Earthworks partnership programs	<u>119,264</u>	<u>169,386</u>
Total net assets with donor restrictions	<u>\$ 1,349,147</u>	<u>\$ 1,672,352</u>

9. Programs

Earthworks administers the following programs:

Energy

The Energy Program includes the Oil & Gas Accountability Project as well as work on other energy minerals and petrochemicals. This program works to change federal, state, and local government policy and to support and empower 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 efforts in the U.S. and internationally to reform mining policies and practices, including work to ensure that clean energy revolution does not lead to more harmful mining. This program protects communities and special places by stopping mining where it does not belong, reins in the riskiest and dirtiest mining practices, and reforms and defends state, federal, and international policies that protect communities, water, wildlife, oceans, and other natural resources.

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Notes to Financial Statements
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9. Programs (continued)

General Programming

- *Media and Communications:* Press outreach and storytelling to promote and publicize the work of Earthworks and its allies.
- *Research and Publication:* Analysis and development of policy proposals, research on impacts of mining and energy extraction, and publishing fact sheets, reports, and information.
- *Digital Engagement and Advocacy:* Outreach, engagement, and advocacy using digital tools, providing information to the public and Earthworks members, and responding to 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, 2018 and 2017, Earthworks recognized \$12,088 and \$14,160, 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 water, cultural, ecological, and economic resources and the health and safety of citizens from the adverse impacts of all extractive resource developments.

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Notes to Financial Statements
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9. Programs (continued)

Earthworks Partnership 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.
- *ARO Working Group*: The ARO Working Group's mission is to activate an international network of experts and change-makers who are operating in various capacities on the issue of environmental liabilities. The strategy is to reveal and leverage real-time insolvency in the oil and gas industry due to severely undervalued environmental liabilities and asset retirement obligations to force exploration and production companies to stop drilling new wells and building new infrastructure.
- *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.
- *Friends of Livingston Mountain*: A nonprofit group made up of neighbors and concerned citizens who wish to protect and preserve Livingston Mountain in Camas and East Vancouver, Washington. Life on Livingston Mountain is being negatively impacted by the threat of expansion of gravel mining operations.
- *Listen Up! (formerly The Shalefield Organizing Committee)*: A group of engaged community members working to protect human and ecological rights in Appalachia. By listening to and amplifying the voices of those most directly impacted by economic and ecological degradation and demanding accountability from those who hold power, they are helping to grow a grassroots movement for healthy people and ecosystems, a sustainable economy, and empowerment for shalefield communities.

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Notes to Financial Statements
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9. Programs (continued)

Earthworks Partnership Programs (continued)

- *Beyond Extreme Energy (BXE)*: BXE are people taking action to retire fossil fuels. BXE's immediate demand is for no new permits by the Federal Energy Regulatory Commission for fossil fuel infrastructure. BXE's vision is a world powered by consumer-controlled renewable energy.
- *Campaign to End Sacrifice Zones (CESZ)*: CESZ is a diverse coalition of individuals, organizations, and businesses formed 1) to hear, connect, and amplify stories from New Mexico's Sacrifice Zones; 2) to grow the climate movement by inspiring imagination, possibility, and self-awareness toward the rapid transition to a healthy, clean, and renewably-powered state.
- *Coalition for Oklahoma Renewable Energy (CORE)*: The CORE's mission is to facilitate a just transition within the state of Oklahoma from fossil fuels to 100% renewable energy by 2050.
- *Resilient Communities Network (RCN)*: The RCN seeks to help communities stop fracking, and accelerate the necessary shift away from fossil fuels to renewable energy while building resilient and sustainable systems to rely on during the transition.
- *Stop the Frack Attack (STFA)*: STFA is a movement hub that acts as a centralized place to coordinate with other groups working on oil and gas drilling using the fracking process; to ensure impacted community members are given a voice in the national debate about fracking.

10. 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 \$57,655 and \$49,246 for the years ended December 31, 2018 and 2017, respectively.

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11. Operating Leases

Earthworks leased office space in Washington, DC under the terms of an operating lease that commenced on April 1, 2017 and was set to expire on March 31, 2020. On January 22, 2018, Earthworks entered into an amended lease agreement to include an additional 429 square feet to the leased office space. The terms of the lease included base monthly rental payments of \$7,099 and an annual escalation of 3% until February 28, 2018. Effective March 1, 2018, the base monthly rental payments increased to \$8,350 with an annual escalation of approximately 3%. The difference between required lease payments and straight-line rent expense is not reflected as deferred rent in the accompanying statements of financial position due to immateriality.

During 2017, Earthworks entered into a sublease agreement with a subtenant to lease a portion of its office space located at Berkeley, California. The sublease commenced on November 1, 2017 and was set to expire on October 31, 2019. The terms of the lease included base monthly rental payments of \$785 and an annual escalation of 3%.

In addition, Earthworks renewed an operating lease for a satellite office in Montana through September 30, 2020, which calls for monthly payments of \$394 with no annual escalation. Earthworks also leases office space on a month-to-month basis for satellite offices in Colorado with monthly payments of \$715.

Lastly, Earthworks leases office equipment under the terms of a noncancellable operating lease that expires in May 2021. Monthly payments are fixed at approximately \$117 for the duration of the lease and include services.

Future minimum lease payments for all multi-year commitments noted above are as follows the years ending December 31:

2019	\$	120,418
2020		32,028
2021		<u>584</u>
Total future minimum lease payments	\$	<u><u>153,030</u></u>

Earthworks' total occupancy expense for the years ended December 31, 2018 and 2017 was \$128,353 and \$115,677, respectively.

Earthworks

Notes to Financial Statements
December 31, 2018 and 2017

12. Related Party and Affiliation

Earthworks Action Fund, a Section 501(c)(4) nonprofit organization, is a legally-separate, tax-exempt organization established by Earthworks in December 2017. Earthworks Action Fund is an affiliated but separate organization from Earthworks. As a 501(c)(4) organization, Earthworks Action Fund engages in various advocacy and political activities for which Earthworks, a 501(c)(3) organization, faces certain legal limitations or restrictions.

Earthworks provides various administrative services for Earthworks Action Fund, including office space, personnel, use of equipment, and other overhead costs. Total expenses paid by Earthworks and charged to Earthworks Action Fund were \$43,420 and \$0 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, Earthworks Action Fund owed Earthworks \$9,970 and \$67, respectively, which is recorded as due from affiliate in the accompanying statements of financial position.

13. Functionalized 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 occupancy, depreciation and amortization, salaries and wages, benefits, payroll taxes, professional services, occupancy, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

14. 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, 2018 and 2017, 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.