

# EARTHWORKS

AUDITED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2008 AND 2007

DUNHAM, AUKAMP & RHODES, PLC  
Certified Public Accountants  
Chantilly, Virginia

# EARTHWORKS

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5-11
Statement of Functional Expenses	12

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
EARTHWORKS  
Washington, D.C.

We have audited the accompanying statements of financial position of EARTHWORKS as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the EARTHWORKS' management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008 and 2007, 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The statement of functional expenses presented on page 11 is presented for the purpose of additional analysis and is not required as part of the basic financial statements. Such information has been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants  
Chantilly, Virginia

July 8, 2009

# EARTHWORKS

## Statements of Financial Position December 31,

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 173,787	\$ 242,743
Investments	-	13,247
Grants receivable, net	165,000	265,839
Prepaid expenses	17,248	26,910
Property and equipment, net	<u>15,366</u>	<u>23,979</u>
 Total assets	 <u>\$ 371,401</u>	 <u>\$ 572,718</u>
 <b>Liabilities and net assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 36,120	\$ 41,228
Note payable	<u>-</u>	<u>43,667</u>
 Total liabilities	 <u>36,120</u>	 <u>84,895</u>
 Net assets		
Unrestricted	170,281	46,984
Temporarily restricted	<u>165,000</u>	<u>440,839</u>
 Total net assets	 <u>335,281</u>	 <u>487,823</u>
 Total liabilities and net assets	 <u>\$ 371,401</u>	 <u>\$ 572,718</u>

# EARTHWORKS

## Statements of Activities For the Years Ended December 31,

	2008	2007
<b>Change in unrestricted net assets</b>		
<b>Revenue</b>		
Contributions	\$ 1,421,950	\$ 1,146,886
Donations	57,896	113,362
Other income	39,437	20,924
Investment income	515	24,448
	1,519,798	1,305,620
Net assets released from restriction	440,839	786,467
Total revenue	1,960,637	2,092,087
<b>Expenses</b>		
Program services:		
U.S. Mining	523,031	600,923
Oil and Gas Accountability Project	522,392	564,664
International Mining	264,562	253,354
Public/Member Information	52,530	109,523
EARTHWORKS Partnership Programs	161,564	83,789
Total program services	1,524,079	1,612,253
Fundraising	194,952	146,697
Management and general	118,309	115,363
Total expenses	1,837,340	1,874,313
Change in unrestricted net assets	123,297	217,774
<b>Change in temporarily restricted net assets</b>		
Contributions	165,000	225,000
Net assets released from restriction	(440,839)	(786,467)
Change in temporarily restricted net assets	(275,839)	(561,467)
Net change in net assets	(152,542)	(343,693)
Net assets, beginning of year	487,823	831,516
Net assets, end of year	\$ 335,281	\$ 487,823

See accompanying notes to the financial statements.

# EARTHWORKS

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

	2008	2007
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (152,542)	\$ (343,693)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	12,965	12,238
Donated stock	(13,232)	(8,583)
Loss on sale of securities	4,151	-
Changes in operating assets and liabilities:		
Grant receivable	110,000	325,000
Discount on grant receivable	(9,161)	(24,771)
Prepaid expenses	9,662	(14,990)
Accounts payable and accrued liabilities	(5,108)	(32,474)
Total cash flows (used in) provided by operating activities	(43,265)	(87,273)
 <b>Cash flows used in investing activities</b>		
Proceeds on sale of investments	22,328	-
Purchases of fixed assets	(4,352)	(20,293)
Total cash flows used in investing activities	17,976	(20,293)
 <b>Cash flows used in financing activities</b>		
Principal payments on notes payable	(43,667)	(81,039)
Total cash flows used in financing activities	(43,667)	(81,039)
 Change in cash and cash equivalents	(68,956)	(188,605)
Cash and cash equivalents, beginning of year	242,743	431,348
Cash and cash equivalents, end of year	\$ 173,787	\$ 242,743
 <b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ 966	\$ 7,926

See accompanying notes to the financial statements.

# EARTHWORKS

## Notes to Financial Statements

### **Note A – Organization**

EARTHWORKS is a non-profit organization incorporated in 1988 under the laws of Washington, D.C. EARTHWORKS' mission is to conduct research, develop policies, and serve as a national and international clearinghouse for information relating to mineral and natural resource policies, practices and development; and their impact on the public, communities, public resources, and the environment. EARTHWORKS' operations are principally funded by voluntary contributions and grants from its members.

#### *Income tax status*

EARTHWORKS is a 501(c)(3) tax-exempt organization and is classified as a public charity.

### **Note B – Summary of Significant Accounting Policies**

#### *Basis of accounting*

EARTHWORKS maintains its accounting records and prepares its financial statements on the accrual basis, which reflects revenue when earned and expenses when incurred.

#### *Basis of presentation*

EARTHWORKS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets:

Unrestricted net assets – This classification is used to record all contributions that are not required to be reported as either temporarily or permanently restricted. This category is used to record activity, which has not been restricted, by a donor or funding source. However, temporarily restricted contributions received and used in the same year are reported as unrestricted.

Temporarily restricted net assets – This classification is used to record contributions received from donors with stipulations that limit their use to specific activities or programs of EARTHWORKS. When expenditures are made in accordance with donor's stipulations, funds are released from restriction and are reclassified to unrestricted net assets in the current period's statement of activities. EARTHWORKS receives monies, which are restricted by donors for its Community and Ecosystem Protection projects and various Mining Law Reform Campaigns.

Permanently restricted net assets – This classification is used for contributions in which the use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of EARTHWORKS. Unless the donor has specified otherwise, income earned on these net assets is recorded as temporarily restricted net assets, and reclassified to unrestricted net assets when distributed in accordance with the donor's restriction. To date there have been no permanently restricted net assets.

# EARTHWORKS

## Notes to Financial Statements (Continued)

### **Note B – Summary of Significant Accounting Policies (Continued)**

#### *Cash and cash equivalents*

EARTHWORKS considers cash in banks, certificates of deposit, money market funds and all highly liquid instruments purchased with an original maturity date of three months or less to be cash and cash equivalents.

Throughout the year, deposits with financial institutions may exceed federally insured limits; however, management does not believe that this represents significant credit risks.

#### *Investments*

Investments are recorded at fair value based on quoted market prices. The investments at December 31, 2007 consisted of equity securities with readily determinable fair values. EARTHWORKS records the changes in the fair value of investments in the statement of activities.

#### *Allocation of expenses*

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

#### *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 reported amounts of assets and liabilities, the disclosures or contingent assets and liabilities at the date of the financial statements, and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **Note C – Programs**

#### *U.S. Policy Reform Programs (US Mining)*

Programs to research, develop, publicize and promote policies to protect communities and the environment in regard to mining and natural resources. This includes research, publications, information analysis, policy analysis, legal action, outreach and education of the public, retailers, insurers, and communities, support to affected communities, promoting media awareness and coverage, and educating decision makers including regulators and elected officials. The focus of this program is both on state and federal policies.



# EARTHWORKS

## Notes to Financial Statements (Continued)

### Note C – Programs (Continued)

#### International Policy & Market Reform Programs (International Mining)

Programs to research, develop, publicize and promote policies to protect communities and the environment in regard to mining and natural resources internationally. This includes research, publications, information analysis, policy analysis, legal action, outreach and education of the public and communities, support to affected communities, promoting media awareness and coverage, and educating decision makers including regulators and elected officials. This includes conducting trainings for affected communities, conducting site visits, and providing independent scientific, technical and economic analysis. This also includes programs to increase corporate accountability.

#### Oil and Gas Accountability Project (OGAP)

Working with tribal, urban and rural communities to protect their homes and the environment from the impacts of oil and gas development. This includes advocating for stronger reforms and better industry practices. Utilizing the media, public education and the community to organize efforts to change the way oil and gas development occurs in North America. OGAP coordinates two main program areas: Public Health and Toxics, and Regulatory and Governmental Reform.

#### Public/Member Information

- *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 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 our mission of protecting communities and the environment from the negative impacts of mineral development. In 2008 EARTHWORKS served as the fiscal sponsor of the following projects:

# EARTHWORKS

## Notes to Financial Statements (Continued)

### Note C – Programs (Continued)

- *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 protection 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.
- *Alaskans for Responsible Mining*: A voluntary association of non-governmental 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.
- *The Next Best West*: This project is creating a feature-length documentary film that will explore our relationship to the landscape of the American West. The film will show how our interpretation of progress has shaped the singular landscape of the American West, and how a new understanding of progress may be our best hope for a bright and healthy future.

### Note D – Grants Receivable

Grants receivable represent unconditional promises to give by donors. Discount rates are based upon the rates of applicable Treasury bills as of the end of the year in which the contribution was made. Amortization of the discount is included in grants and contribution revenue. At December 31, the receivables are comprised as follows:

	<u>2008</u>	<u>2007</u>
Receivable within one year	\$165,000	\$275,000
Discount to present value	<u>          -</u>	<u>  (9,161)</u>
Net grants receivable	<u>\$165,000</u>	<u>\$265,839</u>

# EARTHWORKS

## Notes to Financial Statements (Continued)

### Note E – Property and Equipment

The following is a summary of property and equipment at December 31:

	<u>2008</u>	<u>2007</u>
Furniture and fixtures	\$49,002	\$187,128
Leasehold improvements	<u>36,164</u>	<u>36,164</u>
	85,166	223,292
Less: Accumulated depreciation	<u>(69,800)</u>	<u>(199,313)</u>
Property and equipment, net	<u>\$15,366</u>	<u>\$ 23,979</u>

Furniture, equipment and leasehold improvements are capitalized at cost when acquired. EARTHWORKS capitalizes assets in excess of \$1,000. Depreciation of furniture and equipment is determined on the straight-line basis over the estimated useful lives of three to seven years. Expenditures for maintenance and repairs are charged against income as incurred. Depreciation expense as of December 31, 2008 and 2007 was \$12,965 and \$12,238, respectively.

### Note F – Operating Leases

EARTHWORKS is obligated under an operating lease for its headquarters office space in Washington, D.C. through May 31, 2013.

Future minimum lease payments for the office lease in Washington, D.C. are as follows:

2009	\$ 55,596
2010	57,820
2011	60,132
2012	62,538
2013	<u>26,482</u>
Total	<u>\$262,568</u>

EARTHWORKS also leases office space for field offices on a month-to-month basis. EARTHWORKS' total rent expense for the years ended December 31, 2008 and 2007 was \$82,137 and \$80,580, respectively.

# EARTHWORKS

## Notes to Financial Statements (Continued)

### Note G – Retirement Plan

Full-time employees of EARTHWORKS are eligible to participate in the EARTHWORKS 403(b)(7) tax-sheltered retirement plan. EARTHWORKS provides all servicing necessary to maintain the plan. 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 employment, up to 5 percent of their gross annual salary. Pension expenses are funded as accrued. Pension expense for the years ended December 31, 2008 and 2007 was \$26,106 and \$20,221, respectively.

### Note H – Net Assets Released from Restrictions

The following net assets were released from donor restrictions during the year ended December 31, 2008 and 2007 either through expenses incurred, which satisfy the restricted purpose, or through the passage of time:

	<u>Time Restricted</u>	<u>Purpose Restricted</u>	<u>2008</u>	<u>2007</u>
Wilburforce		X	\$190,839	\$ 325,229
NET		X	50,000	235,618
True North Foundation	X	X	155,000	135,000
Education Foundation of America	X	X	20,000	65,620
Boreal		X	<u>25,000</u>	<u>25,000</u>
			<u>\$440,839</u>	<u>\$786,467</u>

### Note I – Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following at December 31:

	<u>Time Restricted</u>	<u>Purpose Restricted</u>	<u>2008</u>	<u>2007</u>
Boreal		X	\$ -	\$ 25,000
Harder Foundation		X	-	20,000
NET		X	-	50,000
True North Foundation	X	X	165,000	155,000
Wilburforce (net of discount)		X	<u>-</u>	<u>190,839</u>
			<u>\$165,000</u>	<u>\$440,839</u>

# EARTHWORKS

## Notes to Financial Statements (Continued)

### **Note J – Note Payable**

During 2006 EARTHWORKS converted a revolving line of credit agreement (“LOC”) to an installment loan. The loan bears interest at 8.75% and principal and interest are payable monthly. At December 31, 2008 and 2007 amounts outstanding relating to the borrowing was \$0 and \$43,667, respectively. The installment loan is paid in full and has been closed.

EARTHWORKS

Statement of Functional Expenses  
For the Year Ended December 31, 2008

	Program Services					Supporting Services			Total 2008	Total 2007
	Partnership Programs	U.S. Mining Reform	International Mining	OGAP	Public/Member Information	Management	Fundraising			
Salaries and related expenses	\$ 69,010	\$ 216,025	\$ 154,969	\$ 281,512	\$ 27,154	\$ 64,457	\$ 92,633	\$ 905,760	\$ 814,447	
Travel	10,143	33,821	25,750	41,733	36	688	7,656	119,827	121,742	
Other employee benefits	3,233	30,479	22,201	37,305	2,234	7,068	11,614	114,134	114,401	
Grants and assistance	2,408	105,775	-	-	-	-	-	108,183	241,739	
Professional fees	32,523	35,066	2,813	21,440	609	9,295	-	101,746	73,492	
Printing, design and duplication	12,563	9,324	2,703	22,530	8,572	358	31,531	87,581	87,346	
Occupancy expenses	3,575	22,363	12,875	28,906	3,555	4,238	6,625	82,137	80,580	
Payroll taxes	4,726	16,563	12,159	20,838	2,110	4,544	7,240	68,180	66,331	
Telecommunications	1,817	8,928	6,166	18,826	1,533	3,804	2,649	43,723	53,807	
Conferences and meetings	9,378	11,992	6,884	12,408	133	1,019	360	42,174	51,882	
Postage and delivery	196	3,741	2,875	5,451	2,823	2,042	19,571	36,699	38,451	
Pension plan contributions	-	6,826	5,025	8,486	893	1,856	3,020	26,106	20,221	
Supplies	380	4,732	2,566	6,587	258	3,273	924	18,720	14,208	
Depreciation and amortization	-	3,411	2,500	3,837	796	940	1,481	12,965	12,238	
Video and photo	11,561	-	-	-	61	-	-	11,622	2,148	
Advertising	-	6,450	137	3,345	18	58	73	10,081	32,447	
Publication and subscriptions	-	1,851	1,731	2,576	832	308	1,843	9,141	6,647	
Equipment rental and maintenance	-	1,511	1,439	1,938	415	832	762	6,897	7,192	
List rental	-	-	-	-	-	-	6,091	6,091	10,892	
Insurance	-	217	163	1,893	34	2,412	104	4,823	5,002	
Payroll expenses	-	156	117	201	24	3,649	75	4,222	4,248	
Membership dues	-	959	684	1,173	88	288	390	3,582	2,711	
Miscellaneous expenses	51	2,300	-	669	176	260	-	3,456	-	
Staff training and development	-	541	714	738	176	291	310	2,770	-	
Bank charges and fees	-	-	91	-	-	2,093	-	2,184	1,406	
State registration fees	-	-	-	-	-	2,108	-	2,108	1,610	
Employee recruiting	-	-	-	-	-	1,462	-	1,462	1,199	
Interest	-	-	-	-	-	966	-	966	7,926	
<b>Total</b>	<b>\$ 161,564</b>	<b>\$ 523,031</b>	<b>\$ 264,562</b>	<b>\$ 522,392</b>	<b>\$ 52,530</b>	<b>\$ 118,309</b>	<b>\$ 194,952</b>	<b>\$ 1,837,340</b>	<b>\$ 1,874,313</b>	