

# EARTHWORKS

AUDITED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2012 AND 2011

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

## EARTHWORKS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Earthworks (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, 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 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, 2012 and 2011, 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.

## **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses 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.



Certified Public Accountants  
Chantilly, Virginia

March 26, 2013

# EARTHWORKS

## Statements of Financial Position December 31,

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 401,344	\$ 255,090
Investments	172	104
Grants and contributions receivable	117,340	99,739
Prepaid expenses	20,378	28,280
Property and equipment, net	<u>4,985</u>	<u>6,654</u>
 Total assets	 <u><u>\$ 544,219</u></u>	 <u><u>\$ 389,867</u></u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 93,162</u>	<u>\$ 65,657</u>
 Total liabilities	 <u>93,162</u>	 <u>65,657</u>
Net assets		
Unrestricted	14,057	(98,103)
Temporarily restricted	<u>437,000</u>	<u>422,313</u>
 Total net assets	 <u>451,057</u>	 <u>324,210</u>
 Total liabilities and net assets	 <u><u>\$ 544,219</u></u>	 <u><u>\$ 389,867</u></u>

# EARTHWORKS

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

	2012	2011
<b>Change in unrestricted net assets</b>		
<b>Revenue</b>		
Corporate and foundation grants	\$ 933,918	\$ 816,720
Individual contributions	203,456	127,862
Other income	41,416	30,684
Investment income	848	2,779
	1,179,638	978,045
Net assets released from restriction	527,456	838,862
Total revenue	1,707,094	1,816,907
<b>Expenses</b>		
Program services:		
Energy	834,200	812,819
Mining	409,292	593,323
General Programming	132,237	215,643
Earthworks Partnership Programs	74,805	106,550
Total program services	1,450,534	1,728,335
Management and general	76,917	55,187
Fundraising	67,483	90,706
Total expenses	1,594,934	1,874,228
Change in unrestricted net assets	112,160	(57,321)
<b>Change in temporarily restricted net assets</b>		
Corporate and foundation grants	536,143	398,835
Individual contributions	6,000	-
Net assets released from restriction	(527,456)	(838,862)
Change in temporarily restricted net assets	14,687	(440,027)
Net change in net assets	126,847	(497,348)
Net assets, beginning of year	324,210	821,558
Net assets, end of year	\$ 451,057	\$ 324,210

# EARTHWORKS

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

	2012	2011
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 126,847	\$ (497,348)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	4,398	3,812
(Gain)/loss on investments	(68)	156
Changes in operating assets and liabilities:		
Grants and contributions receivable	(17,601)	9,055
Prepaid expenses	7,902	(5,735)
Accounts payable and accrued expenses	27,505	(12,000)
Total cash flows provided by (used in) operating activities	148,983	(502,060)
 <b>Cash flows from investing activities</b>		
Purchases of fixed assets	(2,729)	(4,270)
Total cash used in investing activities	(2,729)	(4,270)
Change in cash and cash equivalents	146,254	(506,330)
Cash and cash equivalents, beginning of year	255,090	761,420
Cash and cash equivalents, end of year	\$ 401,344	\$ 255,090

# EARTHWORKS

## Notes to Financial Statements

### **Note A – Organization**

Earthworks is a non-profit 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 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 energy and mining programs.

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.

#### *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.



# EARTHWORKS

## Notes to Financial Statements (Continued)

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

#### *Investments*

The fair values, which are the amounts reported in the statement of financial position, are based on level 1 inputs, quoted market prices, if available, or estimated using quoted market prices for similar securities. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

#### *Grants Receivable*

Grants receivables are recorded when invoices are issued or notice of a grant award is received, and are presented in the balance sheet net of the allowance for doubtful accounts. Grants receivable are written off when they are determined to be uncollectible. The allowance for doubtful accounts is estimated based on Earthworks' historical losses, the existing economic conditions, and the financial stability of its grantors. No allowance for doubtful accounts was deemed necessary as of December 31, 2012 as management believes all amounts to be collectible.

#### *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.

#### *Uncertain Tax Positions*

As of December 31, 2012, Earthworks had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The tax years subject to examination by the taxing authorities are the years ended December 31, 2009 through 2011.

#### *Reclassifications*

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

#### *Advertising Expenses*

Advertising expenses are expensed as incurred. Advertising costs were \$19,499 and \$97,208 for the years ended December 31, 2012 and 2011, respectively.

# EARTHWORKS

## Notes to Financial Statements (Continued)

### **Note C – Programs**

#### Energy

The Energy Program includes the Oil & Gas Accountability Project as well as the No Dirty Energy campaign, which is the broad public face of our work focused on coal mining, tar sands extraction, and uranium mining. This program works to change federal, state and local government policy and support communities impacted by existing and proposed energy extraction and address the destructive impacts of all forms of energy extraction in this complex energy environment.

#### Mining

The Mining Program includes our U.S. mining reform efforts, our international mining work, and our No Dirty Gold campaign. This program focuses on legislative and regulatory strategies, on campaigns to protect specific places from mining impacts, and on markets 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.

#### 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 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 2012 Earthworks 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 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.

# EARTHWORKS

## Notes to Financial Statements (Continued)

### Note C – Programs (Continued)

In 2012 Earthworks served as the fiscal sponsor of the following projects (Continued):

- *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.
- *ShaleTest*: To collect environmental data around natural gas facilities including natural gas drilling operations, establish baseline air and water testing, performing 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.

### Note D – Investments

Investments, stated at fair value at December 31, 2012 and 2011 consist of the following:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Stocks	<u>\$200</u>	<u>\$172</u>	<u>\$200</u>	<u>\$104</u>

### Note E – Grants Receivable

Grants receivable includes 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>2012</u>	<u>2011</u>
Receivable within one year	<u>\$73,000</u>	<u>\$70,000</u>

# EARTHWORKS

## Notes to Financial Statements (Continued)

### Note F – Property and Equipment

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

	<u>2012</u>	<u>2011</u>
Furniture and equipment	\$30,858	\$48,171
Leasehold improvements	<u>36,164</u>	<u>36,164</u>
	67,022	84,335
Less: Accumulated depreciation	<u>(62,037)</u>	<u>(77,681)</u>
Property and equipment, net	<u>\$ 4,985</u>	<u>\$ 6,654</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, 2012 and 2011 was \$4,398 and \$3,812, respectively.

### Note G – Operating Leases

Earthworks is obligated under an operating lease for its office space in Washington, D.C. through May 31, 2016. Rent is payable monthly in the amount of \$4,939, with a 3% annual escalation clause. Earthworks also has an operating lease for a satellite office in Montana through May 31, 2014. Rent is payable monthly in the amount of \$400. Earthworks also leases a copier under an operating lease with monthly payments of \$129 through August, 2, 2016.

Future minimum lease payments for the leases in noted above are as follows:

2013	\$ 66,652
2014	65,663
2015	65,515
2016	<u>27,883</u>
Total	<u>\$225,713</u>

Earthworks also leases office space for various field offices on a month-to-month basis. Earthworks' rent expense for the years ended December 31, 2012 and 2011 was \$84,326 and \$86,928, respectively.

### Note H – 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, 2012 and 2011 was \$23,144 and \$19,556, respectively.

# EARTHWORKS

## Notes to Financial Statements (Continued)

### Note I – Net Assets Released from Restrictions

The following net assets were released from donor restrictions during the years ended December 31, 2012 and 2011 either through expenses incurred, which satisfy the restricted purpose, or through the passage of time:

	Time <u>Restricted</u>	Purpose <u>Restricted</u>	<u>2012</u>	<u>2011</u>
Mining	X	X	\$410,313	\$693,287
Energy	X	X	111,143	138,575
Affiliates	X	X	<u>6,000</u>	<u>7,000</u>
Total			<u>\$527,456</u>	<u>\$838,862</u>

### Note J – Temporarily Restricted Net Assets

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

	Time <u>Restricted</u>	Purpose <u>Restricted</u>	<u>2012</u>	<u>2011</u>
Mining	X	X	\$234,000	\$323,313
Energy	X	X	147,000	70,000
Affiliates	X	X	<u>56,000</u>	<u>29,000</u>
Total			<u>\$437,000</u>	<u>\$422,313</u>

### Note K – Evaluation of Subsequent Events

Earthworks has evaluated subsequent events through March 26, 2013, the date which the financial statements were available to be issued.

EARTHWORKS

Statement of Functional Expenses  
For the Year Ended December 31, 2012  
with Comparative Totals for 2011

	Program Services				Supporting Services		Total 2012	Total 2011
	Energy	Mining	General Programming	Partnership Programs	Mangement and General	Fundraising		
Salaries and related expenses	\$ 380,889	\$ 239,301	\$ 66,347	\$ 33,875	\$ 50,162	\$ 28,897	\$ 799,471	\$ 800,094
Professional fees	118,650	16,403	7,882	21,086	4,169	450	168,640	270,420
Travel	73,268	25,869	11,748	7,138	2	1,424	119,449	132,298
Other employee benefits	55,662	34,034	9,481	6,656	7,149	4,073	117,055	116,964
Occupancy expenses	43,419	26,797	5,716	1,100	4,674	2,620	84,326	86,928
Payroll taxes	31,909	20,554	5,504	2,706	4,251	2,420	67,344	64,887
Printing, design and duplication	22,018	6,266	8,569	61	898	9,282	47,094	58,875
Telecommunications	19,607	11,450	1,817	1,230	1,333	815	36,252	41,765
Pension plan contributions	11,665	6,941	2,083	-	1,561	894	23,144	19,556
Equipment rental and maintenance	18,857	1,441	436	-	313	175	21,222	4,868
Postage and delivery	2,870	1,643	1,813	292	307	12,697	19,622	19,367
Advertising	9,611	8,180	850	500	-	358	19,499	97,208
Supplies	9,982	1,850	2,938	152	353	449	15,724	18,223
Grants and assistance	15,000	-	-	-	-	-	15,000	55,000
Conferences and meetings	8,812	555	3,256	-	-	995	13,618	28,292
Insurance	3,725	1,536	459	-	339	116	6,175	8,264
Bank charges and fees	3,030	1,656	462	9	477	249	5,883	3,666
Depreciation and amortization	2,209	1,336	391	-	295	167	4,398	3,812
Publication and subscriptions	843	2,114	213	-	17	508	3,695	15,741
Payroll expenses	1,377	814	255	-	603	104	3,153	4,262
Membership dues	64	45	2,011	-	8	377	2,505	2,560
Miscellaneous expenses	173	340	-	-	-	-	513	4,923
Video and photo	400	-	-	-	-	100	500	7,000
State registration fees	89	26	6	-	6	223	350	265
Employee recruiting and training	71	141	-	-	-	90	302	990
List rental	-	-	-	-	-	-	-	8,000
Total	\$ 834,200	\$ 409,292	\$ 132,237	\$ 74,805	\$ 76,917	\$ 67,483	\$ 1,594,934	\$ 1,874,228