

Earthworks

Financial Statements
and Independent Auditors' Report

December 31, 2014 and 2013

Earthworks

Financial Statements
December 31, 2014 and 2013

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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, 2014 and 2013, 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 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 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, 2014 and 2013, 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 Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses included on page 14 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.

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

Vienna, Virginia
April 10, 2015

Earthworks

Statements of Financial Position December 31, 2014 and 2013

	2014	2013
Assets		
Cash and cash equivalents	\$ 578,443	\$ 685,275
Grants and contributions receivable	176,494	68,203
Prepaid expenses	342	298
Property and equipment, net	103,067	10,983
	<hr/>	<hr/>
Total assets	\$ 858,346	\$ 764,759
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 99,832	\$ 115,202
	<hr/>	<hr/>
Total liabilities	99,832	115,202
	<hr/>	<hr/>
Net Assets		
Unrestricted	149,257	20,057
Temporarily restricted	609,257	629,500
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Total net assets	758,514	649,557
	<hr/>	<hr/>
Total liabilities and net assets	\$ 858,346	\$ 764,759
	<hr/> <hr/>	<hr/> <hr/>

Earthworks

Statements of Activities For the Years Ended December 31, 2014 and 2013

	2014	2013
Unrestricted Revenue		
Corporate and foundation grants	\$ 951,242	\$ 1,090,801
Individual contributions	645,666	252,790
In-kind contributions	-	38,793
Registrations	-	15,767
Other income	27,383	13,462
Investment income	412	1,716
Net assets released from restrictions	654,350	617,661
 Total unrestricted revenue	 2,279,053	 2,030,990
Expenses		
Program services:		
Energy	1,080,268	989,796
Mining	525,657	503,964
General programming	149,782	187,253
Earthworks partnership programs	151,422	153,265
 Total program services	 1,907,129	 1,834,278
Supporting services:		
Management and general	76,109	86,483
Fundraising	166,615	104,229
 Total supporting services	 242,724	 190,712
 Total expenses	 2,149,853	 2,024,990
 Change in unrestricted net assets	 129,200	 6,000
Change in Temporarily Restricted Net Assets		
Corporate and foundation grants	507,850	789,161
Individual contributions	126,257	21,000
Net assets released from restrictions	(654,350)	(617,661)
 Change in temporarily restricted net assets	 (20,243)	 192,500
 Change in Net Assets	 108,957	 198,500
 Net Assets, beginning of year	 649,557	 451,057
 Net Assets, end of year	 \$ 758,514	 \$ 649,557

See accompanying notes.

Earthworks

Statements of Cash Flows For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ 108,957	\$ 198,500
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	14,401	5,211
Change in operating assets and liabilities:		
(Increase) decrease in:		
Grants and contributions receivable	(108,291)	49,137
Prepaid expenses	(44)	20,080
(Decrease) increase in:		
Accounts payable and accrued expenses	(15,370)	22,040
Net cash (used in) provided by operating activities	(347)	294,968
Cash Flows from Financing Activity		
Purchases of property and equipment	(106,485)	(11,209)
Net cash used in financing activity	(106,485)	(11,209)
Net (Decrease) Increase in Cash and Cash Equivalents	(106,832)	283,759
Cash and Cash Equivalents, beginning of year	685,275	401,516
Cash and Cash Equivalents, end of year	\$ 578,443	\$ 685,275

See accompanying notes.

Earthworks

Notes to Financial Statements
December 31, 2014 and 2013

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:

- *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.

Earthworks

Notes to Financial Statements
December 31, 2014 and 2013

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, 2014 and 2013, amounts are deemed to be fully collectible. No discount has been calculated for 2014 and 2013, 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.

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.

Earthworks

Notes to Financial Statements
December 31, 2014 and 2013

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 10, 2015, the date the financial statements were available to be issued.

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:

	2014	2013
Furniture and equipment	\$ 138,771	\$ 42,067
Leasehold improvements	36,164	36,164
Total property and equipment	174,935	78,231
Less: accumulated depreciation and amortization	(71,868)	(67,248)
Property and equipment, net	\$ 103,067	\$ 10,983

Earthworks

Notes to Financial Statements
December 31, 2014 and 2013

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, 2014 and 2013, 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:

	2014	2013
Energy	\$ 297,000	\$ 203,000
Mining	284,000	365,000
Fundraising	-	14,500
Earthworks Partnership Programs	28,257	47,000
Total temporarily restricted net assets	<u>\$ 609,257</u>	<u>\$ 629,500</u>

7. Programs

Earthworks administers the following programs:

Energy

The Energy Program includes the Oil & Gas Accountability Project as well as 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, 2014 and 2013

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, 2014 and 2013, Earthworks recognized \$5,756 and \$3,780, 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.

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Notes to Financial Statements
December 31, 2014 and 2013

7. 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.
- *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.
- *CLEAN*: This project will advocate for clean air, clean water, and neighborhoods to be free of toxics and pollution. To bring together diverse community members who are directly affected by environmental contamination – to provide the tools and resources so that they can defend themselves from polluters.
- *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.
- *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, we 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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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 years ended December 31, 2014 and 2013, Earthworks, on behalf of the ShaleTest program, received donated use of property and equipment valued at \$0 and \$38,793, respectively. 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, to recognize the estimated value of equipment use, 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 \$35,186 and \$28,972 for the years ended December 31, 2014 and 2013, respectively.

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 May 31, 2016, which calls for monthly payments of \$400 with no annual escalation.

During 2014, Earthworks entered into a nine month lease agreement for office space in California. The terms of the lease call for a base rent of \$850 payable monthly.

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Notes to Financial Statements
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10. Operating Leases (continued)

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

2015	\$	75,088
2016		<u>32,302</u>
Total future minimum lease payments	\$	<u>107,390</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, 2014 and 2013 was \$94,182 and \$98,709, 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, 2014 and 2013, 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.

Earthworks files forms 990 in the U.S. federal jurisdiction, and is generally no longer subject to examination by the Internal Revenue Service for years before 2011.

SUPPLEMENTARY INFORMATION

Earthworks

Schedule of Functional Expenses
For the Year Ended December 31, 2014
(With Comparative Totals for the Year Ended December 31, 2013)

	Program Services				Supporting Services		Total 2014	Total 2013
	Energy	Mining	General Programming	Partnership Programs	Management and General	Fundraising		
Salaries and related expenses	\$ 494,302	\$ 327,048	\$ 78,564	\$ 49,062	\$ 46,764	\$ 83,787	\$ 1,079,527	\$ 911,074
Professional fees	122,596	12,153	4,707	62,312	10,525	23,252	235,545	271,176
Other employee benefits	73,107	48,437	11,641	6,768	6,911	12,486	159,350	127,839
Travel	59,313	22,699	7,539	8,674	-	204	98,429	129,892
Occupancy expenses	44,920	29,005	5,827	-	3,437	10,993	94,182	98,709
Payroll taxes	41,261	27,270	6,530	3,800	3,909	7,014	89,784	75,211
Grants and assistance	67,700	2,600	-	3,850	-	-	74,150	100,293
Printing, design, and duplication	33,099	3,290	9,744	2,974	18	13,145	62,270	42,941
Pension plan contributions	16,881	11,142	2,703	-	1,598	2,862	35,186	28,972
Postage and delivery	21,827	976	1,968	2,369	115	4,785	32,040	15,758
Telecommunications	16,569	9,691	804	479	467	843	28,853	38,364
Advertising	12,574	11,492	1,035	-	9	399	25,509	31,210
Video and photo	25,204	-	67	-	-	67	25,338	4,000
Supplies	10,984	2,819	1,532	1,780	260	1,487	18,862	15,523
Conferences and meetings	5,252	2,166	6,065	1,183	-	27	14,693	72,454
Depreciation and amortization	11,320	1,880	448	-	269	484	14,401	5,211
Equipment rental and maintenance	3,856	895	215	5,015	129	230	10,340	3,198
Insurance	5,262	2,348	560	1,203	370	479	10,222	8,444
Web and E-Advocacy	4,277	3,021	747	635	381	687	9,748	-
Employee recruiting and training	1,780	1,497	5,897	-	-	200	9,374	18,222
Bank charges and fees	2,933	1,957	472	428	672	560	7,022	5,400
Publication and subscriptions	2,948	1,702	232	-	101	1,542	6,525	12,521
Payroll expenses	1,856	1,220	305	-	174	307	3,862	3,584
Membership dues	380	-	2,050	-	-	-	2,430	2,620
State registration fees	-	-	130	780	-	775	1,685	1,696
Miscellaneous expenses	67	349	-	110	-	-	526	678
Total Expenses	\$ 1,080,268	\$ 525,657	\$ 149,782	\$ 151,422	\$ 76,109	\$ 166,615	\$ 2,149,853	\$ 2,024,990