

Earthworks

Financial Statements
and Independent Auditors' Report

December 31, 2016 and 2015

Earthworks

Financial Statements
December 31, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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 16 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.

A handwritten signature in black ink that reads "Rogers + Company PLLC". The "R" is large and stylized, and the rest of the text is written in a cursive, handwritten style.

Vienna, Virginia
April 3, 2017

Earthworks

Statements of Financial Position December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 848,487	\$ 968,403
Grants and contributions receivable	126,268	61,114
Prepaid expenses	237	476
Property and equipment, net	<u>153,637</u>	<u>88,183</u>
Total assets	<u><u>\$ 1,128,629</u></u>	<u><u>\$ 1,118,176</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 143,512</u>	<u>\$ 104,533</u>
Total liabilities	<u>143,512</u>	<u>104,533</u>
Net Assets		
Unrestricted	211,073	163,863
Temporarily restricted	<u>774,044</u>	<u>849,780</u>
Total net assets	<u>985,117</u>	<u>1,013,643</u>
Total liabilities and net assets	<u><u>\$ 1,128,629</u></u>	<u><u>\$ 1,118,176</u></u>

Earthworks

Statement of Activities For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue			
Corporate and foundation grants	\$ 512,795	\$ 1,216,123	\$ 1,728,918
Individual contributions	567,236	282,082	849,318
Other income	18,017	-	18,017
Interest income	2,036	-	2,036
Net assets released from restrictions	1,573,941	(1,573,941)	-
Total revenue	2,674,025	(75,736)	2,598,289
Expenses			
Program services:			
Energy	1,246,274	-	1,246,274
Mining	566,278	-	566,278
General programming	301,323	-	301,323
Earthworks partnership programs	149,001	-	149,001
Total program services	2,262,876	-	2,262,876
Supporting services:			
Management and general	90,929	-	90,929
Fundraising	273,010	-	273,010
Total supporting services	363,939	-	363,939
Total expenses	2,626,815	-	2,626,815
Change in Net Assets	47,210	(75,736)	(28,526)
Net Assets, beginning of year	163,863	849,780	1,013,643
Net Assets, end of year	\$ 211,073	\$ 774,044	\$ 985,117

See accompanying notes.

Earthworks

Statement of Activities For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue			
Corporate and foundation grants	\$ 527,828	\$ 1,234,367	\$ 1,762,195
Individual contributions	486,886	123,462	610,348
Registrations	12,089	-	12,089
Other income	17,759	-	17,759
Interest income	77	-	77
Net assets released from restrictions	1,117,306	(1,117,306)	-
Total revenue	2,161,945	240,523	2,402,468
Expenses			
Program services:			
Energy	1,079,189	-	1,079,189
Mining	526,000	-	526,000
General programming	158,728	-	158,728
Earthworks partnership programs	140,596	-	140,596
Total program services	1,904,513	-	1,904,513
Supporting services:			
Management and general	79,849	-	79,849
Fundraising	162,977	-	162,977
Total supporting services	242,826	-	242,826
Total expenses	2,147,339	-	2,147,339
Change in Net Assets	14,606	240,523	255,129
Net Assets, beginning of year	149,257	609,257	758,514
Net Assets, end of year	\$ 163,863	\$ 849,780	\$ 1,013,643

See accompanying notes.

Earthworks

Statements of Cash Flows For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ (28,526)	\$ 255,129
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	41,556	27,264
Change in operating assets and liabilities:		
(Increase) decrease in:		
Grants and contributions receivable	(65,154)	115,380
Prepaid expenses	239	(134)
Increase in:		
Accounts payable and accrued expenses	38,979	4,701
	(12,906)	402,340
Net cash (used in) provided by operating activities		
Cash Flows from Financing Activity		
Purchases of property and equipment	(107,010)	(12,380)
	(107,010)	(12,380)
Net (Decrease) Increase in Cash and Cash Equivalents	(119,916)	389,960
Cash and Cash Equivalents, beginning of year	968,403	578,443
Cash and Cash Equivalents, end of year	\$ 848,487	\$ 968,403

See accompanying notes.

Earthworks

Notes to Financial Statements
December 31, 2016 and 2015

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 purchase.

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.

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Notes to Financial Statements
December 31, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Grants and Contributions Receivable (continued)

When all collection efforts have been exhausted, the accounts are written-off against the related allowance. At December 31, 2016 and 2015, all amounts are deemed to be fully collectible. No discount has been calculated for 2016 and 2015, 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, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 calendar year 2020.

In August 2016, FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The update changes the manner by which nonprofit organizations classify net assets as well as improves information presented in financial statements and notes about nonprofit organization liquidity, financial performance, and cash flows. The guidance is effective beginning in calendar year 2018.

Subsequent Events

In preparing these financial statements, Earthworks has evaluated events and transactions for potential recognition or disclosure through April 3, 2017, 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.

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Notes to Financial Statements
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4. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 258,163	\$ 151,151
Leasehold improvements	<u>36,163</u>	<u>36,164</u>
Total property and equipment	294,326	187,315
Less: accumulated depreciation and amortization	<u>(140,689)</u>	<u>(99,132)</u>
Property and equipment, net	<u>\$ 153,637</u>	<u>\$ 88,183</u>

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, 2016 and 2015, 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:

	<u>2016</u>	<u>2015</u>
Energy	\$ 446,400	\$ 503,900
Mining	182,762	306,470
Earthworks partnership programs	<u>144,882</u>	<u>39,410</u>
Total temporarily restricted net assets	<u>\$ 774,044</u>	<u>\$ 849,780</u>

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Notes to Financial Statements
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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.

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.

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Notes to Financial Statements
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7. Programs (continued)

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, 2016 and 2015, Earthworks recognized \$7,839 and \$4,869, 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 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 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.

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Notes to Financial Statements
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7. Programs (continued)

Earthworks Partnership Programs (continued)

- *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, they are helping to grow a grassroots movement for healthy people and ecosystems, a sustainable economy, and empowerment for shalefield communities.
- *Big Bend Conservation Alliance (BBCA)*: The BBKA seeks to preserve the natural and cultural resources of the Big Bend region of Texas (Brewster, Jeff Davis, and Presidio Counties) through education, advocacy, and participation in local, state, and federal policy.
- *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.

8. 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 \$40,844 and \$36,016 for the years ended December 31, 2016 and 2015, respectively.

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9. Operating Leases

Earthworks leases office space in Washington, DC under the terms of an operating lease that expires on March 31, 2017. The lease terms include base rent payable in monthly installments of \$5,504 with a 3% annual escalation clause.

During 2016, Earthworks entered into an agreement to lease new office space in the same location in Washington DC. The lease commences on April 1, 2017 and is set to expire on March 31, 2020. The terms of the lease include base monthly rental payments of \$7,099 and annual escalation of 3%. Deferred rent, which represents the difference between scheduled rent increases and straight-line rental payments, is not recorded in the accompanying financial statements as the lease commencement date is not until 2017.

In addition, Earthworks has an operating lease for a satellite office in Montana through May 31, 2018, which calls for monthly payments of \$360 with no annual escalation. Earthworks also leases office space on a month-to-month basis for satellite offices in California and Colorado with monthly payments of \$850 and \$715, respectively.

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:

2017	\$	86,126
2018		90,308
2019		91,121
2020		23,995
2021		584
		<hr/>
Total future minimum lease payments	\$	<u>292,134</u>

Earthworks' total occupancy expense for the years ended December 31, 2016 and 2015 was \$94,607 and \$93,875, respectively.

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Notes to Financial Statements
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10. 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, 2016 and 2015, 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.

SUPPLEMENTARY INFORMATION

Earthworks

Schedule of Functional Expenses
For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	Program Services				Supporting Services		Total 2016	Total 2015
	Energy	Mining	General Programming	Partnership Programs	Management and General	Fundraising		
Salaries and related expenses	\$ 545,989	\$ 344,968	\$ 136,894	\$ 53,485	\$ 56,055	\$ 132,931	\$ 1,270,322	\$ 1,044,561
Professional fees	183,506	23,929	31,913	51,140	11,444	21,690	323,622	225,639
Other employee benefits	78,805	50,081	19,747	-	8,115	19,211	175,959	146,896
Travel	106,123	23,884	28,590	6,832	-	2,976	168,405	190,294
Occupancy expenses	44,769	27,933	9,110	200	3,763	8,832	94,607	93,875
Payroll taxes	44,440	28,195	11,085	4,110	4,588	10,835	103,253	84,984
Grants and assistance	12,520	9,905	-	12,452	-	-	34,877	6,674
Printing, design, and duplication	4,063	3,705	22,136	6,368	26	34,952	71,250	28,253
Pension plan contributions	18,311	11,607	4,580	-	1,887	4,460	40,845	36,016
Postage and delivery	3,749	924	4,508	846	211	16,444	26,682	15,543
Telecommunications	13,223	9,873	1,173	503	452	1,159	26,383	25,601
Advertising	46,598	808	354	7,540	-	3,184	58,484	77,492
Video and photo	36,673	2,009	651	-	13	310	39,656	9,927
Supplies	22,503	9,677	1,769	301	537	1,585	36,372	23,089
Conferences and meetings	7,763	6,278	16,261	1,900	550	1,422	34,174	44,217
Depreciation and amortization	38,328	1,672	648	-	270	638	41,556	27,264
Equipment rental and maintenance	13,079	571	221	1,155	95	222	15,343	3,205
Insurance	5,973	2,257	678	566	245	893	10,612	9,605
Web and E-Advocacy	8,293	3,059	1,033	870	397	901	14,553	17,407
Employee recruiting and training	1,172	-	5,490	-	895	380	7,937	6,526
Bank charges and fees	2,757	1,827	702	673	306	704	6,969	7,365
Publication and subscriptions	5,635	1,511	780	-	883	5,705	14,514	12,263
Payroll expenses	1,894	1,206	470	-	197	464	4,231	4,060
Membership dues	108	-	2,450	60	-	962	3,580	3,765
State registration fees	-	399	80	-	-	1,599	2,078	911
Miscellaneous expenses	-	-	-	-	-	551	551	1,907
Total Expenses	\$ 1,246,274	\$ 566,278	\$ 301,323	\$ 149,001	\$ 90,929	\$ 273,010	\$ 2,626,815	\$ 2,147,339