

EARTHWORKS

AUDITED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009 AND 2008

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 statements of financial position of EARTHWORKS as of December 31, 2009 and 2008, 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, 2009 and 2008, 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 12 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 14, 2010

EARTHWORKS

Statements of Financial Position December 31,

	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents	\$ 337,107	\$ 173,787
Grants receivable, net	5,880	165,000
Prepaid expenses	14,527	17,248
Property and equipment, net	<u>6,547</u>	<u>15,366</u>
Total assets	<u>\$ 364,061</u>	<u>\$ 371,401</u>
Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 54,139</u>	<u>\$ 36,120</u>
Total liabilities	<u>54,139</u>	<u>36,120</u>
Net assets		
Unrestricted	(2,578)	170,281
Temporarily restricted	<u>312,500</u>	<u>165,000</u>
Total net assets	<u>309,922</u>	<u>335,281</u>
Total liabilities and net assets	<u>\$ 364,061</u>	<u>\$ 371,401</u>

EARTHWORKS

Statements of Activities For the Years Ended December 31,

	2009	2008
Change in unrestricted net assets		
Revenue		
Corporate and foundation grants	\$ 932,477	\$ 1,290,609
Individual contributions	147,855	179,244
Other income	45,584	39,437
Investment income	241	515
	1,126,157	1,519,798
Net assets released from restriction	165,000	440,839
Total revenue	1,291,157	1,960,637
Expenses		
Program services:		
U.S. Mining	386,308	523,031
Oil and Gas Accountability Project	460,920	522,392
International Mining	181,615	264,562
Public/Member Information	97,130	52,530
EARTHWORKS Partnership Programs	99,539	161,564
Total program services	1,225,512	1,524,079
Fundraising	96,481	194,952
Management and general	142,023	118,309
Total expenses	1,464,016	1,837,340
Change in unrestricted net assets	(172,859)	123,297
Change in temporarily restricted net assets		
Corporate and foundation grants	312,500	165,000
Net assets released from restriction	(165,000)	(440,839)
Change in temporarily restricted net assets	147,500	(275,839)
Net change in net assets	(25,359)	(152,542)
Net assets, beginning of year	335,281	487,823
Net assets, end of year	\$ 309,922	\$ 335,281

See accompanying notes to the financial statements.

EARTHWORKS

Statements of Cash Flows For the Years Ended December 31,

	2009	2008
Cash flows from operating activities		
Change in net assets	\$ (25,359)	\$ (152,542)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	10,277	12,965
Donated stock	-	(13,232)
Loss on sale of securities	-	4,151
Changes in operating assets and liabilities:		
Grant receivable	159,120	110,000
Discount on grant receivable	-	(9,161)
Prepaid expenses	2,721	9,662
Accounts payable and accrued liabilities	18,019	(5,108)
Total cash flows (used in) provided by operating activities	164,778	(43,265)
 Cash flows used in investing activities		
Proceeds on sale of investments	-	22,328
Purchases of fixed assets	(1,458)	(4,352)
Total cash flows used in investing activities	(1,458)	17,976
 Cash flows used in financing activities		
Principal payments on notes payable	-	(43,667)
Total cash flows used in financing activities	-	(43,667)
 Change in cash and cash equivalents	163,320	(68,956)
Cash and cash equivalents, beginning of year	173,787	242,743
Cash and cash equivalents, end of year	\$ 337,107	\$ 173,787
 Supplemental disclosures of cash flow information		
Interest paid	\$ -	\$ 966

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.

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

EARTHWORKS has adopted the provisions of Financial Accounting Standards (FASB) interpretation No. 48 "Accounting for Uncertainty in Income Taxes." The Interpretation provides clarification on accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statements recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest, penalties, accounting in interim periods, disclosure and transition. Adoption did not have a significant impact on the balance sheet or statement of operations, and as of December 31, 2009, EAARTHWORKS 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, 2006 through 2008.

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.

EARTHWORKS

Notes to Financial Statements (Continued)

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.

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

Notes to Financial Statements (Continued)

Note C – 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 our mission of protecting communities and the environment from the negative impacts of mineral development. In 2009 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.
- 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>2009</u>	<u>2008</u>
Receivable within one year	\$ <u> </u> -	\$ <u>165,000</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>2009</u>	<u>2008</u>
Furniture and fixtures	\$50,460	\$49,002
Leasehold improvements	<u>36,164</u>	<u>36,164</u>
	86,624	85,166
Less: Accumulated depreciation	<u>(80,078)</u>	<u>(69,800)</u>
Property and equipment, net	<u>\$ 6,546</u>	<u>\$15,366</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, 2009 and 2008 was \$10,278 and \$12,965, 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:

2010	\$ 57,820
2011	60,132
2012	62,538
2013	<u>26,482</u>
Total	<u>\$206,972</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, 2009 and 2008 was \$75,414 and \$82,137, 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, 2009 and 2008 was \$23,913 and \$26,106, respectively.

Note H – Net Assets Released from Restrictions

The following net assets were released from donor restrictions during the year ended December 31, 2009 and 2008 either through expenses incurred, which satisfy the restricted purpose, or through the passage of time:

	<u>Time Restricted</u>	<u>Purpose Restricted</u>	<u>2009</u>	<u>2008</u>
Wilburforce		X	\$ -	\$190,839
NET		X	-	50,000
True North Foundation	X	X	165,000	155,000
Education Foundation of America	X	X	-	20,000
Boreal		X	-	25,000
Total			<u>\$165,000</u>	<u>\$440,839</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>2009</u>	<u>2008</u>
Packard Foundation	X	X	\$200,000	\$ -
Goldman Fund	X	X	112,500	-
True North Foundation	X	X	-	165,000
Total			<u>\$312,500</u>	<u>\$165,000</u>

EARTHWORKS

Notes to Financial Statements (Continued)

Note J – Evaluation of Subsequent Events

The Institute has evaluated subsequent events through July 21, 2010, the date which the financial statements were available to be issued.

EARTHWORKS

Statement of Functional Expenses
For the Year Ended December 31, 2009

	Program Services				Supporting Services			Total 2009	Total 2008
	Partnership Programs	U.S. Mining Reform	International Mining	OGAP	Public/Member Information	Management	Fundraising		
Salaries and related expenses	\$ 47,296	\$ 165,853	\$ 94,402	\$ 197,746	\$ 56,283	\$ 60,296	\$ 50,491	\$ 672,367	\$ 905,760
Grants and assistance	-	94,900	-	54,000	-	-	-	148,900	108,183
Other employee benefits	12,984	32,227	20,626	41,269	11,876	12,670	10,637	142,289	114,134
Professional fees	8,735	10,573	12,329	37,949	2,068	15,212	6,350	93,216	101,746
Occupancy expenses	550	20,257	10,222	26,380	6,021	6,594	5,389	75,413	82,137
Travel	4,578	18,309	7,562	24,872	345	6,250	1,304	63,220	119,827
Payroll taxes	3,218	13,402	8,388	16,944	5,006	5,404	4,492	56,914	68,180
Telecommunications	982	7,831	6,171	17,786	1,810	3,543	1,557	39,680	43,723
Printing, design and duplication	2,242	4,436	1,221	14,010	6,843	1,017	7,364	37,133	87,581
Pension plan contributions	-	5,956	3,747	7,525	2,240	2,436	2,011	23,915	26,106
Video and photo	16,695	-	-	-	191	-	-	16,886	11,622
Conferences and meetings	1,210	376	10,507	705	-	1,531	1,023	15,352	42,174
Supplies	905	3,050	1,488	4,506	758	2,977	663	14,347	18,720
Employee recruiting	-	-	-	-	-	13,970	-	13,970	1,462
Advertising	-	1,393	859	6,621	576	573	457	10,479	10,081
Depreciation and amortization	-	2,588	1,604	3,232	1,065	525	1,263	10,277	12,965
Postage and delivery	134	1,906	797	1,994	989	2,111	528	8,459	36,699
Equipment rental and maintenance	-	1,590	964	2,012	620	1,466	568	7,220	6,897
Insurance	-	521	294	642	208	1,919	195	3,779	4,823
Payroll expenses	-	289	170	384	78	2,182	101	3,204	4,222
Publication and subscriptions	-	285	197	1,426	113	106	107	2,234	9,141
Staff training and development	-	-	-	-	-	300	1,521	1,821	2,770
Bank charges and fees	-	79	43	95	31	654	453	1,355	2,184
State registration fees	10	366	-	-	-	265	-	641	2,108
Miscellaneous expenses	-	90	-	438	-	(53)	-	475	3,456
Membership dues	-	31	24	214	9	15	7	300	3,582
List rental	-	-	-	170	-	-	-	170	6,091
Interest	-	-	-	-	-	-	-	-	966
Total	\$ 99,539	\$ 386,308	\$ 181,615	\$ 460,920	\$ 97,130	\$ 142,023	\$ 96,481	\$ 1,464,016	\$ 931,580