

EARTHWORKS

AUDITED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

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, 2010 and 2009, 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, 2010 and 2009, 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

April 6, 2011

EARTHWORKS

Statements of Financial Position December 31,

	<u>2010</u>	<u>2009</u>
Assets		
Cash and cash equivalents	\$ 761,420	\$ 337,107
Investments	260	-
Grants receivable, net	108,794	5,880
Prepaid expenses	22,545	14,527
Property and equipment, net	<u>6,196</u>	<u>6,547</u>
Total assets	<u>\$ 899,215</u>	<u>\$ 364,061</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 77,657</u>	<u>\$ 54,139</u>
Total liabilities	<u>77,657</u>	<u>54,139</u>
Net assets		
Unrestricted	(40,782)	(2,578)
Temporarily restricted	<u>862,340</u>	<u>312,500</u>
Total net assets	<u>821,558</u>	<u>309,922</u>
Total liabilities and net assets	<u>\$ 899,215</u>	<u>\$ 364,061</u>

EARTHWORKS

Statements of Activities For the Years Ended December 31,

	2010	2009
Change in unrestricted net assets		
Revenue		
Corporate and foundation grants	\$ 895,042	\$ 932,477
Individual contributions	173,736	147,855
Other income	59,187	45,584
Investment income	2,574	241
	1,130,539	1,126,157
Net assets released from restriction	627,406	165,000
Total revenue	1,757,945	1,291,157
Expenses		
Program services:		
U.S. Mining	531,238	386,308
Oil and Gas Accountability Project	696,988	460,920
International Mining	220,238	181,615
Public/Member Information	42,598	97,130
EARTHWORKS Partnership Programs	65,484	99,539
Total program services	1,556,546	1,225,512
Fundraising	167,057	96,481
Management and general	72,546	142,023
Total expenses	1,796,149	1,464,016
Change in unrestricted net assets	(38,204)	(172,859)
Change in temporarily restricted net assets		
Corporate and foundation grants	1,177,246	312,500
Net assets released from restriction	(627,406)	(165,000)
Change in temporarily restricted net assets	549,840	147,500
Net change in net assets	511,636	(25,359)
Net assets, beginning of year	309,922	335,281
Net assets, end of year	\$ 821,558	\$ 309,922

See accompanying notes to the financial statements.

EARTHWORKS

Statements of Cash Flows For the Years Ended December 31,

	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 511,636	\$ (25,359)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	6,450	10,277
Loss on disposals	1,023	-
Changes in operating assets and liabilities:		
Grant receivable	(102,914)	159,120
Prepaid expenses	(8,018)	2,721
Accounts payable and accrued liabilities	23,518	18,019
Total cash flows provided by operating activities	431,695	164,778
 Cash flows used in investing activities		
Purchase of investments	(260)	-
Purchases of fixed assets	(7,122)	(1,458)
Total cash used in investing activities	(7,382)	(1,458)
 Change in cash and cash equivalents	424,313	163,320
Cash and cash equivalents, beginning of year	337,107	173,787
Cash and cash equivalents, end of year	\$ 761,420	\$ 337,107

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 Oil and Gas Accountability Project, International Mining and U.S. 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.

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 as of December 31, 2010, 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, 2007 through 2009.

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 2010 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>2010</u>	<u>2009</u>
Receivable within one year	\$ <u>80,000</u>	\$ <u> -</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>2010</u>	<u>2009</u>
Furniture and fixtures	\$43,901	\$50,461
Leasehold improvements	<u>36,164</u>	<u>36,164</u>
	80,065	86,625
Less: Accumulated depreciation	<u>(73,869)</u>	<u>(80,078)</u>
Property and equipment, net	<u>\$ 6,196</u>	<u>\$ 6,547</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, 2010 and 2009 was \$6,458 and \$10,278, 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:

2011	\$ 64,336
2012	63,237
2013	<u>26,480</u>
Total	<u>\$154,053</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, 2010 and 2009 was \$73,182 and \$75,413, 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, 2010 and 2009 was \$24,003 and \$23,915, respectively.

Note H – Net Assets Released from Restrictions

The following net assets were released from donor restrictions during the year ended December 31, 2010 and 2009 either through expenses incurred, which satisfy the restricted purpose, or through the passage of time:

	Time <u>Restricted</u>	Purpose <u>Restricted</u>	<u>2010</u>	<u>2009</u>
Packard Foundation	X	X	\$181,965	\$ -
Goldman Fund	X	X	151,442	-
True North Foundation	X	X	-	165,000
Moore Foundation	X	X	287,573	-
William Penn	X	X	6,426	-
Total			<u>\$627,406</u>	<u>\$165,000</u>

Note I – 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>2010</u>	<u>2009</u>
Packard Foundation	X	X	\$258,035	\$200,000
Goldman Fund	X	X	186,058	112,500
Moore Foundation	X	X	279,672	-
Park Foundation	X	X	70,000	-
William Penn	X	X	68,575	-
Total			<u>\$862,340</u>	<u>\$312,500</u>

EARTHWORKS

Notes to Financial Statements (Continued)

Note J – Evaluation of Subsequent Events

EARTHWORKS has evaluated subsequent events through May 18, 2011, the date which the financial statements were available to be issued.

EARTHWORKS

Statement of Functional Expenses
For the Year Ended December 31, 2010
with Comparative Totals for 2009

	Program Services					Supporting Services			Total 2009
	Partnership Programs	U.S. Mining Reform	International Mining	OGAP	Public/Member Information	Management	Fundraising	Total 2010	
Salaries and related expenses	\$ 37,144	\$ 177,169	\$ 140,226	\$ 270,008	\$ 27,542	\$ 37,612	\$ 86,504	\$ 776,205	\$ 672,367
Professional fees	8,853	87,942	3,778	38,037	512	12,151	4,720	155,993	93,216
Grants and assistance	-	30,000	2,000	108,065	-	-	-	140,065	148,900
Other employee benefits	9,764	27,608	19,737	49,674	5,344	5,093	10,739	127,959	142,289
Travel	1,999	61,364	4,027	49,077	181	327	5,888	122,863	63,220
Conferences and meetings	1,453	8,980	720	57,992	101	296	10,584	80,126	15,352
Occupancy expenses	429	20,517	10,411	31,642	1,965	3,040	5,180	73,184	75,413
Payroll taxes	2,898	12,042	9,345	22,140	2,659	4,485	5,152	58,721	56,914
Advertising	-	44,189	615	1,508	201	410	2,362	49,285	10,479
Printing, design and duplication	1,018	10,736	1,825	16,197	447	585	16,258	47,066	37,133
Telecommunications	834	8,425	6,870	21,298	1,062	1,583	4,232	44,304	39,680
List rental	-	20,000	10,000	-	-	-	-	30,000	170
Pension plan contributions	-	6,032	4,257	8,609	1,217	1,552	2,336	24,003	23,915
Postage and delivery	66	2,108	834	3,108	154	415	9,221	15,906	8,459
Supplies	927	2,738	1,423	5,513	260	1,245	865	12,971	14,347
Equipment rental and maintenance	-	1,458	1,225	2,504	352	729	690	6,958	7,220
Depreciation and amortization	-	1,916	1,166	2,213	168	513	503	6,479	10,277
Publication and subscriptions	-	529	320	3,944	56	193	154	5,196	2,234
Employee recruiting	-	1,099	175	2,193	37	623	328	4,455	13,970
Payroll expenses	-	797	713	1,230	183	389	392	3,704	3,204
Bank charges and fees	-	1,582	396	771	133	416	339	3,637	1,355
Insurance	-	2,634	32	51	7	806	13	3,543	3,779
Membership dues	20	353	68	742	13	32	36	1,264	300
Staff training and development	79	531	36	341	2	13	260	1,262	1,821
Miscellaneous expenses	-	489	39	16	2	8	61	615	475
State registration fees	-	-	-	115	-	30	240	385	641
Video and photo	-	-	-	-	-	-	-	-	16,886
Total	\$ 65,484	\$ 531,238	\$ 220,238	\$ 696,988	\$ 42,598	\$ 72,546	\$ 167,057	\$ 1,796,149	\$ 1,464,016