

Earthworks

Financial Statements
and Independent Auditor's Report

December 31, 2022 and 2021

Earthworks

Financial Statements
December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Earthworks

Opinion

We have audited the accompanying financial statements of Earthworks, which comprise the statements of financial position as of December 31, 2022 and 2021; the related statements of activities, functional expenses, and cash flows for the years then ended; and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Earthworks as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Earthworks and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Earthworks adopted Financial Accounting Standards Board Accounting Standards Update 2016-02, *Leases* (Accounting Standards Codification 842). This change has been applied as of January 1, 2022 using the new transition alternative method, which permits application of the new standard to all leases at the adoption date. The comparative periods presented in the accompanying financial statements were not restated and remained to be disclosed under the provisions of the previous lease standard. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Earthworks' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Earthworks' internal control. Accordingly, no such opinion is expressed.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Earthworks' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Vienna, Virginia
April 7, 2023

Earthworks

Statements of Financial Position December 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 5,335,840	\$ 5,273,158
Grants and contributions receivable	373,477	454,940
Accounts receivable	-	2,500
Due from affiliate	266,723	55,324
Prepaid expenses	31,878	46,901
Right-of-use assets – operating leases	241,474	-
Property and equipment, net	249,497	208,137
Website development, net	56,408	53,049
Total assets	<u>\$ 6,555,297</u>	<u>\$ 6,094,009</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 192,684	\$ 327,839
Deferred revenue	-	300,000
Lease liabilities – operating leases	200,470	-
Total liabilities	<u>393,154</u>	<u>627,839</u>
Net Assets		
Without donor restrictions:		
Undesignated	1,643,160	504,975
Board-designated	243,000	243,000
Total without donor restrictions	1,886,160	747,975
With donor restrictions	4,275,983	4,718,195
Total net assets	<u>6,162,143</u>	<u>5,466,170</u>
Total liabilities and net assets	<u>\$ 6,555,297</u>	<u>\$ 6,094,009</u>

See accompanying notes.

Earthworks

Statement of Activities For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Corporate and foundation grants and contributions	\$ 666,633	\$ 4,391,737	\$ 5,058,370
Individual contributions	1,836,324	648,111	2,484,435
Other income	13,986	-	13,986
Interest income	9,267	-	9,267
Net assets released from restrictions	5,482,060	(5,482,060)	-
Total revenue and support	8,008,270	(442,212)	7,566,058
Expenses			
Program services:			
Energy	3,333,812	-	3,333,812
Mining	1,512,705	-	1,512,705
General programming	575,288	-	575,288
Earthworks partnership programs	138,727	-	138,727
Total program services	5,560,532	-	5,560,532
Supporting services:			
Management and general	845,632	-	845,632
Fundraising	463,921	-	463,921
Total supporting services	1,309,553	-	1,309,553
Total expenses	6,870,085	-	6,870,085
Change in Net Assets	1,138,185	(442,212)	695,973
Net Assets, beginning of year	747,975	4,718,195	5,466,170
Net Assets, end of year	\$ 1,886,160	\$ 4,275,983	\$ 6,162,143

See accompanying notes.

Earthworks

Statement of Activities For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Corporate and foundation grants and contributions	\$ 220,000	\$ 6,107,682	\$ 6,327,682
Individual contributions	751,046	637,774	1,388,820
Other income	23,916	-	23,916
Interest income	1,157	-	1,157
Net assets released from restrictions	4,297,714	(4,297,714)	-
Total revenue and support	5,293,833	2,447,742	7,741,575
Expenses			
Program services:			
Energy	2,555,706	-	2,555,706
Mining	1,047,951	-	1,047,951
General programming	288,139	-	288,139
Earthworks partnership programs	131,825	-	131,825
Total program services	4,023,621	-	4,023,621
Supporting services:			
Management and general	578,828	-	578,828
Fundraising	465,361	-	465,361
Total supporting services	1,044,189	-	1,044,189
Total expenses	5,067,810	-	5,067,810
Change in Net Assets	226,023	2,447,742	2,673,765
Net Assets, beginning of year	521,952	2,270,453	2,792,405
Net Assets, end of year	\$ 747,975	\$ 4,718,195	\$ 5,466,170

See accompanying notes.

Earthworks

Statement of Functional Expenses For the Year Ended December 31, 2022

	Program Services				Supporting Services				Total
	Energy	Mining	General Programming	Earthworks Partnership Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related expenses	\$ 1,873,838	\$ 873,029	\$ 173,978	\$ 37,094	\$ 2,957,939	\$ 462,023	\$ 293,166	\$ 755,189	\$ 3,713,128
Professional fees	208,264	155,508	65,585	14,667	444,024	95,949	15,842	111,791	555,815
Other employee benefits	184,457	86,262	17,360	-	288,079	46,567	31,461	78,028	366,107
Travel	207,228	105,717	21,152	7,511	341,608	3,233	4,828	8,061	349,669
Occupancy expenses	44,115	24,024	4,242	-	72,381	11,029	7,837	18,866	91,247
Payroll taxes	153,634	67,773	13,357	2,838	237,602	39,934	26,738	66,672	304,274
Grants and assistance	154,600	113,670	145,000	64,792	478,062	8,557	-	8,557	486,619
Printing, design, and duplication	12,915	9,856	25,443	-	48,214	3,615	29,844	33,459	81,673
Retirement plan contributions	48,382	27,069	5,842	-	81,293	14,242	10,433	24,675	105,968
Postage and delivery	5,486	335	805	-	6,626	1,141	11,973	13,114	19,740
Telecommunications	28,377	9,735	3,191	971	42,274	5,857	5,064	10,921	53,195
Advertising	59,809	-	15,010	5,000	79,819	-	-	-	79,819
Video and photo	46,525	1,370	-	-	47,895	-	-	-	47,895
Supplies	57,349	12,119	7,738	1,569	78,775	34,201	6,665	40,866	119,641
Conferences and meetings	62,292	9,952	19,116	225	91,585	1,881	-	1,881	93,466
Depreciation and amortization	98,206	6,632	1,507	-	106,345	3,919	2,412	6,331	112,676
Equipment rental and maintenance	17,589	264	60	-	17,913	584	96	680	18,593
Insurance	5,941	-	4,100	-	10,041	23,819	-	23,819	33,860
Web and E-Advocacy	2,090	719	42,307	3,750	48,866	-	-	-	48,866
Employee recruiting and training	32,485	6,069	4,029	-	42,583	23,290	-	23,290	65,873
Bank charges and fees	63	1,280	-	35	1,378	7,110	-	7,110	8,488
Publication and subscriptions	30,167	913	5,466	-	36,546	845	4,205	5,050	41,596
Payroll expenses	-	-	-	-	-	8,575	-	8,575	8,575
Membership dues	-	-	-	-	-	-	2,405	2,405	2,405
State registration fees	-	409	-	275	684	170	10,952	11,122	11,806
Miscellaneous expenses	-	-	-	-	-	49,091	-	49,091	49,091
Total Expenses	\$ 3,333,812	\$ 1,512,705	\$ 575,288	\$ 138,727	\$ 5,560,532	\$ 845,632	\$ 463,921	\$ 1,309,553	\$ 6,870,085

See accompanying notes.

Earthworks

Statement of Functional Expenses For the Year Ended December 31, 2021

	Program Services				Supporting Services				Total
	Energy	Mining	General Programming	Earthworks Partnership Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related expenses	\$ 1,327,335	\$ 592,746	\$ 121,158	\$ 27,350	\$ 2,068,589	\$ 269,668	\$ 268,251	\$ 537,919	\$ 2,606,508
Professional fees	204,140	127,766	12,773	56,896	401,575	88,956	24,962	113,918	515,493
Other employee benefits	169,543	80,805	17,494	-	267,842	39,608	38,822	78,430	346,272
Travel	84,968	4,789	-	17,198	106,955	91	1,003	1,094	108,049
Occupancy expenses	67,839	34,149	6,110	-	108,098	11,766	13,349	25,115	133,213
Payroll taxes	103,880	48,302	10,177	2,098	164,457	22,372	22,289	44,661	209,118
Grants and assistance	159,955	93,283	4,335	5,095	262,668	-	-	-	262,668
Printing, design, and duplication	12,126	11,177	44,959	3,569	71,831	1,966	35,600	37,566	109,397
Retirement plan contributions	38,331	22,136	4,779	-	65,246	10,880	10,702	21,582	86,828
Postage and delivery	6,172	490	2,117	730	9,509	359	13,845	14,204	23,713
Telecommunications	18,756	9,416	1,358	1,221	30,751	4,150	5,104	9,254	40,005
Advertising	129,496	105	14,605	5,000	149,206	-	-	-	149,206
Video and photo	14,163	-	-	-	14,163	-	-	-	14,163
Supplies	26,714	12,770	5,055	2,399	46,938	12,828	1,687	14,515	61,453
Conferences and meetings	66,782	452	4,706	-	71,940	-	-	-	71,940
Depreciation and amortization	68,855	3,296	716	-	72,867	1,432	1,433	2,865	75,732
Equipment rental and maintenance	15,109	307	67	-	15,483	134	134	268	15,751
Insurance	7,386	-	-	857	8,243	14,539	-	14,539	22,782
Web and E-Advocacy	3,131	803	35,872	9,277	49,083	64	64	128	49,211
Employee recruiting and training	6,123	1,290	305	-	7,718	85,544	295	85,839	93,557
Bank charges and fees	-	990	-	-	990	7,342	-	7,342	8,332
Publication and subscriptions	24,902	2,480	1,553	125	29,060	792	13,359	14,151	43,211
Payroll expenses	-	-	-	-	-	6,337	-	6,337	6,337
Membership dues	-	-	-	-	-	-	2,405	2,405	2,405
State registration fees	-	399	-	10	409	-	12,057	12,057	12,466
Total Expenses	\$ 2,555,706	\$ 1,047,951	\$ 288,139	\$ 131,825	\$ 4,023,621	\$ 578,828	\$ 465,361	\$ 1,044,189	\$ 5,067,810

See accompanying notes.

Earthworks

Statements of Cash Flows For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ 695,973	\$ 2,673,765
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization on property and equipment, and website development	112,676	75,732
Change in operating assets and liabilities:		
Decrease (increase) in:		
Grants and contributions receivable	81,463	207,894
Accounts receivable	2,500	(2,500)
Due from affiliate	(211,399)	(46,952)
Prepaid expenses	15,023	(2,287)
Right-of-use assets – operating leases	(241,474)	-
(Decrease) increase in:		
Accounts payable and accrued expenses	(135,155)	115,156
Deferred revenue	(300,000)	300,000
Lease liabilities – operating leases	200,470	-
	220,077	3,320,808
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Purchases of website development	(16,442)	(53,035)
Proceeds from sale of property and equipment	-	721
Purchases of property and equipment	(140,953)	(126,607)
	(157,395)	(178,921)
Net cash used in investing activities		
Net Increase in Cash and Cash Equivalents	62,682	3,141,887
Cash and Cash Equivalents, beginning of year	5,273,158	2,131,271
Cash and Cash Equivalents, end of year	\$ 5,335,840	\$ 5,273,158

See accompanying notes.

Earthworks

Notes to Financial Statements
December 31, 2022 and 2021

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 primarily funded by grants and contributions from foundations and individuals.

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:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for an operating reserve.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Earthworks reports contributions and grants restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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.

Earthworks

Notes to Financial Statements
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Change in Accounting Principle

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, Accounting Standards Codification (ASC) 842, *Leases*. The update requires a lessee to recognize a right-of-use (“ROU”) asset and lease liability, initially measured at the present value of the lease payments, in its statements of financial position. Earthworks adopted ASC 842 on January 1, 2022 using the new transition alternative method, which permits application of the new standard to all leases at the adoption date. The comparative periods presented in the accompanying financial statements were not restated and remained to be disclosed under the provisions of the previous lease standard, ASC 840. The new lease standard provides a number of optional practical expedients in transition. Earthworks elected to apply the package of practical expedients, which permits Earthworks not to reassess under the new standard prior conclusions about lease identification, lease classification, and initial direct costs. Earthworks did not elect the use of hindsight or the practical expedient pertaining to land easements, the latter not being applicable to Earthworks.

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

Grants and contributions receivable represent unconditional amounts committed to Earthworks. All grants and contributions receivable are deemed to be fully collectible, and are reflected at either net realizable value or at net present value based on projected cash flows. At December 31, 2022 and 2021, all receivables are due within one year. Earthworks provides an allowance for uncollectability 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, 2022 and 2021, all amounts are deemed to be fully collectible, and no allowance is deemed necessary.

Earthworks

Notes to Financial Statements
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are reflected at net realizable value, and represent amounts due from performance obligations. All accounts receivable are deemed to be fully collectible at December 31, 2022 and 2021. There is no allowance for doubtful accounts recorded at December 31, 2022 and 2021, as management deems all amounts to be fully collectible.

Leases

Earthworks determines if an arrangement is a lease at inception. Operating leases are included in ROU lease assets, which represent Earthworks' right to use an underlying asset for the lease term, and lease obligations represent Earthworks' obligation to make lease payments arising from the lease. Operating ROU lease assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term.

As most of Earthworks' leases do not provide an implicit rate, Earthworks uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The ROU lease asset also includes any lease payments made and excludes lease incentives. Earthworks' lease terms may include options to extend or terminate the lease when it is reasonably certain that Earthworks will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

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 and amortization 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.

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Notes to Financial Statements
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Website Development

Website development consists of costs related to the design and development of Earthworks' website, net of accumulated amortization. Amortization is computed over an estimated useful life of three years. Costs related to the planning stages of the website development projects, as well as ongoing website operating and support costs, are expensed as incurred.

Revenue Recognition

Revenue Accounted for in Accordance with Contribution Accounting

Grants and contributions that are nonreciprocal are recognized as revenue when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Earthworks reports gifts of cash and other assets as restricted support if they are received or promised with donor stipulations that limit the use of the donated funds to one of Earthworks' programs or to a future year. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Earthworks receives certain promises to give, collected over multiple accounting periods, and classifies the portion receivable in future accounting periods as restricted revenue. Earthworks discounts the promises to give using an appropriate discount rate over the contribution period, if material.

Conditional contributions contain a donor-imposed condition that represents a barrier, such as a milestone, that must be overcome before Earthworks is entitled to the assets transferred or promised. Failure to overcome the barrier gives the donor a right of return of the assets it has transferred or gives the promisor a right of release from its obligation to transfer its assets. Additionally, Earthworks has agreements with a local government. The agreement contains substantial conditions that must be met prior to recognition of revenue. The donor-imposed conditions primarily consist of qualifying expenditures that must be incurred by Earthworks before the governmental agency will reimburse those expenditures. Conditional contributions are recognized as revenue, either with or without donor restrictions, when donor-imposed conditions are substantially met, and any barriers are overcome. Donor restrictions are also satisfied when qualifying expenditures are incurred for the donor-specified program.

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Notes to Financial Statements
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue Accounted for in Accordance with Contribution Accounting (continued)

At December 31, 2021, \$300,000 is reflected as deferred revenue in the accompanying statements of financial position, as it relates to a milestone that had not yet been achieved by Earthworks in order to recognize the revenue. There was no deferred revenue at December 31, 2022.

Revenue Accounted for as Contracts with Customers

Revenue is recognized when Earthworks satisfies a performance obligation by transferring a promised good to, or performing a service for, a customer. The amount of revenue recognized reflects the consideration Earthworks expects to receive in exchange for satisfying distinct performance obligations. If a performance obligation does not meet the criteria to be considered distinct, Earthworks combines it with other performance obligations until a distinct bundle of goods or services exists. Fees or amounts received in advance of satisfying contractual performance obligations are reflected as deferred revenue in the statements of financial position. Revenue is recognized either over time or at the point in time that contractual obligations are met.

Registration fees are revenue for events and services. Revenue is recognized when the events are held and services are provided. Amounts received in advance are deferred and recognized when the performance obligations are met.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs

Earthworks expenses advertising costs as incurred. Advertising costs totaled \$79,819 and \$149,206 during the years ended December 31, 2022 and 2021, respectively.

Earthworks

Notes to Financial Statements
December 31, 2022 and 2021

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 7, 2023, the date the financial statements were available to be issued.

3. Liquidity and Availability

Earthworks has a goal to maintain liquid financial assets sufficient to cover 60 days of general expenditures. As part of this liquidity management, Earthworks invests cash and cash equivalents in excess of daily requirements in money market funds and sweep accounts. Financial assets available for general expenditures within one year of the statements of financial position date, comprise the following at December 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 5,335,840	\$ 5,273,158
Grants and contributions receivable – due within one year	373,477	454,940
Accounts receivable	-	2,500
Due from affiliate	<u>266,723</u>	<u>55,324</u>
Total financial assets	5,976,040	5,785,922
Less: net assets with donor restrictions	<u>(4,275,983)</u>	<u>(4,718,195)</u>
Total available for general expenditures	<u><u>\$ 1,700,057</u></u>	<u><u>\$ 1,067,727</u></u>

4. Concentrations of Risk

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 Deposit 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.

Earthworks

Notes to Financial Statements
December 31, 2022 and 2021

4. Concentrations of Risk (continued)

Revenue Risk

For the years ended December 31, 2022 and 2021, a substantial portion of Earthworks' revenue was generated from two donors in each year. The contributions totaled 28% and 34% of Earthworks' total revenue and support for the years ended December 31, 2022 and 2021, respectively. A potential reduction or change in funding from these donors in the future could significantly impact Earthworks' ability to carry out its current program activities.

5. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2022</u>	<u>2021</u>
Furniture, computers, and equipment	\$ 700,972	\$ 559,505
Leasehold improvements	<u>3,723</u>	<u>3,723</u>
Total property and equipment	704,695	563,228
Less: accumulated depreciation and amortization	<u>(455,198)</u>	<u>(355,091)</u>
Property and equipment, net	<u><u>\$ 249,497</u></u>	<u><u>\$ 208,137</u></u>

6. Website Development

Intangible assets consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Website development	\$ 70,024	\$ 84,417
Less: accumulated amortization	<u>(13,616)</u>	<u>(31,368)</u>
Website development, net	<u><u>\$ 56,408</u></u>	<u><u>\$ 53,049</u></u>

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Notes to Financial Statements
December 31, 2022 and 2021

7. 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. The bank line of credit is subject to annual renewal. Outstanding balances bear interest at 10%. At December 31, 2022 and 2021, there was no outstanding balance on the bank line of credit.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions are purpose restricted for the following programs as of December 31:

	<u>2022</u>	<u>2021</u>
Energy	\$ 2,465,505	\$ 2,912,234
Mining	1,671,578	1,587,589
General programming	129,900	113,900
Earthworks partnership programs	<u>9,000</u>	<u>104,472</u>
Total net assets with donor restrictions	<u>\$ 4,275,983</u>	<u>\$ 4,718,195</u>

9. Programs

Earthworks administers the following programs:

- *The Energy Program* includes Earthworks' work on oil, gas, and petrochemicals. This program, also known as the Oil & Gas Accountability Project, works to change federal, state, and local government policy and to support and empower communities impacted by existing and proposed energy extraction, to raise awareness about the impacts of unconventional oil and methane gas, and to reduce the destructive impacts of all forms of energy extraction.
- *The Mining Program* includes efforts in the U.S. and internationally to reform mining policies and practices, including work to ensure that clean energy revolution does not lead to more harmful mining. This program protects communities and special places by stopping mining where it does not belong, reins in the riskiest and dirtiest mining practices, and reforms and defends state, federal, and international policies that protect communities, water, wildlife, oceans, and other natural resources.

Earthworks

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9. Programs (continued)

- *General Programming* includes Media and Communications, Research and Publications, and Digital Engagement and Advocacy:
 - *Media and Communications* — Press outreach and storytelling to promote and publicize the work of Earthworks and its allies;
 - *Research and Publications* — Analysis and development of policy proposals, research on impacts of mining and energy extraction, and publishing fact sheets, reports, and information;
 - *Digital Engagement and Advocacy* — Outreach, engagement, and advocacy using digital tools, providing information to the public and Earthworks members, and responding to 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 its mission of protecting communities and the environment from the negative impacts of mineral and energy development. For the years ended December 31, 2022 and 2021, Earthworks recognized \$6,774 and \$5,896, 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:
 - *Arizona Mining Reform 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.
 - *ARO Working Group* — The ARO Working Group’s mission is to activate an international network of experts and change-makers who are operating in various capacities on the issue of environmental liabilities. Earthworks’ strategy is to reveal and leverage real-time insolvency in the oil and gas industry due to severely undervalued environmental liabilities and asset retirement obligations to force E&P companies to stop drilling new wells and building new infrastructure.

Earthworks

Notes to Financial Statements
December 31, 2022 and 2021

9. Programs (continued)

- *Beyond Extreme Energy* includes people taking action to retire fossil fuels. Beyond Extreme Energy's immediate demand is for no new permits by the Federal Energy Regulatory Commission for fossil fuel infrastructure. Beyond Extreme Energy's vision is a world powered by consumer-controlled renewable energy.
- *Central Louisiana Coalition for a Clean and Healthy Environment* was initiated to oppose the open burning of hazardous waste materials at the Clean Harbors Colfax, LLC facility located on Highway 471 in Colfax, Louisiana.

10. 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 \$105,968 and \$86,828 for the years ended December 31, 2022 and 2021, respectively.

11. Commitments and Contingencies

Operating Leases

Earthworks leased office space in Washington, DC under the terms of an operating lease that initially commenced on April 1, 2017, and was renewed through various amendments to March 31, 2023. On August 12, 2022, Earthworks amended its lease and moved to a different location with a smaller space in the same building, with the new amendment commencing on April 1, 2023 and is scheduled to expire on March 31, 2026. The lease and all amendments require fixed monthly rental payments with annual 3% escalation clauses. The difference between required lease payments and straight-line rent expense is not reflected as deferred rent in the accompanying statements of financial position at December 31, 2021 under ASC 840 due to immateriality.

In addition, Earthworks leases space for satellite offices in various locations throughout the United States on a month-to-month basis. These month-to-month leases require fixed monthly rent payments.

Earthworks

Notes to Financial Statements
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11. Commitments and Contingencies (continued)

Operating Leases (continued)

Earthworks also leases office equipment under the terms of a noncancelable operating lease that commenced in July 2022 and is scheduled to expire in June 2027. Fixed monthly rent payments are required for the duration of the lease and include services.

Earthworks' total occupancy expense for the years ended December 31, 2022 and 2021 was \$91,247 and \$133,213, respectively.

Maturities of the lease liabilities under all operating leases are as follows for the years ending December 31:

2023	\$	71,649
2024		57,722
2025		59,423
2026		15,727
2027		506
		<hr/>
Total minimum lease payments		205,027
Less: discount to present value at 4%		(4,557)
		<hr/>
Present value of operating lease liabilities	\$	<u>200,470</u>

Supplemental qualitative information related to the operating leases is as follows:

Operating lease costs	\$	74,811
Cash paid for amounts included in the measurement of lease liabilities – operating cash flows	\$	115,824
Right-of-use assets obtained in exchange for lease obligations	\$	241,474
Weighted-average remaining lease term (in years)		3.28
Weighted-average discount rate		1.40%

Earthworks

Notes to Financial Statements
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11. Commitments and Contingencies (continued)

Government Grants

Funds received from governments are subject to audit under the provisions of the agreements. The ultimate determination of amounts received under the agreements is based upon the allowance of costs reported to and accepted by the oversight agency. Until the grant is closed out, there exists a contingency to refund any amount received in excess of allowable costs.

Hotel Contracts

Earthworks has entered into agreements with hotels and venues for future events. In the event of the cancellation of these agreements, Earthworks may be held liable for liquidated damages depending upon the date of cancellation.

12. Related Party Transactions

Earthworks Action Fund, a Section 501(c)(4) nonprofit organization, is a legally-separate, tax-exempt organization established by Earthworks in December 2017. Earthworks Action Fund is an affiliated but separate organization from Earthworks. As a 501(c)(4) organization, Earthworks Action Fund engages in various advocacy and political activities for which Earthworks, a 501(c)(3) organization, faces certain legal limitations or restrictions.

Earthworks provides various administrative services for Earthworks Action Fund, including office space, personnel, use of equipment, and other overhead costs. Total expenses paid by Earthworks and charged to Earthworks Action Fund were \$361,656 and \$70,252 for the years ended December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, Earthworks Action Fund owed Earthworks \$266,723 and \$55,324, respectively, which is recorded as due from affiliate in the accompanying statements of financial position.

Earthworks

Notes to Financial Statements
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13. Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Where feasible, Earthworks allocates its expenses directly to specific programs or functions. Additionally, Earthworks utilizes an indirect cost allocation methodology to allocate its expenses. The expenses that are allocated include salaries, benefits, and payroll taxes, which are allocated on the basis of estimates of time and effort. Additionally, other expenses are allocated across specific programs or functions based on an estimated percentage of time and effort spent by staff on the natural type of expense.

14. Income Taxes

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, 2022 and 2021, 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.