

EARTHWORKS

AUDITED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

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, 2011 and 2010, 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, 2011 and 2010, 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The statement of functional expenses presented on page 11 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 related to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to 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 taken as a whole.



Certified Public Accountants
Chantilly, Virginia

April 3, 2012

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EARTHWORKS

Statements of Financial Position December 31,

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 255,090	\$ 761,420
Investments	104	260
Grants receivable, net	99,739	108,794
Prepaid expenses	28,280	22,545
Property and equipment, net	<u>6,654</u>	<u>6,196</u>
 Total assets	 <u>\$ 389,867</u>	 <u>\$ 899,215</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 65,657</u>	<u>\$ 77,657</u>
 Total liabilities	 <u>65,657</u>	 <u>77,657</u>
Net assets		
Unrestricted	(98,103)	(40,782)
Temporarily restricted	<u>422,313</u>	<u>862,340</u>
 Total net assets	 <u>324,210</u>	 <u>821,558</u>
 Total liabilities and net assets	 <u>\$ 389,867</u>	 <u>\$ 899,215</u>

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Statements of Activities For the Years Ended December 31,

	2011	2010
Change in unrestricted net assets		
Revenue		
Corporate and foundation grants	\$ 816,720	\$ 895,042
Individual contributions	127,862	173,736
Other income	30,684	59,187
Investment income	2,779	2,574
	978,045	1,130,539
Net assets released from restriction	838,862	627,406
Total revenue	1,816,907	1,757,945
Expenses		
Program services:		
Energy	812,819	696,988
Mining	593,323	751,476
General Programming	215,643	42,598
EARTHWORKS Partnership Programs	106,550	65,484
Total program services	1,728,335	1,556,546
Fundraising	90,706	167,057
Management and general	55,187	72,546
Total expenses	1,874,228	1,796,149
Change in unrestricted net assets	(57,321)	(38,204)
Change in temporarily restricted net assets		
Corporate and foundation grants	398,835	1,177,246
Net assets released from restriction	(838,862)	(627,406)
Change in temporarily restricted net assets	(440,027)	549,840
Net change in net assets	(497,348)	511,636
Net assets, beginning of year	821,558	309,922
Net assets, end of year	\$ 324,210	\$ 821,558

EARTHWORKS

Statements of Cash Flows For the Years Ended December 31,

	2011	2010
Cash flows from operating activities		
Change in net assets	\$ (497,348)	\$ 511,636
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	3,812	6,450
Loss on investments	156	1,023
Changes in operating assets and liabilities:		
Grant receivable	9,055	(102,914)
Prepaid expenses	(5,735)	(8,018)
Accounts payable and accrued liabilities	(12,000)	23,518
Total cash flows (used in) provided by operating activities	(502,060)	431,695
 Cash flows used in investing activities		
Purchase of investments	-	(260)
Purchases of fixed assets	(4,270)	(7,122)
Total cash used in investing activities	(4,270)	(7,382)
Change in cash and cash equivalents	(506,330)	424,313
Cash and cash equivalents, beginning of year	761,420	337,107
Cash and cash equivalents, end of year	\$ 255,090	\$ 761,420

EARTHWORKS

Notes to Financial Statements

Note A – Organization

Earthworks is a non-profit 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 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 energy and 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.

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.

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Notes to Financial Statements (Continued)

Note B – Summary of Significant Accounting Policies (Continued)

Investments

The fair values, which are the amounts reported in the statement of financial position, are based on level 1 inputs, quoted market prices, if available, or estimated using quoted market prices for similar securities. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Grants Receivable

Grants receivables are recorded when invoices are issued or notice of a grant award is received, and are presented in the balance sheet net of the allowance for doubtful accounts. Grants receivable are written off when they are determined to be uncollectible. The allowance for doubtful accounts is estimated based on Earthworks' historical losses, the existing economic conditions, and the financial stability of its grantors. No allowance for doubtful accounts was deemed necessary as of December 31, 2011 as management believes all amounts to be collectible.

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

As of December 31, 2011, 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, 2008 through 2010.

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.

Advertising Expenses

Advertising expenses are expensed as incurred. Advertising costs were \$97,208 and \$49,285 for the years ended December 31, 2011 and 2010, respectively.

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Notes to Financial Statements (Continued)

Note C – Programs

Mining

The Mining Program includes our U.S. mining reform efforts, our international mining work, and our No Dirty Gold campaign. This program focuses on legislative and regulatory strategies, on campaigns to protect specific places from mining impacts, and on markets 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.

Energy

The Energy Program includes the Oil and Gas Accountability Project as well as the No Dirty Energy campaign, which is the broad public face of our work focused on coal mining, tar sands extraction, and uranium mining. This program works to change federal, state and local government policy and support communities impacted by existing and proposed energy extraction and address the destructive impacts of all forms of energy extraction in this complex energy environment.

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 public and members in the form of mailings, fact sheets, electronic (email) updates and alerts, newsletters, and responses to direct inquiries.

Earthworks Partnership Programs

Earthworks provides back-office services (including payroll, accounting, and administration), a legal framework, and capacity building support to a variety of small programs (single staff, or volunteer only organizations) that share our mission of protecting communities and the environment from the negative impacts of mineral development.

EARTHWORKS

Notes to Financial Statements (Continued)

Note C – Programs (Continued)

In 2011 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.
- *ShaleTest*: To collect environmental data around natural gas facilities including natural gas drilling operations, establish baseline air and water testing, performing 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.

Note D – Investments

Investments, stated at fair value at December 31, 2011 and 2010 consist of the following:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Stocks	<u>\$200</u>	<u>\$104</u>	<u>\$200</u>	<u>\$176</u>

Note E – Grants Receivable

Grants receivable includes 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>2011</u>	<u>2010</u>
Receivable within one year	<u>\$70,000</u>	<u>\$ 80,000</u>

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Notes to Financial Statements (Continued)

Note F – Property and Equipment

The following is a summary of property and equipment at December 31:

	<u>2011</u>	<u>2010</u>
Furniture and fixtures	\$48,171	\$43,901
Leasehold improvements	<u>36,164</u>	<u>36,164</u>
	84,335	80,065
Less: Accumulated depreciation	<u>(77,681)</u>	<u>(73,869)</u>
Property and equipment, net	<u>\$ 6,654</u>	<u>\$ 6,196</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, 2011 and 2010 was \$3,812 and \$6,450, respectively.

Note G – 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:

2012	\$ 63,237
2013	<u>26,480</u>
Total	<u>\$ 89,717</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, 2011 and 2010 was \$86,928 and \$73,184, respectively.

Note H – 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, 2011 and 2010 was \$19,556 and \$24,003, respectively.

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Notes to Financial Statements (Continued)

Note I – Net Assets Released from Restrictions

The following net assets were released from donor restrictions during the year ended December 31, 2011 and 2010 either through expenses incurred, which satisfy the restricted purpose, or through the passage of time:

	Time <u>Restricted</u>	Purpose <u>Restricted</u>	<u>2011</u>	<u>2010</u>
Moore Foundation	X	X	\$306,622	\$287,573
Packard Foundation	X	X	200,607	181,965
Goldman Fund	X	X	186,058	151,442
Park Foundation	X	X	70,000	-
William Penn	X	X	68,575	6,426
Colcom (ShaleTest)	X	X	<u>7,000</u>	<u>-</u>
Total			<u>\$838,862</u>	<u>\$627,406</u>

Note J – 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>2011</u>	<u>2010</u>
Moore Foundation	X	X	\$175,885	\$279,672
Packard Foundation	X	X	107,428	258,035
Park Foundation	X	X	60,000	70,000
Overbrook Foundation	X	X	40,000	-
Colcom (ShaleTest)	X	X	29,000	-
New Cycle Foundation	X	X	10,000	-
Goldman Fund	X	X	-	186,058
William Penn	X	X	<u>-</u>	<u>68,575</u>
Total			<u>\$422,313</u>	<u>\$862,340</u>

Note K – Evaluation of Subsequent Events

Earthworks has evaluated subsequent events through July 23, 2012, the date which the financial statements were available to be issued.

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Statement of Functional Expenses For the Year Ended December 31, 2011 with Comparative Totals for 2010

	Program Services				Supporting Services		Total 2011	Total 2010
	Partnership Programs	Mining	Energy	General Programming	Management	Fundraising		
Salaries and related expenses	\$ 52,505	\$ 230,920	\$ 327,965	\$ 113,805	\$ 34,596	\$ 40,303	\$ 800,094	\$ 776,205
Professional fees	18,385	89,446	150,863	8,908	1,281	1,537	270,420	155,993
Travel	9,228	42,910	64,574	15,407	99	80	132,298	122,863
Other employee benefits	5,882	33,233	50,744	16,395	5,018	5,692	116,964	127,959
Advertising	950	92,661	2,675	451	234	237	97,208	49,285
Occupancy expenses	584	28,492	38,146	11,855	3,765	4,086	86,928	73,184
Payroll taxes	4,137	18,951	26,452	9,170	2,844	3,333	64,887	58,721
Printing, design and duplication	3,958	17,065	18,554	6,430	1,118	11,750	58,875	47,066
Grants and assistance	-	-	55,000	-	-	-	55,000	140,065
Telecommunications	816	13,635	21,020	3,835	1,201	1,258	41,765	44,304
Conferences and meetings	2,691	4,101	12,302	8,521	13	664	28,292	80,126
Pension plan contributions	-	6,489	7,774	3,182	981	1,130	19,556	24,003
Postage and delivery	489	1,962	2,637	2,814	250	11,215	19,367	15,906
Supplies	6,607	2,649	6,198	1,948	410	411	18,223	12,971
Publication and subscriptions	-	1,118	2,178	5,815	93	6,537	15,741	5,196
Insurance	155	2,684	3,122	1,450	451	402	8,264	3,543
List rental	-	-	8,000	-	-	-	8,000	30,000
Video and photo	-	-	7,000	-	-	-	7,000	-
Miscellaneous expenses	80	1,080	1,498	1,174	1,071	20	4,923	644
Equipment rental and maintenance	-	1,615	1,885	836	250	282	4,868	6,958
Payroll expenses	-	1,286	1,528	614	600	234	4,262	3,704
Depreciation and amortization	-	1,292	1,434	685	197	204	3,812	6,450
Membership dues	55	-	-	2,000	135	370	2,560	1,264
Bank charges and fees	28	1,168	895	330	580	665	3,666	3,637
Employee recruiting	-	566	350	18	-	56	990	4,455
State registration fees	-	-	25	-	-	240	265	385
Staff training and development	-	-	-	-	-	-	-	1,262
Total	\$ 106,550	\$ 593,323	\$ 812,819	\$ 215,643	\$ 55,187	\$ 90,706	\$ 1,874,228	\$ 1,796,149