



EARTHWORKS

**Audited Financial Statements
and
Other Financial Information**

*Years ended December 31, 2006 and 2005
with Report of Independent Auditors*

EARTHWORKS

Audited Financial Statements and Other Financial Information

Years ended December 31, 2006 and 2005

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Report of Independent Auditors

Board of Directors
EARTHWORKS
Washington, DC

We have audited the accompanying statements of financial position of EARTHWORKS as of December 31, 2006 and 2005, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of EARTHWORKS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EARTHWORKS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 at December 31, 2006 and 2005, 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 11 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.

Johnson Lambert & Co LLP

Falls Church, Virginia
February 23, 2007

EARTHWORKS

Statements of Financial Position

	December 31,	
	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$ 431,348	\$ 189,987
Investments	4,664	-
Grant receivable, net	566,068	-
Prepaid expenses	11,920	8,980
Fixed assets, net	<u>15,924</u>	<u>20,317</u>
Total assets	<u>\$ 1,029,924</u>	<u>\$ 219,284</u>
Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	\$ 73,702	\$ 97,578
Line of credit payable	<u>124,706</u>	<u>148,508</u>
Total liabilities	198,408	246,086
Net assets		
Unrestricted net assets	(170,790)	(199,302)
Temporarily restricted net assets	<u>1,002,306</u>	<u>172,500</u>
Total net assets (deficit)	<u>831,516</u>	<u>(26,802)</u>
Total liabilities and net assets	<u>\$ 1,029,924</u>	<u>\$ 219,284</u>

See accompanying notes to the financial statements.

EARTHWORKS

Statements of Activities

	Years ended December 31,	
	2006	2005
Change in unrestricted net assets		
Revenue		
Contributions	\$ 1,273,208	\$ 1,049,459
Donations	175,585	207,163
Other income	6,905	10,590
Interest and dividends	8,885	4,184
	1,464,583	1,271,396
Net assets released from restriction	172,500	209,170
Total revenue	1,637,083	1,480,566
Expenses		
Program services:		
Oil and Gas Accountability Project	555,978	461,658
U.S. Mining	387,628	688,202
International Mining	258,015	260,140
Public/Member Information	142,171	67,149
Alaskans for Responsible Mining	11,916	-
Total program services	1,355,708	1,477,149
Fundraising	139,035	146,828
Management and General	113,828	119,693
Total expenses	1,608,571	1,743,670
Change in unrestricted net assets from operations	28,512	(263,104)
Change in temporarily restricted net assets		
Contributions	1,002,306	172,500
Net assets released from restriction	(172,500)	(209,170)
Change in temporarily restricted net assets	829,806	(36,670)
Net change in net assets	858,318	(299,774)
Net assets, beginning of year	(26,802)	272,972
Net assets, end of year	\$ 831,516	\$ (26,802)

See accompanying notes to the financial statements.

EARTHWORKS

Statements of Cash Flows

	Years ended December 31,	
	2006	2005
Cash flows from operating activities		
Change in net assets	\$ 858,318	\$ (299,774)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	11,672	15,380
Donated stock	(4,664)	-
Changes in operating assets and liabilities:		
Grant receivable	(600,000)	116,670
Discount on grants receivable	33,932	-
Prepaid expenses	(2,940)	2,290
Accounts payable and accrued liabilities	(23,876)	51,189
Accrued interest	14,410	-
Total cash flows provided by (used in) operating activities	286,852	(114,245)
Cash flows used in investing activities		
Purchase of fixed assets	(7,279)	(15,321)
Total cash flows used in investing activities	(7,279)	(15,321)
Cash flows used in financing activities		
Proceeds from revolving line of credit	-	148,508
Payments on line of credit	(38,212)	-
Total cash flows (used in) provided by financing activities	(38,212)	148,508
Change in cash and cash equivalents	241,361	18,942
Cash and cash equivalents, beginning of year	189,987	171,045
Cash and cash equivalents, end of year	\$ 431,348	\$ 189,987
Supplemental disclosures of cash flow information		
Interest paid	\$ 14,410	\$ 1,239

See accompanying notes to the financial statements.

EARTHWORKS

Notes to Financial Statements

Years ended December 31, 2006 and 2005

Note A - Organization

EARTHWORKS is a non-profit organization incorporated in 1988 under the laws of Washington, DC. 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.

EARTHWORKS

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

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.

Investments

Investments are recorded at fair value based on quoted market prices. The investments at December 31, 2006 consist of equity securities. EARTHWORKS records the changes in the fair value of investments in the statement of activities.

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 of 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.

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 training's 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 Toxic's, 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 the public and members in the form of mailings, fact sheets, electronic (email) updates and alerts, newsletters, and responses to direct inquires.

EARTHWORKS

Notes to Financial Statements (Continued)

Note C - Programs (Continued)

Alaskans for Responsible Mining (ARM)

Alaskans for Responsible Mining is a voluntary association of non-governmental organizations working together to raise public awareness of the impacts of the mining industry to Alaska's watersheds, wildlife, fisheries, communities and public health and to reform Alaska's inadequate mining laws.

Note D - Contributions and Grants Receivable

Contributions and 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, 2006, the receivables are comprised as follows:

Receivable within one year	\$ 400,000
Receivable in one to three years	<u>200,000</u>
	600,000
Discount to present value	<u>(33,932)</u>
Net contributions and grants receivable	<u>\$ 566,068</u>

Note E - Conditional Contributions

During 2006, EARTHWORKS received conditional promises in the amount of \$705,121 from the following organizations: Moore Foundation \$495,121; Education Foundation of America \$175,000; Noyes \$30,000; and Veatch \$5,000. EARTHWORKS will receive these contributions upon meeting certain conditions. It is expected that these conditions will be met during 2007 and 2008. At December 31, 2006 conditional promises have not been recorded in the accompanying financial statements.

Note F - Property and Equipment

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

	<u>2006</u>	<u>2005</u>
Furniture & fixtures	\$ 166,834	\$ 159,555
Leasehold improvements	<u>36,164</u>	<u>36,164</u>
	202,998	195,719
Less: Accumulated depreciation	<u>(187,074)</u>	<u>(175,402)</u>
Fixed assets, net	<u>\$ 15,924</u>	<u>\$ 20,317</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

EARTHWORKS

Notes to Financial Statements (Continued)

Note F - Property and Equipment (Continued)

is determined on the straight-line basis over the estimated useful lives of three to seven years. Depreciation expense as of December 31, 2006 and 2005 was \$11,672 and \$15,380, respectively.

Note G - Operating Leases

EARTHWORKS is obligated under an operating lease for its headquarters office space in Washington, D.C. through May 31, 2008.

Future minimum lease payments for the office lease in Washington, D.C. are as follows:

2007	\$	51,605
2008		<u>21,766</u>
Total	\$	<u><u>73,371</u></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, 2006 and 2005 was \$68,303 and \$98,838, 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, 2006 and 2005 was \$21,140 and \$24,542, respectively.

Note I - Net Assets Released from Restrictions

The following net assets were released from donor restrictions during the year ended December 31, 2006 and 2005 either through expenses incurred, which satisfy the restricted purpose, or through the passage of time:

	Time Restricted	Purpose Restricted	2006	2005
Education Foundation of America	X	X	\$ 37,500	\$ 116,670
True North Foundation	X	X	135,000	-
Wilburforce		X	-	82,500
Lazar		X	-	10,000
			<u>\$ 172,500</u>	<u>\$ 209,170</u>

EARTHWORKS

Notes to Financial Statements (Continued)

Note J - 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>2006</u>	<u>2005</u>
Boreal		X	\$ 50,000	\$ -
Education Foundation of America	X	X	65,620	37,500
Moore		X	235,618	-
True North Foundation	X	X	135,000	135,000
Wilburforce (net of discount)		X	516,068	-
			<u>\$ 1,002,306</u>	<u>\$ 172,500</u>

Note K - Borrowings

During 2005 EARTHWORKS maintained a revolving line of credit agreement ("LOC") with their financial institution. The LOC was converted to an installment loan during 2006. The loan bears interest at 8.75%, principal and interest are payable monthly. At December 31, 2006 and 2005 amounts outstanding relating to the borrowings were \$124,706 and \$148,508, respectively.

Note L - Merger

On January 1, 2005 EARTHWORKS merged with Oil and Gas Accountability Project (OGAP) a 501 (c)(3) organization. The assets and liabilities of OGAP were transferred to EARTHWORKS. The employees of OGAP became employees of EARTHWORKS effective January 1, 2005. OGAP is reported as a program of EARTHWORKS.

Note M - Contingency

Subsequent to December 31, 2006, an adverse judgment in the amount of \$324,644 for legal fees was rendered against EARTHWORKS and a co-plaintiff by the Colorado District Court. The Court also awarded the defendants \$28,000 in taxable costs. EARTHWORKS and co-plaintiff have appealed the judgment including the award of taxable costs on the merits of the case to the 10th Circuit Court of Appeals. If the ruling stands EARTHWORKS could be jointly or severally liable for the amount of the judgment.

EARTHWORKS

Statement of Functional Expenses

Year ended December 31, 2006

	<u>Program Services</u>					<u>Supporting Services</u>		<u>Total FY2006</u>	<u>Total FY2005</u>
	<u>U.S. Mining Services</u>	<u>International Mining</u>	<u>OGAP</u>	<u>Alaskans for Responsible Mining</u>	<u>Public/Member Information</u>	<u>Management</u>	<u>Fundraising</u>		
Payroll expenses	\$ 54	\$ 38	\$ 54	\$ -	\$ 17	\$ 3,175	\$ 24	\$ 3,362	\$ 3,103
Salaries & related expenses	194,758	133,527	224,042	8,125	76,464	45,626	71,391	753,933	841,208
Grants & assistance	-	-	187,506	-	-	-	-	187,506	156,250
Pension plan contributions	5,241	4,091	5,897	-	2,406	1,386	2,119	21,140	24,542
Other employee benefits	26,157	20,676	27,662	619	11,845	7,896	10,702	105,557	87,416
Payroll taxes	13,931	11,914	16,064	370	6,223	3,699	5,792	57,993	61,771
Professional fees	43,320	4,222	(511)	-	1,269	10,794	98	59,192	93,555
Employee recruiting	-	-	-	-	-	100	-	100	-
Supplies	2,954	2,016	2,442	493	1,282	2,533	521	12,241	13,845
Telecommunications	9,261	5,348	18,300	306	4,774	1,823	-	39,812	70,499
Postage and delivery	5,192	3,362	5,579	2	3,809	2,185	3,754	23,883	20,029
Occupancy expenses	19,785	9,600	25,038	274	5,467	3,064	5,075	68,303	98,838
Equipment rental & maintenance	6,383	1,098	1,600	-	639	1,533	572	11,825	6,390
Printing, design, & duplication	4,351	3,068	3,289	-	21,488	-	30,783	62,979	85,634
Publication & subscriptions	3,258	1,402	1,227	-	552	527	347	7,313	8,269
Travel	38,195	24,962	24,782	-	2,482	4,493	543	95,457	51,250
Business meetings	1,942	1,057	1,388	1,500	385	5,263	116	11,651	31,155
Conferences & meetings	6,680	2,254	810	-	600	-	-	10,344	41,778
Staff training & development	1,550	74	196	-	519	1,594	48	3,981	2,026
Video & photo	376	500	-	-	425	-	20	1,321	1,000
Depreciation and amortization expenses	2,847	2,237	3,320	-	1,148	790	1,331	11,673	15,379
Insurance	837	657	2,535	-	343	838	382	5,592	3,319
Membership dues	400	-	-	-	-	-	-	400	300
List rental	-	-	-	-	-	-	3,607	3,607	3,579
Bank charges & fees	-	-	-	-	-	1,876	-	1,876	1,644
Advertising	123	25,873	4,698	227	15	208	-	31,144	-
Miscellaneous expenses	33	39	60	-	19	15	-	166	19,757
State registration fees	-	-	-	-	-	-	1,810	1,810	1,134
Interest	-	-	-	-	-	14,410	-	14,410	-
Total	\$ 387,628	\$ 258,015	\$ 555,978	\$ 11,916	\$ 142,171	\$ 113,828	\$ 139,035	\$ 1,608,571	\$ 1,743,670