

EARTHCORPS

FINANCIAL REPORT

DECEMBER 31, 2015

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION.....	2
STATEMENT OF ACTIVITIES	3
STATEMENT OF FUNCTIONAL EXPENSES	4
STATEMENT OF CASH FLOWS.....	5
NOTES TO FINANCIAL STATEMENTS	6 - 12

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
EarthCorps
Seattle, Washington

We have audited the accompanying financial statements of EarthCorps, which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes 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.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EarthCorps as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Report on Summarized Comparative Information

We have previously audited EarthCorps' 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Peterson Sullivan LLP
June 17, 2016

EARTHCORPS

STATEMENT OF FINANCIAL POSITION

December 31, 2015

(With Comparative Totals for 2014)

ASSETS	2015	2014
Current Assets		
Cash and cash equivalents	\$ 710,176	\$ 881,907
Investments		15,701
Pledges receivable	57,146	93,614
Accounts receivable	335,440	342,779
Prepaid expenses	20,281	16,330
Total current assets	1,123,043	1,350,331
Cash and Cash Equivalents - Board-Designated	150,202	112,500
Investments - Board-Designated	274,798	262,500
Investments - Endowment Funds	8,175	7,511
Unemployment Trust Deposits	50,768	47,037
Property and Equipment, net	133,399	84,064
Total assets	\$ 1,740,385	\$ 1,863,943
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 24,119	\$ 42,719
Accrued payroll	41,757	45,059
Accrued vacation	29,539	28,970
Deferred revenue, current portion	140,092	290,612
Total current liabilities	235,507	407,360
Deferred Revenue, net of current portion	85,000	150,000
Total liabilities	320,507	557,360
Net Assets		
Unrestricted		
Undesignated	645,232	611,393
Designated for operating reserves	425,000	375,000
Total unrestricted	1,070,232	986,393
Temporarily restricted	346,346	316,890
Permanently restricted	3,300	3,300
Total net assets	1,419,878	1,306,583
Total liabilities and net assets	\$ 1,740,385	\$ 1,863,943

See Notes to Financial Statements

EARTHCORPS

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015
(With Comparative Totals for 2014)

	2015			Total	2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue					
Program services	\$ 1,524,377	\$ -	\$ -	\$ 1,524,377	\$ 1,571,202
Government grants	350,442			350,442	80,031
Other contributions and grants	403,615	235,091		638,706	785,971
In-kind contributions	2,847			2,847	999
Special event revenue	214,131			214,131	183,795
Less: direct costs of special events	(43,842)			(43,842)	(52,155)
Investment income	1,983			1,983	14,543
Miscellaneous income	9,837			9,837	40
Net assets released from restrictions	205,635	(205,635)			
Total revenue	2,669,025	29,456		2,698,481	2,584,426
Expenses					
Program services	2,285,384			2,285,384	2,228,811
Management and general	187,869			187,869	174,809
Fundraising	111,933			111,933	102,367
Total expenses	2,585,186			2,585,186	2,505,987
Change in net assets	83,839	29,456		113,295	78,439
Net Assets, beginning of year	986,393	316,890	3,300	1,306,583	1,228,144
Net Assets, end of year	\$ 1,070,232	\$ 346,346	\$ 3,300	\$ 1,419,878	\$ 1,306,583

See Notes to Financial Statements

EARTHCORPS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2015

(With Comparative Totals for 2014)

	2015			Total	2014 Total
	Program Services	Management and General	Fundraising		
Employment Costs					
Salaries and wages	\$ 1,358,614	\$ 110,097	\$ 76,028	\$ 1,544,739	\$ 1,483,414
Employee benefits	153,170	26,492	8,773	188,435	247,614
Payroll taxes	132,604	9,120	6,293	148,017	141,979
Staff development	35,535	571	675	36,781	19,573
Total employment costs	1,679,923	146,280	91,769	1,917,972	1,892,580
Operating Expenses					
Field operations and vehicle expenses	268,960	34		268,994	293,598
Occupancy	70,001	16,767	5,912	92,680	65,974
Participant support	78,651			78,651	61,880
Professional fees	45,265	10,955	2,677	58,897	43,375
Depreciation	45,512	6,284	3,791	55,587	56,753
Direct special events costs	2,417	527	43,842	46,786	52,155
Office expenses	34,850	3,160	4,941	42,951	34,162
Education programs	20,370		109	20,479	7,950
Bank charges, financial, and other fees	16,669	2,345	1,152	20,166	25,665
Board of Directors expenses	7,828	452	785	9,065	8,031
Travel	6,237	99	124	6,460	6,110
Telecommunications	4,687	562	396	5,645	5,579
Insurance	4,014	404	277	4,695	4,330
Total expenses	2,285,384	187,869	155,775	2,629,028	2,558,142
Less: expenses included with revenue on the statement of activities			(43,842)	(43,842)	(52,155)
Total expenses included in expense section on the statement of activities	\$ 2,285,384	\$ 187,869	\$ 111,933	\$ 2,585,186	\$ 2,505,987

See Notes to Financial Statements

EARTHCORPS

STATEMENT OF CASH FLOWS For the Year Ended December 31, 2015 (With Comparative Totals for 2014)

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	\$ 113,295	\$ 78,439
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	55,587	56,753
(Gain) loss on investments	713	(13,657)
Gain on sale of transportation equipment	(12,250)	
Change in operating assets and liabilities		
Pledges, accounts, and other receivables	43,807	(86,558)
Unemployment compensation trust	(3,731)	(34)
Prepaid expenses	(3,951)	(570)
Accounts payable	(18,600)	18,619
Accrued payroll	(3,302)	(12,436)
Accrued vacation	569	6,609
Deferred revenue	(215,520)	382,143
	(43,383)	429,308
Net cash flows from operating activities		
Cash Flows from Investing Activities		
Proceeds from sale of transportation equipment	12,250	
Purchase of equipment	(104,922)	(48,906)
Purchases of investments	(21,407)	(2,537)
Proceeds from sales of investments	23,433	12,567
	(90,646)	(38,876)
Net cash flows from investing activities		
Net change in cash and cash equivalents	(134,029)	390,432
Cash and Cash Equivalents, beginning of year	994,407	603,975
Cash and Cash Equivalents, end of year	\$ 860,378	\$ 994,407

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

EarthCorps brings together passionate and hardworking young adults from the U.S. and countries around the world for a year-long leadership training program in Seattle, Washington. Since EarthCorps was founded as a nonprofit organization in 1993, more than 1,000 participants have learned leadership skills through working collaboratively, leading community volunteers, and executing technical restoration projects along shorelines, trails, and in forests to improve the health of the Puget Sound region. EarthCorps receives revenue for performing the following services:

- Restoring and enhancing natural places in Western Washington.
- Implementing on-the-ground projects, including salmon habitat restoration, invasive plant removal, native plantings, and hiking trail construction.
- Working closely with communities, giving residents the knowledge to keep their neighborhoods healthy.

Financial Statement Presentation

EarthCorps reports 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. Contributions and certain grants that are received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Cash and Cash Equivalents

For purposes of the statement of cash flows, EarthCorps considers all cash and other highly liquid investments with an initial maturity date of three months or less to be cash equivalents. EarthCorps has cash balances at a bank in excess of federally insured limits.

Cash and cash equivalents are presented as follows:

	2015	2014
Undesignated	\$ 710,176	\$ 881,907
Designated	150,202	112,500
	<u>\$ 860,378</u>	<u>\$ 994,407</u>

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Investments

Investments are stated at fair value based on observable market inputs (Level 1 inputs in the financial accounting hierarchy) such as quoted prices in active markets for identical assets. Unrealized gains or losses are recognized in the statement of activities.

Pledges Receivable

Two foundations accounted for 86% and 76% of pledges receivable at December 31, 2015 and 2014, respectively. No allowance for uncollectible pledges was considered necessary by management at December 31, 2015 or 2014.

Accounts Receivable

Accounts receivable predominately consists of amounts due from government entities and other organizations for services. Two government entities represented 31% of accounts receivable at December 31, 2015. Two government entities represented 25% of accounts receivable at December 31, 2014. EarthCorps considers accounts greater than 30 days old to be past due and uses the allowance method for recognizing bad debts (based on historical collection rates). When an account is deemed uncollectible, it is generally written off against the allowance. EarthCorps does not require collateral for its accounts receivable, and does not charge interest on its accounts receivable. No allowance for doubtful accounts receivable was considered necessary by management at December 31, 2015 or 2014.

Property and Equipment

Property and equipment are recorded at cost, or in the case of donated property, at the estimated fair value at the date of donation. EarthCorps' policy is to capitalize property and equipment with a value over \$1,000 and a useful life over one year. EarthCorps provides for depreciation over the estimated useful lives of the assets, which range from three to five years, using the straight-line method.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of unexpended contributions restricted for particular purposes or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose, or as time restrictions are met. Temporarily restricted net assets that are received in the current year and released in the current year are treated as unrestricted support. Temporarily restricted net assets consist of the following at December 31:

	2015	2014
Stormwater Project	\$ 101,786	\$ 7,500
Restoration of Puget Sound	50,000	50,000
Leadership Outcomes Evaluation Project	41,040	69,840
Duwamish Alive Project	35,748	60,000
Restoration of Hylebos Watershed	34,467	65,000
Global Environmental Leadership	20,000	20,000
Puget Sound Salmon Project	20,000	
Edmonds Marsh Project	11,571	17,145
Blue Carbon Summit Project	9,800	
Youth Programs	6,667	
Green Duwamish Symposium	6,000	
San Juan Islands Restoration	5,000	2,500
Commencement Bay Climate Change Project	4,267	
Sound Stewards Project		24,405
MLK Day Project		500
	<u>\$ 346,346</u>	<u>\$ 316,890</u>

Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions received by EarthCorps that require the principal be permanently invested for the production of income. Earnings are to be used for general purposes.

Revenue Recognition

Program services revenue is recognized when services are provided. Payments received in advance of services provided are deferred. Deferred amounts not expected to be earned within a one-year period are reported as long-term. Contributions and grants, which include unconditional promises to give (pledges), are recognized as revenue in the period the pledge is made.

Two donors represented 28% and 29% of other contributions and grants revenue during the years ended December 31, 2015 and 2014, respectively. One government entity and one private entity accounted for 28% of program service revenue during the year ended December 31, 2015. One government entity accounted for 16% of program service revenue during the year ended December 31, 2014.

In-Kind Contributions

Donated materials and equipment are reflected as in-kind contributions in the accompanying financial statements at their estimated fair value at the date of donation.

Donated professional services are reflected in the statement of activities at the estimated fair value of the services rendered if the services meet certain conditions. Professional services valued at \$2,847 and \$999 were donated (and recognized) during 2015 and 2014, respectively.

A substantial number of unpaid volunteers have made significant contributions of their time to EarthCorps, principally in performing environmental restoration projects. The value of this contributed time is not reflected in these financial statements since the nature of the services does not meet the accounting criteria for inclusion in the financial statements.

Income Taxes

EarthCorps is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Management has concluded that EarthCorps' activities do not generate unrelated business income. Accordingly, no provision for federal income taxes has been made in the financial statements.

Functional Allocation of Expenses

Expenses are allocated by direct attribution to the extent possible. Allocation of indirect expenses is based on management's analysis of employees' time used for program, administrative, and fundraising functions.

Comparative Amounts for 2014

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with EarthCorps' financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Subsequent Events

EarthCorps has evaluated subsequent events through the date these financial statements were available to be issued, which was June 17, 2016.

Note 2. Investments

Investments are recorded at fair value and are summarized as follows at December 31:

	<u>2015</u>	<u>2014</u>
Long-term bond mutual funds	\$ 120,059	\$ 98,645
Short-term bond mutual funds	79,392	96,106
Domestic equity mutual funds	64,326	71,326
International equity mutual funds	17,911	18,232
Common stock	1,285	1,403
	<u>\$ 282,973</u>	<u>\$ 285,712</u>

Investments are reported in the statements of financial position as follows at December 31:

	2015	2014
Investments - board-designated	\$ 274,798	\$ 262,500
Investments - undesignated		15,701
Endowment funds	8,175	7,511
	<u>\$ 282,973</u>	<u>\$ 285,712</u>

Note 3. Property and Equipment

Property and equipment consists of the following at December 31:

	2015	2014
Leasehold improvements	\$ 60,535	\$ 58,004
Office equipment	112,909	112,909
Transportation equipment	371,151	336,731
Field equipment	27,952	22,280
	<u>572,547</u>	<u>529,924</u>
Less: accumulated depreciation	<u>(468,384)</u>	<u>(445,860)</u>
	104,163	84,064
Work in process	<u>29,236</u>	
	<u>\$ 133,399</u>	<u>\$ 84,064</u>

Work in process consists of software development costs. Depreciation on the work in process will occur on a straight-line basis on the date the asset is placed in service. EarthCorps had no commitments related to work in process as of December 31, 2015.

Note 4. Unemployment Trust Deposits

EarthCorps participates in the Unemployment Services Trust ("the Unemployment Trust"), a trust to fund the cost of providing unemployment insurance (on a pooled basis with other entities). EarthCorps makes contributions to the Unemployment Trust rather than paying state unemployment premiums, and the Unemployment Trust handles all unemployment claims for EarthCorps. As a member of the Unemployment Trust, EarthCorps receives a share of the Unemployment Trust income and expenses. Should EarthCorps decide to leave the Unemployment Trust, it is entitled to receive the balance of its trust account, less any outstanding claims.

Note 5. Endowments

EarthCorps has investment reserves designated by the Board of Directors to function as endowments ("quasi-endowments"). As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The endowment assets are invested with the intention of maintaining the principal and liquidity of the endowment. Endowment funds may be used to support general operations only by a vote of the Board of Directors.

EarthCorps also has donor-restricted endowment funds that are immaterial to the financial statements at December 31, 2015 and 2014.

Note 6. Pension Plan

EarthCorps sponsors and makes contributions to a tax-sheltered annuity or 403(b) plan. EarthCorps contributed \$31,692 and \$30,860 to the plan for the years ended December 31, 2015 and 2014, respectively.

Note 7. Operating Lease

EarthCorps leases office facilities from the City of Seattle on a month-to-month basis. EarthCorps is in negotiations with the City of Seattle to enter into a long-term lease arrangement, however, there is no long-term commitment as of the date these financial statements were available to be issued. Rent expense was \$92,680 and \$65,974 for the years ended December 31, 2015 and 2014, respectively.

Note 8. Related Party Transactions

EarthCorps receives contributions and donations from employees and members of the Board. Board members and employees contributed \$32,225 and \$32,035 for the years ended December 31, 2015 and 2014, respectively. There were no receivables for such contributions and donations at December 31, 2015 or 2014.

Note 9. Commencement Bay Long-Term Stewardship Collaborative Trust

During April 2014, EarthCorps became the project stewards of \$4.9 million as part of the Commencement Bay Natural Resource Damage Restoration Project Long-Term Stewardship Framework ("the Trust") to support the Commencement Bay Restoration Plan. EarthCorps provides long-term stewardship services for restoration projects implemented or overseen by the Commencement Bay Natural Resource Trustees ("the Trustees"), which includes maintenance, monitoring, adaptive management, and enforcement activities of each project and management of community involvement in these projects.

EarthCorps, with the aid of external professional investment advisors, maintains the \$4.9 million corpus in a segregated account, with the goal of generating income to fund project stewardship and project management, in line with the investment policy developed by the Trustees.

EarthCorps is required to provide certain deliverables throughout each year to the Trustees and maintain a certain level of general and automobile liability insurance in order to remain in compliance with the stewardship agreement.

The term of the agreement is five years, which can be extended for another five-year term, or another length of time determined in collaboration by both parties.

EarthCorps billed the Trust \$120,557 and \$10,980 in 2015 and 2014, respectively, which included restoration service work performed by EarthCorps during the year plus reimbursable costs for the years ended December 31, 2015 and 2014. This amount is included in program services revenue. There was no amount due from the Trust as of December 31, 2015. The entire program services revenue amount in 2014 is included in accounts receivable as of December 31, 2014.