

EARTHCORPS

FINANCIAL REPORT

DECEMBER 31, 2016

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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, 2016, 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, 2016, 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' 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 17, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Peterson Sullivan LLP

June 9, 2017

EARTHCORPS

STATEMENT OF FINANCIAL POSITION

December 31, 2016

(With Comparative Totals for 2015)

ASSETS	2016	2015
Current Assets		
Cash and cash equivalents	\$ 883,942	\$ 710,176
Pledges receivable	14,954	57,146
Accounts receivable	472,563	335,440
Prepaid expenses	20,296	20,281
Total current assets	1,391,755	1,123,043
Cash and Cash Equivalents - Board-Designated	106,442	150,202
Investments - Board-Designated	318,558	274,798
Investments - Endowment Funds	8,061	8,175
Unemployment Trust Deposits	49,169	50,768
Property and Equipment, net	145,109	133,399
Total assets	\$ 2,019,094	\$ 1,740,385
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 76,745	\$ 24,119
Accrued payroll	91,098	41,757
Accrued vacation	34,586	29,539
Deferred revenue, current portion	190,645	140,092
Total current liabilities	393,074	235,507
Deferred Revenue, net of current portion	69,000	85,000
Total liabilities	462,074	320,507
Net Assets		
Unrestricted		
Undesignated	872,865	645,232
Designated for operating reserves	425,000	425,000
Total unrestricted	1,297,865	1,070,232
Temporarily restricted	254,855	346,346
Permanently restricted	4,300	3,300
Total net assets	1,557,020	1,419,878
Total liabilities and net assets	\$ 2,019,094	\$ 1,740,385

See Notes to Financial Statements

EARTHCORPS

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue					
Program services	\$ 1,716,038	\$ -	\$ -	\$ 1,716,038	\$ 1,524,377
Government grants	347,674			347,674	350,442
Other contributions and grants	458,257	236,349	1,000	695,606	638,706
In-kind contributions	1,526			1,526	2,847
Special event revenue	273,116			273,116	214,131
Less: direct costs of special events	(44,204)			(44,204)	(43,842)
Investment income	19,568			19,568	1,983
Miscellaneous income	72			72	9,837
Net assets released from restrictions	327,840	(327,840)			
Total revenue	3,099,887	(91,491)	1,000	3,009,396	2,698,481
Expenses					
Program services	2,559,415			2,559,415	2,285,384
Management and general	192,670			192,670	187,869
Fundraising	120,169			120,169	111,933
Total expenses	2,872,254			2,872,254	2,585,186
Change in net assets	227,633	(91,491)	1,000	137,142	113,295
Net Assets, beginning of year	1,070,232	346,346	3,300	1,419,878	1,306,583
Net Assets, end of year	\$ 1,297,865	\$ 254,855	\$ 4,300	\$ 1,557,020	\$ 1,419,878

See Notes to Financial Statements

EARTHCORPS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

(With Comparative Totals for 2015)

	2016			Total	2015 Total
	Program Services	Management and General	Fundraising		
Employment Costs					
Salaries and wages	\$ 1,482,363	\$ 102,498	\$ 75,335	\$ 1,660,196	\$ 1,544,739
Employee benefits	217,056	27,084	12,376	256,516	188,435
Payroll taxes	142,362	8,189	6,083	156,634	148,017
Staff development	20,665	3,071	566	24,302	36,781
Total employment costs	1,862,446	140,842	94,360	2,097,648	1,917,972
Operating Expenses					
Field operations and vehicle expenses	334,508	7,978	4,022	346,508	268,994
Occupancy	104,242	11,226	8,339	123,807	92,680
Participant support	68,702			68,702	78,651
Depreciation	50,686	5,177	3,847	59,710	55,587
Professional fees	39,192	16,894	2,583	58,669	58,897
Direct special events costs			44,204	44,204	46,786
Office expenses	36,322	2,895	3,970	43,187	42,951
Bank charges, financial, and other fees	14,571	871	1,179	16,621	20,166
Education programs	21,378	1,205	321	22,904	20,479
Travel	12,526	455		12,981	6,460
Board of Directors expenses	6,165	4,294	930	11,389	9,065
Telecommunications	4,910	503	373	5,786	5,645
Insurance	3,767	330	245	4,342	4,695
Total expenses	2,559,415	192,670	164,373	2,916,458	2,629,028
Less: expenses included with revenue on the statement of activities			(44,204)	(44,204)	(43,842)
Total expenses included in expense section on the statement of activities	<u>\$ 2,559,415</u>	<u>\$ 192,670</u>	<u>\$ 120,169</u>	<u>\$ 2,872,254</u>	<u>\$ 2,585,186</u>

See Notes to Financial Statements

EARTHCORPS

STATEMENT OF CASH FLOWS For the Year Ended December 31, 2016 (With Comparative Totals for 2015)

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ 137,142	\$ 113,295
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	59,710	55,587
Realized (gain) loss on investments	(14,389)	713
Gain on sale of transportation equipment		(12,250)
Changes in operating assets and liabilities		
Pledges, accounts, and other receivables	(94,931)	43,807
Unemployment trust deposits	1,599	(3,731)
Prepaid expenses	(15)	(3,951)
Accounts payable	52,626	(18,600)
Accrued payroll	49,341	(3,302)
Accrued vacation	5,047	569
Deferred revenue	34,553	(215,520)
	230,683	(43,383)
Net cash flows from operating activities		
Cash Flows from Investing Activities		
Proceeds from sale of transportation equipment		12,250
Purchase of equipment	(71,420)	(104,922)
Purchases of investments	(178,887)	(21,407)
Proceeds from sales of investments	149,630	23,433
	(100,677)	(90,646)
Net cash flows from investing activities		
Net change in cash and cash equivalents	130,006	(134,029)
Cash and Cash Equivalents, beginning of year	860,378	994,407
Cash and Cash Equivalents, end of year	\$ 990,384	\$ 860,378

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 at December 31:

	2016	2015
Undesignated	\$ 883,942	\$ 710,176
Designated	106,442	150,202
	<u>\$ 990,384</u>	<u>\$ 860,378</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

Pledges receivable at December 31, 2016, were not material to the financial statements; therefore, no concentrations are disclosed. At December 31, 2015, 86% of pledges receivable were from two foundations. No allowance for uncollectible pledges was considered necessary by management at December 31, 2016 or 2015.

Accounts Receivable

Accounts receivable predominately consists of amounts due from government entities and other organizations for services. Three government entities represented 50% of accounts receivable at December 31, 2016. Two government entities represented 31% of accounts receivable at December 31, 2015. 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, 2016 or 2015.

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:

	2016	2015
Stormwater Project	\$ 75,000	\$ 101,786
Restoration of Puget Sound	50,000	50,000
Blue Carbon Summit Project	30,000	9,800
Global Environmental Leadership	20,000	20,000
Dumas Bay Restoration	17,200	
Leadership Outcomes Evaluation Project	16,506	41,040
REI for Backcountry Project	10,000	
Work With Schools Project	10,000	
San Juan Islands Restoration	7,000	5,000
Restore America's Estuaries Project	5,000	
Let's Move Outside Project	4,083	
Adobe for Volunteers Project	3,500	
Burke Gilman Restoration	2,566	
Puget Sound Salmon Project	2,000	20,000
McEachern Equipment for Kids Project	2,000	
Duwamish Alive Project		35,748
Restoration of Hylebos Watershed		34,467
Edmonds Marsh Project		11,571
Youth Programs		6,667
Green Duwamish Symposium		6,000
Commencement Bay Climate Change Project		4,267
	<u>\$ 254,855</u>	<u>\$ 346,346</u>

Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions received by EarthCorps that require the principal to 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 pledges are made.

Two donors represented 26% and 28% of other contributions and grants revenue during the years ended December 31, 2016 and 2015, respectively. One government entity accounted for 20% of program service revenue during the year ended December 31, 2016. One government entity and one private entity accounted for 28% of program service revenue during the year ended December 31, 2015.

In-Kind Contributions

Donated materials and equipment are reflected as in-kind contributions in the accompanying financial statements at the 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 \$1,526 and \$2,847 were donated and recognized during 2016 and 2015, 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 2015

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, 2015, 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 9, 2017.

Note 2. Investments

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

	<u>2016</u>	<u>2015</u>
Intermediate-term bond mutual funds	\$ 129,674	\$ 120,059
Domestic equity mutual funds	86,003	64,326
Short-term bond mutual funds	85,757	79,392
International equity mutual funds	24,625	17,911
Common stock	560	1,285
	<u>\$ 326,619</u>	<u>\$ 282,973</u>

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

	<u>2016</u>	<u>2015</u>
Investments - board-designated	\$ 318,558	\$ 274,798
Endowment funds	8,061	8,175
	<u>\$ 326,619</u>	<u>\$ 282,973</u>

Note 3. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 60,535	\$ 60,535
Office equipment	144,448	112,909
Transportation equipment	376,039	371,151
Field equipment	20,790	27,952
	601,812	572,547
Less: accumulated depreciation	<u>(518,154)</u>	<u>(468,384)</u>
	83,658	104,163
Work in process	61,451	29,236
	<u>\$ 145,109</u>	<u>\$ 133,399</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, 2016.

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, 2016 and 2015.

Note 6. Pension Plan

EarthCorps sponsors and makes contributions to a tax-sheltered annuity or 403(b) plan. EarthCorps contributed \$37,373 and \$31,692 to the plan for the years ended December 31, 2016 and 2015, 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 \$123,807 and \$92,680 for the years ended December 31, 2016 and 2015, respectively.

Note 8. Related Party Transactions

EarthCorps receives contributions and donations from employees and members of the Board. Board members and employees contributed \$32,085 and \$32,225 for the years ended December 31, 2016 and 2015, respectively. There were no receivables for such contributions and donations at December 31, 2016 or 2015.

Note 9. Commencement Bay Long-Term Stewardship Collaborative Trust

In 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 \$110,181 and \$120,557 in 2016 and 2015, respectively, which included restoration service work performed by EarthCorps during the year, plus reimbursable costs for the years ended December 31, 2016 and 2015. This amount is included in program services revenue and \$46,460 was due and recorded in accounts receivable from the Trust as of December 31, 2016. There was no amount due from the Trust as of December 31, 2015.