EARTHCORPS

FINANCIAL REPORT

DECEMBER 31, 2017

C O N T E N T S

petersonsullivan LLP
Certified Public Accountants
& Advisors

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, 2017, 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.

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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, 2017, 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' 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 9, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Peterson Sullivan LLP

June 15, 2018

EARTHCORPS

STATEMENT OF FINANCIAL POSITION

December 31, 2017
(With Comparative Totals for 2016)

ASSETS	2017	2016
Current Assets		
Cash and cash equivalents	$ 710,819	$ 883,942
Pledges receivable	22,762	14,954
Accounts receivable	439,781	472,563
Prepaid expenses	16,025	20,296
Total current assets	1,189,387	1,391,755
Cash and Cash Equivalents - Board-Designated	77,416	106,442
Investments - Board-Designated	347,584	318,558
Investments - Endowment Funds	8,935	8,061
Unemployment Trust Deposits	49,780	49,169
Property and Equipment, net	154,210	145,109
Total assets	$ 1,827,312	$ 2,019,094

LIABILITIES AND NET ASSETS	2017	2016
Current Liabilities		
Accounts payable	$ 75,806	$ 76,745
Accrued payroll	52,346	91,098
Accrued vacation	34,104	34,586
Deferred revenue, current portion	58,076	190,645
Total current liabilities	220,332	393,074
Deferred Revenue, net of current portion	15,000	69,000
Total liabilities	235,332	462,074
Net Assets		
Unrestricted		
Undesignated	932,844	872,865
Designated for operating reserves	425,000	425,000
Total unrestricted	1,357,844	1,297,865
Temporarily restricted	229,836	254,855
Permanently restricted	4,300	4,300
Total net assets	1,591,980	1,557,020
Total liabilities and net assets	$ 1,827,312	$ 2,019,094

See Notes to Financial Statements

EARTHCORPS

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2016 Total
Revenue					
Program services	$ 1,781,359	$ -	$ -	$ 1,781,359	$ 1,716,038
Government grants	350,880			350,880	347,674
Other contributions and grants	472,753	211,972		684,725	695,606
In-kind contributions	18,930			18,930	1,526
Special event revenue	253,508			253,508	273,116
Less: direct costs of special events	(47,435)			(47,435)	(44,204)
Investment income	34,262			34,262	19,568
Miscellaneous income	6,230			6,230	72
Net assets released from restrictions	236,991	(236,991)			
Total revenue	3,107,478	(25,019)		3,082,459	3,009,396
Expenses					
Program services	2,674,320			2,674,320	2,559,415
Management and general	240,685			240,685	192,670
Fundraising	132,494			132,494	120,169
Total expenses	3,047,499			3,047,499	2,872,254
Change in net assets	**59,979**	**(25,019)**		**34,960**	**137,142**
Net Assets, beginning of year	1,297,865	254,855	4,300	1,557,020	1,419,878
Net Assets, end of year	$ 1,357,844	$ 229,836	$ 4,300	$ 1,591,980	$ 1,557,020

See Notes to Financial Statements

EARTHCORPS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	2017				
	Program Services	Management and General	Fundraising	Total	2016 Total
Employment Costs					
Salaries and wages	$ 1,499,117	$ 108,990	$ 82,576	$ 1,690,683	$ 1,660,196
Employee benefits	240,145	27,160	14,909	282,214	256,516
Payroll taxes	137,787	8,759	6,661	153,207	156,634
Staff development	21,222	141	445	21,808	24,302
Total employment costs	1,898,271	145,050	104,591	2,147,912	2,097,648
Operating Expenses					
Field operations and vehicle expenses	414,289	14,426		428,715	346,508
Occupancy	105,945	11,797	8,919	126,661	123,807
Participant support	77,468	10		77,478	68,702
Depreciation	59,661	6,575	4,966	71,202	59,710
Professional fees	21,283	51,975	1,118	74,376	58,669
Direct special events costs			47,435	47,435	44,204
Office expenses	34,984	3,957	9,383	48,324	43,187
Bank charges, financial, and other fees	20,961	2,843	1,558	25,362	16,621
Education programs	14,117	277	52	14,446	22,904
Travel	10,025			10,025	12,981
Board of Directors expenses	9,013	2,945	1,279	13,237	11,389
Telecommunications	4,426	478	362	5,266	5,786
Insurance	3,877	352	266	4,495	4,342
Total expenses	2,674,320	240,685	179,929	3,094,934	2,916,458
Less: expenses included with revenue on the statement of activities			(47,435)	(47,435)	(44,204)
Total expenses included in the expense section on the statement of activities	$ 2,674,320	$ 240,685	$ 132,494	$ 3,047,499	$ 2,872,254

See Notes to Financial Statements

EARTHCORPS

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ 34,960	$ 137,142
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	71,202	59,710
Realized and unrealized gain on investments	(27,198)	(16,302)
Gain on sale of transportation equipment	(3,500)	
Changes in operating assets and liabilities		
Pledges, accounts, and other receivables	24,974	(94,931)
Unemployment trust deposits	(611)	1,599
Prepaid expenses	4,271	(15)
Accounts payable	(939)	52,626
Accrued payroll	(38,752)	49,341
Accrued vacation	(482)	5,047
Deferred revenue	(186,569)	34,553
Net cash flows from operating activities	(122,644)	228,770
Cash Flows from Investing Activities		
Proceeds from sale of transportation equipment	3,500	
Purchase of equipment	(80,303)	(71,420)
Purchases of investments	(111,473)	(176,974)
Proceeds from sales of investments	108,771	149,630
Net cash flows from investing activities	(79,505)	(98,764)
Net change in cash and cash equivalents	**(202,149)**	**130,006**
Cash and Cash Equivalents, beginning of year	990,384	860,378
Cash and Cash Equivalents, end of year	$ 788,235	$ 990,384

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:

	2017	2016
Undesignated	$ 710,819	$ 883,942
Designated	77,416	106,442
	$ 788,235	$ 990,384

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, 2017 and 2016, were not material to the financial statements; therefore, no concentrations are disclosed. No allowance for uncollectible pledges was considered necessary by management at December 31, 2017 or 2016.

Accounts Receivable

Accounts receivable predominately consists of amounts due from government entities and other organizations for services. Two government entities represented 24% of accounts receivable at December 31, 2017. Three government entities represented 50% of accounts receivable at December 31, 2016. 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, 2017 or 2016.

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 of 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. Leasehold improvements are depreciated over the shorter of the lease term or the useful life of the asset.

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:

	2017	2016
Stormwater Project	$ 111,667	$ 75,000
Blue Carbon Summit Project	36,500	30,000
Restoration of Puget Sound	33,333	50,000
Global Environmental Leadership	26,364	20,000
Puget Sound Stewards	8,000	
Duwamhish Alive Symposium	6,247	
Russian Environmental Educator Exchange	5,925	
West Hylebos Restoration	1,800	
Dumas Bay Restoration		17,200
Leadership Outcomes Evaluation Project		16,506
REI for Backcountry Project		10,000
Work with Schools Project		10,000
San Juan Islands Restoration		7,000
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
McEachern Equipment for Kids Project		2,000
	$ 229,836	$ 254,855

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 28% and 26% of other contributions and grants revenue during the years ended December 31, 2017 and 2016, respectively. One government entity accounted for 21% and 20% of program service revenue during the years ended December 31, 2017 and 2016, respectively. One contract accounted for 97% and 99% of the government grants revenue during the years ended December 31, 2017 and 2016, respectively.

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 $18,930 and $1,526 were donated and recognized during 2017 and 2016, 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 2016

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, 2016, from which the summarized information was derived.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

EarthCorps has evaluated subsequent events through the date these financial statements were available to be issued, which was June 15, 2018.

Note 2. Investments

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

	2017	2016
Intermediate-term bond mutual funds	$ 134,288	$ 129,674
Domestic equity mutual funds	104,055	86,003
Short-term bond mutual funds	86,766	85,757
International equity mutual funds	31,410	24,625
Common stock		560
	$ 356,519	$ 326,619

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

	2017	2016
Investments - board-designated	$ 347,584	$ 318,558
Endowment funds	8,935	8,061
	$ 356,519	$ 326,619

Investment income consists of the following for the year ended December 31:

	2017	2016
Realized and unrealized gains	$ 27,198	$ 16,302
Interest and dividends	7,064	3,266
	$ 34,262	$ 19,568

Note 3. Property and Equipment

Property and equipment consists of the following at December 31:

	2017	2016
Leasehold improvements	$ 60,535	$ 60,535
Office equipment	223,508	144,448
Transportation equipment	411,634	376,039
Field equipment	20,789	20,790
	716,466	601,812
Less: accumulated depreciation	(574,356)	(518,154)
	142,110	83,658
Work in process	12,100	61,451
	$ 154,210	$ 145,109

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, 2017.

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, 2017 and 2016.

Note 6. Pension Plan

EarthCorps sponsors and makes contributions to a tax-sheltered annuity or 403(b) plan. EarthCorps contributed $38,836 and $37,373 to the plan during the years ended December 31, 2017 and 2016, respectively.

Note 7. Operating Lease

EarthCorps entered into a long-term lease for office facilities from the City of Seattle. The occupancy of the space was effective in December 2017 and will continue for 10 years. EarthCorps has an option to extend its lease for two terms of five years each.

EarthCorps has been granted a tenant improvement allowance of $485,000 from the landlord in the form of an offset to rent of up to 100% of the rent due in any month to a maximum of $485,000 for landlord preapproved construction cost expenditures.

In addition to the offset of the tenant improvement allowance against rent, EarthCorps may also offset up to 17.91% of annual rent through pre-approved delivery of programming and services to the Seattle Department of Parks and Recreation or the public. Neither the tenant allowance nor the public benefit offset allowance was applied in 2017.

Future minimum payments under this lease (net of the expected public benefit offset allowance), excluding options to extend, are as follows for the years ending December 31:

2018	$	108,647
2019		115,338
2020		121,178
2021		127,017
2022		132,857
Thereafter		751,885
	$	1,356,922

Rent expense was $126,662 and $123,807 for the years ended December 31, 2017 and 2016, respectively.

Note 8. Related Party Transactions

EarthCorps receives contributions and donations from employees and members of the Board. Board members and employees contributed $45,686 and $32,085 for the years ended December 31, 2017 and 2016, respectively. There were no receivables for such contributions and donations at December 31, 2017 or 2016.

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 $126,253 and $110,181 in 2017 and 2016, respectively, which includes restoration service work performed by EarthCorps during the year plus reimbursable costs for the years ended December 31, 2017 and 2016. These amounts are included in program services revenue, and $29,904 and $46,460 was due and recorded in accounts receivable from the Trust as of December 31, 2017 and 2016, respectively.