ENVIRONMENTAL INTEGRITY PROJECT

# Financial Statements

*For the Year Ended December 31, 2012*

and

Report Thereon

Raffa

Certified Public Accountants

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
the Environmental Integrity Project

## Report on the Financial Statements

We have audited the accompanying financial statements of the Environmental Integrity Project (EIP), which comprise the statement of financial position as of December 31, 2012, 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 of America; 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 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 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 the Environmental Integrity Project as of December 31, 2012, 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 of America.

Raffa P.C.

**Raffa, P.C.**

Washington, DC
September 24, 2013

## ENVIRONMENTAL INTEGRITY PROJECT

## STATEMENT OF FINANCIAL POSITION
### December 31, 2012

| | |
|---|---|
| **ASSETS** | |
| Cash | $ 1,138,566 |
| Grants and contributions receivable | 539,228 |
| Other receivables | 3,853 |
| Prepaid expenses | 44,539 |
| Deposit | 10,250 |
| Furniture and equipment, net | 8,506 |
| TOTAL ASSETS | $ 1,744,942 |
| **LIABILITIES AND NET ASSETS** | |
| Liabilities | |
| Accounts payable and accrued expenses | $ 62,072 |
| Accrued salaries and benefits | 68,689 |
| Total Liabilities | 130,761 |
| Net Assets | |
| Unrestricted | 172,703 |
| Temporarily restricted | 1,441,478 |
| Total Net Assets | 1,614,181 |
| TOTAL LIABILITIES AND NET ASSETS | $ 1,744,942 |

**The accompanying notes are an integral part of these financial statements.**

**ENVIRONMENTAL INTEGRITY PROJECT**

**STATEMENT OF ACTIVITIES**
**For the Year Ended December 31, 2012**

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| SUPPORT AND REVENUE | | | |
| Grants and contributions | $ 93,438 | $ 1,562,766 | $ 1,656,204 |
| Recoverable revenue | 611,300 | - | 611,300 |
| Rental and other income | 7,147 | - | 7,147 |
| Net assets released from restrictions: | | | |
| Satisfaction of program restrictions | 1,933,146 | (1,933,146) | - |
| Satisfaction of time restrictions | 281,250 | (281,250) | - |
| TOTAL SUPPORT AND REVENUE | 2,926,281 | (651,630) | 2,274,651 |
| EXPENSES | | | |
| Program services | 2,379,213 | - | 2,379,213 |
| Supporting services: | | | |
| Management and general | 125,269 | - | 125,269 |
| Fundraising | 35,135 | - | 35,135 |
| Total Supporting Services | 160,404 | - | 160,404 |
| TOTAL EXPENSES | 2,539,617 | - | 2,539,617 |
| CHANGE IN NET ASSETS | 386,664 | (651,630) | (264,966) |
| NET ASSETS, BEGINNING OF YEAR | (213,961) | 2,093,108 | 1,879,147 |
| NET ASSETS, END OF YEAR | $ 172,703 | $ 1,441,478 | $ 1,614,181 |

**The accompanying notes are an integral part of these financial statements.**

**ENVIRONMENTAL INTEGRITY PROJECT**

**STATEMENT OF FUNCTIONAL EXPENSES**
**For the Year Ended December 31, 2012**

| | Change in net ass Services | Supporting Services: Management and General | Supporting Services: Fundraising | Total |
|---|---|---|---|---|
| Salaries and benefits | $ 1,642,282 | $ 188,203 | $ 24,506 | $ 1,854,991 |
| Occupancy | - | 164,469 | - | 164,469 |
| Consulting fees | 139,882 | 16,652 | - | 156,534 |
| Professional fees | 87,180 | 19,371 | - | 106,551 |
| Travel | 45,186 | 18,579 | 2,151 | 65,916 |
| Grants | 33,500 | 13,250 | - | 46,750 |
| Dues, subscriptions, and reference | 34,804 | 3,533 | 2,827 | 41,164 |
| Communications | 2,953 | 34,851 | - | 37,804 |
| Office and other supplies | 7,910 | 10,903 | - | 18,813 |
| Printing and copies | 14,654 | 1,167 | - | 15,821 |
| Depreciation | - | 10,570 | - | 10,570 |
| Equipment rental and maintenance | - | 7,529 | - | 7,529 |
| Miscellaneous | 4,608 | 2,871 | - | 7,479 |
| Postage, mailing and delivery | 4,095 | 1,090 | 41 | 5,226 |
| Allocation of overhead costs | 362,159 | (367,769) | 5,610 | - |
| TOTAL EXPENSES | $ 2,379,213 | $ 125,269 | $ 35,135 | $ 2,539,617 |

**The accompanying notes are an integral part of these financial statements.**

**ENVIRONMENTAL INTEGRITY PROJECT**

**STATEMENT OF CASH FLOWS**
**For the Year Ended December 31, 2012**
**Increase (Decrease) in Cash**

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | $ (264,966) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 10,570 |
| Changes in assets and liabilities: | |
| Grants and contributions receivable | 330,009 |
| Other receivables | (1,185) |
| Prepaid expenses | (7,979) |
| Accounts payable and accrued expenses | 20,526 |
| Accrued salaries and benefits | 14,873 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 101,848 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchases of furniture and equipment | (1,655) |
| NET CASH USED IN INVESTING ACTIVITIES | (1,655) |
| NET INCREASE IN CASH | 100,193 |
| CASH, BEGINNING OF YEAR | 1,038,373 |
| CASH, END OF YEAR | $ 1,138,566 |

**The accompanying notes are an integral part of these financial statements.**

**NOTES TO FINANCIAL STATEMENTS**
**For the Year Ended December 31, 2012**

1. Organization and Summary of Significant Accounting Policies

**Organization**

The Environmental Integrity Project (EIP) is a nonpartisan, nonprofit 501(c)(3) organization incorporated in November 2003 in Washington, DC. The organization was founded by Eric Schaeffer, with support from the Rockefeller Family Fund and other foundations. EIP has the following three objectives:

- To provide an objective analysis of how the failure to enforce or implement environmental laws increases pollution and affects the public's health;
- To hold federal and state agencies, as well as individual corporations, accountable for failing to enforce or comply with environmental laws; and
- To help local communities in key states obtain the protection of environmental laws.

EIP's work, which is frequently based on an extensive review of government records, has been cited in Congressional hearings and debates, in reports by the U.S. Government Accountability Office, and in frequent news articles. EIP periodically evaluates the effectiveness of federal and state environmental programs, offering recommendations for improvement while recognizing outstanding performance.

EIP also works closely with grassroots organizations in Iowa, Pennsylvania, Texas, and other states to assist communities that are trying to get neighboring polluters to reduce their emissions and comply with environmental laws.

**Furniture and Equipment and Related Depreciation**

Furniture and equipment are recorded at cost and depreciated using the straight-line method over estimated useful lives of three to five years, with no salvage value. EIP capitalizes all expenditures for furniture and equipment with a cost more than $1,000. The cost of furniture and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation and any gain or loss is reflected in income or expense in the accompanying statement of activities. Major additions are capitalized while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

**Net Assets**

The net assets of EIP are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of EIP are classified and reported as follows:

- Unrestricted net assets represent funds that are available for support of EIP's operations.
- Temporarily restricted net assets represent funds that are subject to donor-imposed restrictions to be used for a particular purpose or within a specific time period.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

**Revenue Recognition**

Grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. Conditional promises to give are not included as support until such time as the conditions are substantially met. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

Recoverable revenue pertains to certain allowable legal fees that EIP has incurred in the course of representing a case which may be recovered in a court settlement. These fees may include staff attorney fees, expert costs, and other costs allowed by the court. Recoverable revenue is recognized in the year when the final outcome of legal claims or reimbursements is certain and realized. This occurs after the consent decree has been entered with the relevant jurisdictional court and after all payment conditions identified in the consent decree have been met.

**Functional Allocation of Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated proportionately among the programs and supporting services to which they relate on the basis of estimated labor costs spent on projects.

**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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Grants and Contributions Receivable

Grants and contributions receivable of $539,228 as of December 31, 2012 are due within one year and considered fully collectible.

**Continued**

3. Furniture and Equipment

Furniture and equipment consisted of the following as of December 31, 2012:

| | |
|---|---|
| Computer equipment | $ 46,885 |
| Office equipment | 21,369 |
| Furniture and fixtures | 16,544 |
| Total Furniture and Equipment | 84,798 |
| Less: Accumulated Depreciation | (76,292) |
| Furniture and Equipment, Net | $ 8,506 |

Depreciation expense was $10,570 for the year ended December 31, 2012.

4. Commitments and Contingencies

**Operating Leases**

On August 13, 2010, EIP entered into a noncancelable lease agreement for office space in Washington, DC that commenced on October 1, 2010 and is scheduled to expire on December 30, 2013. The lease provides for one-half month free rent and contains a fixed escalation clause for increases in the annual minimum rent at the rate of 4%. These fixed escalations and rent abatement are not considered significant to the financial statements. Therefore, rent expense under this lease is recognized based on actual payments made each year.

EIP also has a one year lease agreement for its office space in San Antonio, Texas, which is scheduled to expire on August 31, 2013. A portion of this office space is subleased to an unrelated third party. The sublease is also scheduled to expire on August 31, 2013.

As of December 31, 2012, future minimum lease payments under these operating leases totaled $161,537 for the year ending December 31, 2013.

Total rent expense for the year ended December 31, 2012 was $155,963 and is included in occupancy expense in the accompanying statement of functional expenses.

**Concentration of Credit Risk**

EIP maintains its cash with a commercial financial institution. While the aggregate balance at times may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of $250,000 per depositor per institution and, therefore, bear some risk, EIP has not experienced, nor does it anticipate, any loss of funds. As of December 31, 2012, EIP had approximately $1,173,000 in deposits account, which exceeded the maximum limit insured by the FDIC by approximately $923,000.

5. Program Expenses

Program services were as follows for the year ended December 31, 2012:

| | |
|---|---|
| Program services: | |
| Coal | $ 1,352,973 |
| Oil and Gas | 400,349 |
| Maryland Healthy Communities Initiative | 299,967 |
| Chesapeake Bay Initiative | 217,463 |
| Concentrated Animal Feeding Operations | 79,995 |
| Pennsylvania Healthy Communities Initiative | 28,466 |
| Total Program Services | $ 2,379,213 |

6. Temporarily Restricted Net Assets

As of December 31, 2012, temporarily restricted net assets were comprised of the following:

| | |
|---|---|
| Program restricted: | |
| Coal | $ 709,171 |
| Maryland Healthy Communities Initiative | 298,480 |
| Oil and Gas | 283,391 |
| Concentrated Animal Feeding Operations | 123,901 |
| Chesapeake Bay Initiative | 26,535 |
| Total Temporarily Restricted Net Assets | $ 1,441,478 |

7. Pension Plan

EIP offers participation in a 401(k) plan, whereby employees may make contributions on a pre-tax and post-tax basis, subject to IRS limitations. Full-time employees are eligible to participate after one year of employment. Employer contributions are discretionary and participants are fully vested in employer contributions after two years of service.

EIP contributes 3% of an eligible participant's salary regardless of the individual's participation in the plan and also provides a match of up to 3% of each eligible participant's contribution to the plan. Total pension expense was $63,861 for the year ended December 31, 2012, and is included in salaries and benefits expense in the accompanying statement of functional expenses.

**Continued**

8. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, EIP is exempt from federal taxes on income other than net unrelated business income. EIP reviews and assesses all activities annually to identify any changes in the scope of the activities and revenue sources and the tax treatment thereof to identify any uncertain tax positions. For the year ended December 31, 2012, no provision for income taxes was required as EIP had no unrelated business income and did not identify any uncertain tax positions requiring recognition or disclosure in the accompanying financial statements. As of December 31, 2012, the statute of limitations for tax years 2009 through 2011 remains open with the U.S. federal jurisdiction and the various state and local jurisdictions in which EIP files tax returns.

9. Subsequent Events

In preparing these financial statements, EIP has evaluated events and transactions for potential recognition of or disclosure through September 24, 2013, the date the financial statements were available to be issued. Except as disclosed in the next paragraph, there were no other subsequent events indentified that require recognition of, or disclosure in, these financial statements.

In March 2013, EIP entered into a new lease agreement for the Washington, DC office. The lease term commences on November 1, 2013 and expires on May 31, 2024. Under the terms of the lease, base rent is subject to annual increases of 2.25%. In addition, the landlord has provided EIP with abatement of $5,144 in base rent for the first six months and a tenant allowance up to the amount of $65 per square foot towards leasehold improvements. The landlord has provided EIP the right to use up to the amount of $7.50 per square foot of the tenant allowance for the cost of moving expenses, cabling, furniture, fixtures and equipment to be used in the leased property. The lease agreement also requires a security deposit of $66,055.