

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2015**

ENVIRONMENTAL INTEGRITY PROJECT

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GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Environmental Integrity Project
Washington, D.C.

We have audited the accompanying financial statements of the Environmental Integrity Project (EIP), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and change in net assets, 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 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 EIP as of December 31, 2016, and the change 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.

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Report on Summarized Comparative Information

We have previously audited EIP's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 14, 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.

Gelman Rosenberg & Friedman

July 19, 2017

ENVIRONMENTAL INTEGRITY PROJECT
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

ASSETS		<u>2016</u>	<u>2015</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	297,304	\$ 153,386
Grants and contributions receivable		558,162	822,764
Other receivables		8,591	9,697
Prepaid expenses		<u>52,764</u>	<u>52,071</u>
Total current assets		<u>916,821</u>	<u>1,037,918</u>
FIXED ASSETS			
Machinery and equipment		37,757	37,757
Furniture and fixtures		65,355	64,829
Computer equipment		65,769	59,814
Leasehold improvements		<u>424,060</u>	<u>424,060</u>
		592,941	586,460
Less: Accumulated depreciation and amortization		<u>(259,060)</u>	<u>(201,362)</u>
Net fixed assets		<u>333,881</u>	<u>385,098</u>
OTHER ASSETS			
Deposits		44,269	66,288
Grants receivable, net of current portion		<u>120,000</u>	<u>-</u>
Total other assets		<u>164,269</u>	<u>66,288</u>
TOTAL ASSETS		<u>\$ 1,414,971</u>	<u>\$ 1,489,304</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$	44,179	\$ 41,455
Accrued salaries and related benefits		58,707	101,303
Deferred leasehold incentive obligation, current portion		40,185	40,184
Deferred rent liability		<u>3,036</u>	<u>-</u>
Total current liabilities		<u>146,107</u>	<u>182,942</u>
LONG-TERM LIABILITIES			
Deferred leasehold incentive obligation		257,848	298,033
Deferred rent liability		<u>208,938</u>	<u>208,851</u>
Total long-term liabilities		<u>466,786</u>	<u>506,884</u>
Total liabilities		<u>612,893</u>	<u>689,826</u>
NET ASSETS			
Unrestricted (deficit)		(61,208)	4,565
Temporarily restricted		<u>863,286</u>	<u>794,913</u>
Total net assets		<u>802,078</u>	<u>799,478</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 1,414,971</u>	<u>\$ 1,489,304</u>

See accompanying notes to financial statements.

ENVIRONMENTAL INTEGRITY PROJECT

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE AND SUPPORT				
Foundation grants	\$ 90,000	\$ 2,547,500	\$ 2,637,500	\$ 2,126,000
Contributions	183,276	3,943	187,219	85,024
Interest and dividend income	154	-	154	92
Rental income	43,538	-	43,538	36,360
Recoverable expenses income	44,392	-	44,392	297,742
Other	-	3,255	3,255	-
Net assets released from donor restrictions	<u>2,486,325</u>	<u>(2,486,325)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>2,847,685</u>	<u>68,373</u>	<u>2,916,058</u>	<u>2,545,218</u>
EXPENSES				
Program Services:				
Concentrated Animal Feeding Operations	36,355	-	36,355	130,263
Chesapeake Bay Initiative	452,532	-	452,532	351,975
Coal/other projects	713,128	-	713,128	973,235
Maryland Healthy Communities Initiative	244,951	-	244,951	342,231
Oil and Gas	<u>1,104,889</u>	<u>-</u>	<u>1,104,889</u>	<u>756,804</u>
Total program services	<u>2,551,855</u>	<u>-</u>	<u>2,551,855</u>	<u>2,554,508</u>
Supporting Services:				
Management and General	289,532	-	289,532	174,502
Fundraising	<u>72,071</u>	<u>-</u>	<u>72,071</u>	<u>95,885</u>
Total supporting services	<u>361,603</u>	<u>-</u>	<u>361,603</u>	<u>270,387</u>
Total expenses	<u>2,913,458</u>	<u>-</u>	<u>2,913,458</u>	<u>2,824,895</u>
Change in net assets	(65,773)	68,373	2,600	(279,677)
Net assets at beginning of year	<u>4,565</u>	<u>794,913</u>	<u>799,478</u>	<u>1,079,155</u>
NET ASSETS AT END OF YEAR	<u>\$ (61,208)</u>	<u>\$ 863,286</u>	<u>\$ 802,078</u>	<u>\$ 799,478</u>

ENVIRONMENTAL INTEGRITY PROJECT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	2016			
	Concentrated Animal Feeding Operations	Chesapeake Bay Initiative	Coal/Other Projects	Maryland Healthy Communities Initiative
Salaries and payroll taxes	\$ 25,135	\$ 330,827	\$ 497,630	\$ 160,403
Professional and legal fees	-	2,835	17,785	-
Public relations	833	1,803	3,568	1,803
Subgrant	-	-	-	21,000
Meeting and transportation	-	4,055	15,917	1,932
Printing, postage and delivery	262	757	1,262	1,000
Reference material	1,703	3,694	13,128	1,930
Court filing fees	212	665	2,047	-
Testing and project supplies	-	219	224	19
Dues and subscriptions	597	1,603	1,427	1,787
Rent expense	1,420	32,572	48,331	15,410
Information technology	-	10	-	-
Business insurance	-	-	-	-
Other administrative costs	-	180	25	20
Depreciation expense	-	-	-	-
Amortization expense	-	-	-	-
Subtotal	30,162	379,220	601,344	205,304
Overhead allocation	6,193	73,312	111,784	39,647
TOTAL	\$ 36,355	\$ 452,532	\$ 713,128	\$ 244,951

							2015
Supporting Services							
Oil and Gas	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses	
\$ 792,289	\$1,806,284	\$ 398,103	\$ 61,563	\$ 459,666	\$2,265,950	\$ 2,152,167	
15,021	35,641	42,191	15	42,206	77,847	117,233	
5,768	13,775	2,711	-	2,711	16,486	8,664	
5,679	26,679	-	-	-	26,679	28,500	
29,054	50,958	11,273	1,549	12,822	63,780	45,974	
4,010	7,291	6,323	553	6,876	14,167	11,038	
5,559	26,014	6,045	-	6,045	32,059	30,798	
825	3,749	-	-	-	3,749	4,038	
5,558	6,020	10,487	24	10,511	16,531	22,534	
2,356	7,770	5,045	2,225	7,270	15,040	13,344	
75,829	173,562	92,895	5,805	98,700	272,262	268,660	
160	170	20,161	-	20,161	20,331	29,480	
-	-	13,146	-	13,146	13,146	12,851	
-	225	17,171	337	17,508	17,733	21,479	
-	-	17,514	-	17,514	17,514	17,950	
-	-	40,184	-	40,184	40,184	40,185	
942,108	2,158,138	683,249	72,071	755,320	2,913,458	2,824,895	
162,781	393,717	(393,717)	-	(393,717)	-	-	
\$ 1,104,889	\$2,551,855	\$ 289,532	\$ 72,071	\$ 361,603	\$2,913,458	\$2,824,895	

ENVIRONMENTAL INTEGRITY PROJECT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,600	\$ (279,677)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	57,698	58,135
(Increase) decrease in:		
Grants and contributions receivable	144,602	15,152
Other receivables	1,106	(6,608)
Prepaid expenses	(693)	13,718
Deposits	22,019	1,618
Increase (decrease) in:		
Accounts payable and accrued expenses	2,724	(31,282)
Accrued salaries and related benefits	(42,596)	(3,587)
Deferred leasehold incentive obligation	(40,184)	(40,184)
Deferred rent liability	<u>3,123</u>	<u>9,145</u>
Net cash provided (used) by operating activities	<u>150,399</u>	<u>(263,570)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	<u>(6,481)</u>	<u>(1,778)</u>
Net cash used by investing activities	<u>(6,481)</u>	<u>(1,778)</u>
Net increase (decrease) in cash and cash equivalents	143,918	(265,348)
Cash and cash equivalents at beginning of year	<u>153,386</u>	<u>418,734</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 297,304</u>	<u>\$ 153,386</u>

ENVIRONMENTAL INTEGRITY PROJECT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Environmental Integrity Project (EIP) is a nonpartisan, non-profit organization, incorporated in November 2003 in Washington, D.C. EIP 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 increase 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 law; 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.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with EIP's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Cash and cash equivalents -

EIP considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, EIP maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Grants and contributions receivable -

Grants and contributions receivable that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. Amortization of the discounts is included in grants and contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

ENVIRONMENTAL INTEGRITY PROJECT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Grants and contributions receivable (continued) -

Other accounts receivable are recorded at their net realizable value, which approximates fair value. All grants, contributions and accounts receivable are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Fixed assets -

Fixed assets in excess of \$500 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the year ended December 31, 2016 totaled \$57,698.

Income taxes -

EIP is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. EIP is not a private foundation.

Uncertain tax positions -

For the year ended December 31, 2016, EIP has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of EIP and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of EIP and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

ENVIRONMENTAL INTEGRITY PROJECT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Contributions and grants (continued) -

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.

Use of estimates -

The preparation of the 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

New accounting pronouncement -

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of EIP's financial statements, it is not expected to alter EIP's reported financial position. EIP has elected to defer implementation until the required date.

2. GRANTS RECEIVABLE

As of December 31, 2016, contributors to EIP have made written promises to give totaling \$678,162.

Grants are due as follows at December 31, 2016:

Less than one year	\$ 558,162
One to five years	<u>120,000</u>
TOTAL GRANTS RECEIVABLE	<u>\$ 678,162</u>

ENVIRONMENTAL INTEGRITY PROJECT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

3. LINE OF CREDIT

EIP has a \$100,000, revolving bank line of credit. Amounts borrowed under this agreement bear interest at the bank's prime rate plus 6.75%. As of December 31, 2016, there was no outstanding balance on the line of credit.

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2016:

Coal/other projects	\$	99,772
Chesapeake Bay Initiative		14,930
Maryland Healthy Communities Initiative		127,416
Oil and Gas		<u>621,168</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$	<u>863,286</u>

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Concentrated Animal Feeding Operations	\$	36,355
Chesapeake Bay Initiative		452,532
Coal/other projects		695,941
Maryland Healthy Communities Initiative		244,951
Oil and Gas		<u>1,056,546</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$	<u>2,486,325</u>

5. LEASE COMMITMENTS

On March 14, 2013, EIP entered into a 10-year lease with Vermont Avenue SPE LLC, in Washington, D.C., which began on November 1, 2013. The lease provides six months of free rent, followed by six months of reduced rent payments and contains a fixed escalation clause for increases in the annual minimum rent at the rate of 2.25%. Under the terms of the lease, EIP received a leasehold improvement allowance of \$424,060. In 2013, \$374,000 of the allowance was used, and the remaining \$50,060 was used during 2014.

EIP also had a lease agreement for office space in Texas, effective May 1, 2014, which expired on April 30, 2015. A new space was leased for the term May 1, 2015 through August 31, 2017. The lease has been extended through January 2020.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability on the Statement of Financial Position.

ENVIRONMENTAL INTEGRITY PROJECT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

5. LEASE COMMITMENTS (Continued)

The following is a schedule of the future minimum lease payments:

Year Ending December 31,

2017	\$ 298,300
2018	305,729
2019	315,988
2020	307,457
2021	312,707
Thereafter	<u>784,166</u>
	<u>\$ 2,324,347</u>

Rent expense including operating expenses for the year ended December 31, 2016 was \$272,262, which is included under rent expense in the accompanying Statement of Functional Expenses. As of December 31, 2016, the deferred rent liability was \$211,974 and the deferred leasehold incentive obligation was \$298,032.

EIP subleases a portion of its office space in Washington, D.C., to two unrelated third parties. The first expired January 14, 2016 and was extended to March 31, 2017. The second was effective March 2015 and was scheduled to expire September 14, 2016. That sublease is continuing on a month-to-month basis.

The following is a schedule of the future minimum rental income:

Year Ended December 31, 2017	<u>\$ 6,636</u>
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Rental income for the year ended December 31, 2016 was \$43,538.

6. RETIREMENT PLAN

EIP provides retirement benefits to its employees through 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. Contributions to the plan during the year ended December 31, 2016 totaled \$88,569.

7. SUBSEQUENT EVENTS

In preparing these financial statements, EIP has evaluated events and transactions for potential recognition or disclosure through July 19, 2017, the date the financial statements were issued.