

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2011**

PUBLIC EMPLOYEES FOR ENVIRONMENTAL RESPONSIBILITY, INC.

CONTENTS

| | PAGE NO. |
|---|-----------------|
| INDEPENDENT AUDITORS' REPORT | 2 |
| EXHIBIT A - Statement of Financial Position, as of September 30, 2012, with Summarized Financial Information for 2011 | 3 |
| EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended September 30, 2012, with Summarized Financial Information for 2011 | 4 |
| EXHIBIT C - Statement of Functional Expenses, for the Year Ended September 30, 2012, with Summarized Financial Information for 2011 | 5 - 6 |
| EXHIBIT D - Statement of Cash Flows, for the Year Ended September 30, 2012, with Summarized Financial Information for 2011 | 7 |
| NOTES TO FINANCIAL STATEMENTS | 8 - 12 |



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Public Employees for Environmental Responsibility, Inc.
Washington, D.C.

We have audited the accompanying statement of financial position of Public Employees for Environmental Responsibility, Inc. (PEER) as of September 30, 2012, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of PEER's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from PEER's financial statements for the year ended September 30, 2011 and, in our report dated June 19, 2012, we expressed an unqualified opinion on those statements.

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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PEER's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PEER as of September 30, 2012, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads 'Gelman, Rosenberg & Freedman'.

April 29, 2013

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PUBLIC EMPLOYEES FOR ENVIRONMENTAL RESPONSIBILITY, INC.

STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

| ASSETS | | <u>2012</u> | <u>2011</u> |
|---|-----------|-----------------------|--------------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ | 272,599 | \$ 498,891 |
| Accounts receivable | | 1,200 | - |
| Grants receivable | | - | 62,500 |
| Prepaid expenses | | <u>15,377</u> | <u>14,825</u> |
| Total current assets | | <u>289,176</u> | <u>576,216</u> |
| FIXED ASSETS | | | |
| Furniture and equipment | | 32,424 | 31,326 |
| Less: Accumulated depreciation | | <u>(29,932)</u> | <u>(23,350)</u> |
| Net fixed assets | | <u>2,492</u> | <u>7,976</u> |
| NON-CURRENT ASSETS | | | |
| Beneficial interest in donor restricted fund (Note 6) | | 100,127 | - |
| Security deposit | | <u>7,140</u> | <u>7,140</u> |
| Total non-current assets | | <u>107,267</u> | <u>7,140</u> |
| TOTAL ASSETS | \$ | <u>398,935</u> | \$ <u>591,332</u> |
| LIABILITIES AND NET ASSETS | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | \$ | 47,936 | \$ 51,931 |
| Deferred revenue | | 7,807 | - |
| Amounts held for other non-profit organization | | <u>-</u> | <u>18,469</u> |
| Total current liabilities | | <u>55,743</u> | <u>70,400</u> |
| LONG-TERM LIABILITIES | | | |
| Deferred rent abatement (Note 4) | | <u>14,653</u> | <u>17,658</u> |
| Total liabilities | | <u>70,396</u> | <u>88,058</u> |
| NET ASSETS | | | |
| Unrestricted | | (138,678) | 74,927 |
| Temporarily restricted (Note 2) | | <u>467,217</u> | <u>428,347</u> |
| Total net assets | | <u>328,539</u> | <u>503,274</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ | <u>398,935</u> | \$ <u>591,332</u> |

See accompanying notes to financial statements.

PUBLIC EMPLOYEES FOR ENVIRONMENTAL RESPONSIBILITY, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

| | 2012 | | | 2011 |
|---|----------------------------|---------------------------|--------------------------|--------------------------|
| | Unrestricted | Temporarily Restricted | Total | Total |
| REVENUE | | | | |
| Contributions | \$ 137,659 | \$ - | \$ 137,659 | \$ 141,564 |
| Foundation grants (Note 5) | 166,000 | 396,535 | 562,535 | 789,900 |
| Rental income | 339 | - | 339 | - |
| Miscellaneous income | 25,521 | - | 25,521 | 27,190 |
| Court awards | 222,375 | - | 222,375 | 728,482 |
| Net assets released from donor restrictions (Note 3) | <u>357,665</u> | <u>(357,665)</u> | <u>-</u> | <u>-</u> |
| Total revenue | <u>909,559</u> | <u>38,870</u> | <u>948,429</u> | <u>1,687,136</u> |
| EXPENSES | | | | |
| Program Services: | | | | |
| Field Operations | 453,856 | - | 453,856 | 688,915 |
| Membership and Outreach | 112,797 | - | 112,797 | 121,607 |
| Legal | 215,731 | - | 215,731 | 470,535 |
| Pollution Control | 136,352 | - | 136,352 | 108,315 |
| Natural Resources | 118,458 | - | 118,458 | 56,084 |
| Military | <u>839</u> | <u>-</u> | <u>839</u> | <u>1,798</u> |
| Total program services | <u>1,038,033</u> | <u>-</u> | <u>1,038,033</u> | <u>1,447,254</u> |
| Supporting Services: | | | | |
| Management and General | 82,874 | - | 82,874 | 133,756 |
| Fundraising | <u>2,257</u> | <u>-</u> | <u>2,257</u> | <u>4,245</u> |
| Total supporting services | <u>85,131</u> | <u>-</u> | <u>85,131</u> | <u>138,001</u> |
| Total expenses | <u>1,123,164</u> | <u>-</u> | <u>1,123,164</u> | <u>1,585,255</u> |
| Change in net assets | (213,605) | 38,870 | (174,735) | 101,881 |
| Net assets at beginning of year | <u>74,927</u> | <u>428,347</u> | <u>503,274</u> | <u>401,393</u> |
| NET ASSETS AT END OF YEAR | <u>\$ (138,678)</u> | <u>\$ 467,217</u> | <u>\$ 328,539</u> | <u>\$ 503,274</u> |

PUBLIC EMPLOYEES FOR ENVIRONMENTAL RESPONSIBILITY, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

| | 2012 | | | | |
|----------------------------------|-----------------------------|------------------------------------|------------------|------------------------------|------------------------------|
| | Program Services | | | | |
| | Field Operations | Membership and Outreach | Legal | Pollution Control | Natural Resources |
| Salaries and employee benefits | \$ 141,079 | \$ 51,392 | \$ 98,087 | \$ 32,499 | \$ 64,311 |
| Printing and production | 159 | 7,326 | 11,884 | - | - |
| Professional fees | 272,859 | 11,452 | 45,289 | 92,835 | 9,054 |
| Occupancy (Note 4) | 19,557 | 15,357 | 34,219 | 5,209 | 21,275 |
| Insurance | - | - | 1,657 | - | - |
| Depreciation | - | - | - | - | - |
| Telephone | 7,297 | 2,148 | 4,111 | 1,286 | 2,710 |
| Travel and entertainment | 10,245 | 333 | 15 | 1,735 | - |
| Postage and delivery | 467 | 13,456 | 604 | 212 | 254 |
| Repairs and maintenance | 527 | 1,193 | 2,053 | 837 | 1,544 |
| Supplies | 190 | 369 | 675 | 799 | 447 |
| Subscriptions and publications | - | 2,050 | 90 | 211 | - |
| Meetings and conventions | - | - | - | - | - |
| Events and meetings | 119 | - | - | - | - |
| Bank fees | - | 460 | - | - | - |
| Equipment | 264 | - | - | - | - |
| Grants | - | - | - | - | 18,575 |
| Registrations, fees and licenses | 985 | 7,261 | 16,824 | 729 | 288 |
| Miscellaneous | 108 | - | 223 | - | - |
| TOTAL | \$ 453,856 | \$ 112,797 | \$215,731 | \$ 136,352 | \$ 118,458 |

| | | | | | | | 2011 |
|---------------|------------------------------|---------------------------|-----------------|---------------------------------|--------------------|--------------------|------|
| | | Supporting Services | | | | | |
| Military | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total Expenses | Total Expenses | |
| \$ 837 | \$ 388,205 | \$ 37,159 | \$ 1,228 | \$ 38,387 | \$ 426,592 | \$ 417,487 | |
| - | 19,369 | 2,517 | - | 2,517 | 21,886 | 28,312 | |
| - | 431,489 | 16,500 | 170 | 16,670 | 448,159 | 887,105 | |
| - | 95,617 | 9,174 | 426 | 9,600 | 105,217 | 121,074 | |
| - | 1,657 | 2,602 | - | 2,602 | 4,259 | 4,782 | |
| - | - | 6,582 | - | 6,582 | 6,582 | 1,992 | |
| 2 | 17,554 | 1,068 | 50 | 1,118 | 18,672 | 12,167 | |
| - | 12,328 | 19 | - | 19 | 12,347 | 18,412 | |
| - | 14,993 | 719 | 5 | 724 | 15,717 | 7,972 | |
| - | 6,154 | 297 | 20 | 317 | 6,471 | 5,560 | |
| - | 2,480 | 181 | 8 | 189 | 2,669 | 8,535 | |
| - | 2,351 | 3,635 | 295 | 3,930 | 6,281 | 6,970 | |
| - | - | - | - | - | - | 40 | |
| - | 119 | - | - | - | 119 | - | |
| - | 460 | 1,014 | - | 1,014 | 1,474 | 686 | |
| - | 264 | - | - | - | 264 | - | |
| - | 18,575 | - | - | - | 18,575 | 35,400 | |
| - | 26,087 | 1,357 | 55 | 1,412 | 27,499 | 23,437 | |
| - | 331 | 50 | - | 50 | 381 | 5,324 | |
| \$ 839 | \$1,038,033 | \$ 82,874 | \$ 2,257 | \$ 85,131 | \$1,123,164 | \$1,585,255 | |

PUBLIC EMPLOYEES FOR ENVIRONMENTAL RESPONSIBILITY, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

| | 2012 | 2011 |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (174,735) | \$ 101,881 |
| Adjustments to reconcile change in net assets to net cash (used) provided by operating activities: | | |
| Depreciation | 6,582 | 1,992 |
| Deferred rent abatement | (3,005) | 17,658 |
| (Increase) decrease in: | | |
| Accounts receivable | (1,200) | - |
| Grants receivable | 62,500 | (62,500) |
| Prepaid expenses | (552) | 2,310 |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | (3,995) | (30,370) |
| Deferred revenue | 7,807 | - |
| Amounts held for other non-profit organization | (18,469) | (2,195) |
| Net cash (used) provided by operating activities | (125,067) | 28,776 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of furniture and equipment | (1,098) | (3,439) |
| Purchase of investments | (100,127) | - |
| Net cash used by investing activities | (101,225) | (3,439) |
| Net (decrease) increase in cash and cash equivalents | (226,292) | 25,337 |
| Cash and cash equivalents at beginning of year | 498,891 | 473,554 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 272,599 | \$ 498,891 |

PUBLIC EMPLOYEES FOR ENVIRONMENTAL RESPONSIBILITY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Public Employees for Environmental Responsibility, Inc. (PEER) is a non-profit organization, incorporated and located in Washington, D.C. The purposes of PEER are to educate the public and employees of government resource management and environmental protection agencies nationwide about environmental ethics, to assist those who speak out on behalf of environmental ethics, and to protect the integrity of individual employees and scientists within the government who dissent for ethical reasons. PEER activities are funded primarily through public contributions and grants.

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 PEER's financial statements for the year ended September 30, 2011, from which the summarized information was derived.

Cash and cash equivalents -

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

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provides temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) - insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). PEER maintains a portion of its cash balances at financial institutions in non-interest bearing accounts; thereby, all of these cash balances are protected by FDIC under this Act.

At times during the year, PEER maintains cash balances in interest bearing accounts at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Fixed assets -

Fixed assets costing \$500 or more 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. The cost of maintenance and repairs is recorded as expenses are incurred.

Grants receivable -

Grants receivable approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

PUBLIC EMPLOYEES FOR ENVIRONMENTAL RESPONSIBILITY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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

Income taxes -

PEER 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. PEER is not a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the year ended September 30, 2012, PEER has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

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 PEER 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 PEER 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 -

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

Court awards, which PEER receives as a result of litigation related to its mission, are recorded when the court awards the amount to PEER.

Use of 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 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.

PUBLIC EMPLOYEES FOR ENVIRONMENTAL RESPONSIBILITY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

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

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.

2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at September 30, 2012:

| | |
|-------------------|--------------------------|
| Field operations | \$ 81,131 |
| Legal programs | 282,468 |
| Pollution control | 4,050 |
| Other | <u>99,568</u> |
| | <u>\$ 467,217</u> |

3. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors:

| | |
|-------------------|--------------------------|
| Field operations | \$ 132,989 |
| Legal programs | 160,760 |
| Pollution control | 38,485 |
| Natural resources | 10,000 |
| Other | <u>15,431</u> |
| | <u>\$ 357,665</u> |

4. LEASE COMMITMENT

In July 2005, PEER entered into a lease for office space, which began in January 2006 and was scheduled to run through January 2011. Effective February 1, 2007, monthly payments of \$7,362 are adjusted annually using the Consumer Price Index, with a maximum annual increase of 4%. Subsequent to year-end, PEER extended its lease agreement through January 31, 2019.

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 in the Statement of Financial Position.

PUBLIC EMPLOYEES FOR ENVIRONMENTAL RESPONSIBILITY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

4. LEASE COMMITMENT (Continued)

Future minimum lease payments required under the lease agreements are as follows:

Year Ending September 30,

| | |
|------------|--------------------------|
| 2013 | \$ 107,233 |
| 2014 | 111,523 |
| 2015 | 115,984 |
| 2016 | 120,623 |
| 2017 | 125,448 |
| Thereafter | <u>311,965</u> |
| | <u>\$ 892,776</u> |

Occupancy expense totaled \$105,217 for the year ended September 30, 2012. The deferred rent liability was \$14,653 for the year ended September 30, 2012.

5. CONDITIONAL GRANTS

In 2011, PEER received a two-year grant totaling \$260,000, to support the restoration of water quality and protection of wetlands in the lower river corridor states.

The first installment of \$130,000 was received in March 2011 and is included in temporarily restricted foundation grants in the Statement of Activities and Change in Net Assets.

The remaining payment of \$130,000 was conditional upon PEER meeting certain stipulations set forth in the agreement. The conditions were met in 2012 and the remaining balance was received and is included in temporarily restricted net assets at year end.

6. INTEREST IN DONOR - RESTRICTED FUND

PEER's beneficial interest in a restricted account held by another not-for-profit organization is recognized as an asset, in accordance with subsections of FASB ASC 958-605, *Transfer to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*.

Another not-for-profit organization has legal control over the account. However, upon written notification, PEER may request distributions in accordance with its agreement. The distributions will support litigation costs or provide stipends for law school graduates. The agreement also calls for PEER to reimburse the account from amounts recovered through the courts, and PEER may elect to contribute additional amounts to the fund.

PEER may request that all assets of the fund be distributed to it or to a not-for-profit organization of its choice if circumstances change that impair the ability of PEER to use the funds for their intended purpose. Amounts in the fund are currently held in a money market account and are recorded at their fair market value at September 30, 2012.

PUBLIC EMPLOYEES FOR ENVIRONMENTAL RESPONSIBILITY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

6. INTEREST IN DONOR - RESTRICTED FUND (Continued)

Holdings of PEER's interest in the donor restricted fund are presented in the financial statements at their aggregate fair market value.

7. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, PEER has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market PEER has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at September 30, 2012.

- *Mutual Funds* - Fair value is equal to the reported net asset value of the fund.

The table below summarizes, by level within the fair value hierarchy, PEER's investments as of September 30, 2012:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total September 30, 2012</u> |
|---------------------|-------------------|----------------|----------------|---|
| Asset Class: | | | | |
| Mutual Funds | <u>\$ 100,127</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 100,127</u> |

8. SUBSEQUENT EVENTS

In preparing these financial statements, PEER has evaluated events and transactions for potential recognition or disclosure through April 29, 2013, the date the financial statements were issued.