



Report of Independent Auditors and
Financial Statements



EARTHJUSTICE

Because the earth needs a good lawyer

June 30, 2011 and 2010

MOSS-ADAMS_{LLP}

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of
Earthjustice

We have audited the accompanying statements of financial position of Earthjustice as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Earthjustice. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Earthjustice'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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide 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 Earthjustice as of June 30, 2011 and 2010, and the results of its activities, functional expenses, and cash flows for the years then ended in conformity with accounting standards generally accepted in the United States of America.

Moss Adams LLP

San Francisco, California
October 19, 2011

FINANCIAL STATEMENTS

EARTHJUSTICE
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Operating cash, including client trust funds	\$ 544,008	\$ 1,045,764
Short-term investments at market value, including cash equivalents	8,510,417	2,771,648
Receivables - contributions	5,599,125	4,474,998
Other receivables	13,559	15,510
Court awards receivable	24,829	32,876
Prepaid expenses	749,488	696,054
Deferred compensation asset	58,777	-
Long-term investments at fair value	31,246,634	28,603,016
Property and equipment, net of accumulated depreciation and amortization	1,637,046	1,631,060
	<u>\$ 48,383,883</u>	<u>\$ 39,270,926</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 984,605	\$ 1,096,135
Accrued vacation payable	1,153,948	1,043,173
Client trust funds	110,442	256,499
Deferred compensation liability	58,777	-
Liabilities related to split interest gift agreements	4,819,261	4,497,605
Total liabilities	<u>7,127,033</u>	<u>6,893,412</u>
NET ASSETS		
Unrestricted	25,527,950	19,973,892
Temporarily restricted	14,281,067	10,955,789
Permanently restricted	1,447,833	1,447,833
Total net assets	<u>41,256,850</u>	<u>32,377,514</u>
	<u>\$ 48,383,883</u>	<u>\$ 39,270,926</u>

See accompanying notes.

EARTHJUSTICE
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2011 and 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Contributions	\$ 13,641,877	\$ 13,824,376	\$ -	\$ 27,466,253	\$ 11,413,294	\$ 9,809,576	\$ -	\$ 21,222,870
Modification of gift	-	-	-	-	-	(1,098,559)	-	(1,098,559)
Donated services	7,744,615	-	-	7,744,615	7,262,205	-	-	7,262,205
Bequests	2,062,208	101,059	-	2,163,267	972,880	4,294	-	977,174
Court awarded attorney fees and costs	3,970,034	-	-	3,970,034	2,892,467	-	-	2,892,467
Change in value of split interest gift agreements	(327,580)	643,362	-	315,782	(219,601)	370,110	-	150,509
Gains on long-term investments	3,263,217	150,000	-	3,413,217	1,512,234	213,770	-	1,726,004
Interest and dividend income	806,800	-	-	806,800	590,480	-	-	590,480
Other income	110,288	-	-	110,288	116,605	-	-	116,605
Satisfaction of program/time restrictions	11,393,519	(11,393,519)	-	-	9,020,531	(9,020,531)	-	-
Total revenues	42,664,978	3,325,278	-	45,990,256	33,561,095	278,660	-	33,839,755
EXPENSES								
Program services								
Litigation	16,517,272	-	-	16,517,272	14,031,687	-	-	14,031,687
Donated litigation services	1,693,523	-	-	1,693,523	1,731,576	-	-	1,731,576
Public information	6,581,946	-	-	6,581,946	6,112,261	-	-	6,112,261
Donated public information services	6,051,092	-	-	6,051,092	5,530,629	-	-	5,530,629
Supporting services								
Management and general	2,645,210	-	-	2,645,210	2,118,329	-	-	2,118,329
Fund-raising	3,621,877	-	-	3,621,877	3,502,202	-	-	3,502,202
Total expenses	37,110,920	-	-	37,110,920	33,026,684	-	-	33,026,684
CHANGE IN NET ASSETS	5,554,058	3,325,278	-	8,879,336	534,411	278,660	-	813,071
NET ASSETS, beginning of year	19,973,892	10,955,789	1,447,833	32,377,514	19,439,481	10,677,129	1,447,833	31,564,443
NET ASSETS, end of year	\$ 25,527,950	\$ 14,281,067	\$ 1,447,833	\$ 41,256,850	\$ 19,973,892	\$ 10,955,789	\$ 1,447,833	\$ 32,377,514

See accompanying notes.

EARTHJUSTICE
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2011 and 2010

	2011					2010				
	Program		Management and General	Fund-Raising	Total	Program		Management and General	Fund-Raising	Total
	Litigation	Public Information				Litigation	Public Information			
SALARIES AND RELATED EXPENSES										
Attorneys	\$ 6,371,920	\$ 7,195	\$ -	\$ -	\$ 6,379,115	\$ 5,442,405	\$ 12,725	\$ -	\$ -	\$ 5,455,130
Paralegal	270,751	-	-	-	270,751	382,309	841	-	-	383,150
Non-legal staff	2,603,838	2,696,905	1,287,439	1,030,168	7,618,350	2,269,262	2,280,231	1,121,771	982,724	6,653,988
Retirement plan contributions	730,369	203,941	104,829	85,144	1,124,283	604,129	162,755	82,201	69,602	918,687
Employee fringe benefits	1,578,975	407,301	227,998	187,402	2,401,676	1,330,786	353,417	207,241	180,084	2,071,528
Payroll taxes	677,725	190,336	88,902	71,725	1,028,688	586,110	163,438	79,676	69,753	898,977
	<u>12,233,578</u>	<u>3,505,678</u>	<u>1,709,168</u>	<u>1,374,439</u>	<u>18,822,863</u>	<u>10,615,001</u>	<u>2,973,407</u>	<u>1,490,889</u>	<u>1,302,163</u>	<u>16,381,460</u>
OTHER EXPENSES										
Direct case costs	1,186,761	-	-	-	1,186,761	751,410	-	-	-	751,410
Donated services	1,693,523	6,051,092	-	-	7,744,615	1,731,576	5,530,629	-	-	7,262,205
Grants and allocations	74,400	-	-	-	74,400	89,160	-	-	-	89,160
Fundraising professional services	-	-	-	304,894	304,894	-	-	-	371,430	371,430
Occupancy	1,305,318	471,881	240,599	201,614	2,219,412	1,229,873	430,367	215,802	201,598	2,077,640
Telephone and internet	278,162	34,831	7,570	6,674	327,237	219,178	31,063	4,886	6,051	261,178
Media	-	897,402	-	-	897,402	-	554,883	-	-	554,883
Travel, conferences and meetings	411,808	116,635	71,298	55,494	655,235	238,408	128,079	49,656	47,772	463,915
Professional services	304,238	533,332	194,719	145,357	1,177,646	198,634	730,689	45,448	50,287	1,025,058
Printing, publications and reproduction	91,432	212,559	94,095	389,642	787,728	12,373	352,942	21,762	322,266	709,343
Supplies	65,726	78,001	6,896	5,945	156,568	70,807	23,134	6,657	39,151	139,749
Postage	26,872	360,437	19,051	441,398	847,758	7,893	377,058	18,307	451,407	854,665
Depreciation and amortization	310,233	113,609	98,663	91,380	613,885	436,220	103,346	83,417	81,928	704,911
Equipment rental and maintenance	75,433	11,326	3,920	5,406	96,085	65,946	9,913	7,065	8,447	91,371
Contracted services	5,236	208,277	14,150	572,930	800,593	6,075	228,365	11,143	604,107	849,690
Miscellaneous	87,843	10,970	21,413	9,439	129,665	51,515	61,531	12,446	6,988	132,480
Research	703	18,328	7,300	7,193	33,524	456	76,852	3,349	3,403	84,060
Investment advisory and bank fees	-	-	151,623	-	151,623	-	-	145,156	-	145,156
Insurance	59,529	8,680	4,745	10,072	83,026	38,738	30,632	2,346	5,204	76,920
	<u>5,977,217</u>	<u>9,127,360</u>	<u>936,042</u>	<u>2,247,438</u>	<u>18,288,057</u>	<u>5,148,262</u>	<u>8,669,483</u>	<u>627,440</u>	<u>2,200,039</u>	<u>16,645,224</u>
	<u>\$ 18,210,795</u>	<u>\$ 12,633,038</u>	<u>\$ 2,645,210</u>	<u>\$ 3,621,877</u>	<u>\$ 37,110,920</u>	<u>\$ 15,763,263</u>	<u>\$ 11,642,890</u>	<u>\$ 2,118,329</u>	<u>\$ 3,502,202</u>	<u>\$ 33,026,684</u>

See accompanying notes.

EARTHJUSTICE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 8,879,336	\$ 813,071
Adjustments to reconcile changes in net assets to net cash from operating activities		
Depreciation and amortization	613,885	704,911
Actuarial gain on split interest liabilities	(315,782)	(150,509)
Modification of gift	-	1,098,559
Net realized and unrealized gains from long-term investments	(3,413,217)	(1,726,004)
Changes in assets and liabilities		
Receivables - contributions	(1,124,127)	2,623,658
Other receivables	1,951	30,368
Court awards receivable	8,047	8,076
Prepaid expenses	(53,433)	(171,245)
Accounts payable	(111,531)	196,479
Accrued vacation payable	110,774	45,895
Client trust funds	(146,057)	223,473
Liabilities relating to split interest gift agreements	321,656	(141,868)
Total adjustments	(4,107,834)	2,741,793
Net cash from operating activities	4,771,502	3,554,864
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of short-term investments	21,420,951	14,451,547
Purchase of short-term investments	(21,380,174)	(13,403,560)
Proceeds from sales of long-term investments	5,725,000	925,000
Purchase of long-term investments	(4,642,525)	(6,380,353)
Purchase of property and equipment	(619,871)	(277,179)
Net cash from investing activities	503,381	(4,684,545)
CHANGE IN CASH AND CASH EQUIVALENTS	5,274,883	(1,129,681)
CASH AND CASH EQUIVALENTS, beginning of year	3,574,792	4,704,473
CASH AND CASH EQUIVALENTS, end of year	\$ 8,849,675	\$ 3,574,792

See accompanying notes.

EARTHJUSTICE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and organization – Earthjustice (the “Organization”) is a non-profit public interest law firm dedicated to protecting the magnificent places, natural resources, and wildlife of this earth and to defending the rights of all people to a healthy environment by enforcing and strengthening environmental laws on behalf of hundreds of organizations and communities. Extensive use is made of private attorneys through pro bono and reduced-fee arrangements. Combining the resources of its staff with the talents of concerned private practitioners enables Earthjustice to take on cases and appeals throughout the United States and internationally.

Earthjustice was incorporated in March 1970, under the laws of the State of California. It presently employs approximately 80 attorneys in ten regional offices: Oakland, California (which also houses the administrative offices); Washington, D.C.; Denver, Colorado; Juneau, Alaska; Anchorage, Alaska; Seattle, Washington; Honolulu, Hawaii; Tallahassee, Florida; Bozeman, Montana; and New York, New York.

Earthjustice receives no support from the federal government. It has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes is included in the financial statements. Earthjustice, under certain circumstances, may accept attorneys' fees and not compromise its exempt status; although, to date, Earthjustice has chosen not to accept such fees. Earthjustice adopted the provisions of accounting for uncertain tax positions on July 1, 2009. Earthjustice had no unrecognized tax benefits at June 30, 2010 or 2011. Earthjustice files exempt organization returns and, if applicable, unrelated business income tax returns in the U.S. federal and California jurisdictions.

Net asset classifications – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Under these guidelines, contributions of cash and other assets are classified as one of the following three categories:

Unrestricted – Unconditional promises to give by a donor without any use or time restrictions.

Temporarily restricted – Unconditional promises to give by a donor that specifies a specific use or the occurrence of a certain future event.

Permanently restricted – Unconditional promises to give by a donor that specifies that the assets donated be invested to provide a permanent source of income. Permanently restricted gifts (endowments) are managed according to the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) law of the State of California. If the donor does not restrict the allowed use of the income, the organization classifies income as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard prudence prescribed by UPMIFA. As of June 30, 2011 and 2010, Earthjustice had \$1,447,833 in permanently restricted net assets.

Revenue recognition – Earthjustice reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations that limit the use of the donated assets, either by time or function. When a donor restriction expires, either through the passage of a stipulated time period or the function being completed, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The permanently restricted net assets provide for donor stipulated use of the revenue earned from the assets, as well as the provision for the payment of certain direct expenses of the assets.

Revenue from bequests is recognized as a receivable when Earthjustice is reasonably assured that it will receive an amount from an estate and that amount can be estimated. Bequest amounts estimated to be received in excess of one year are subject to discounting.

Revenue from contractual foundation grants is recorded as a temporarily restricted receivable upon contract ratification. Such grants normally have outlined expenditures that Earthjustice will incur upon collection of the receivable.

Revenue from court awards is recognized when the court has approved payment and the opposing side to the case has no further avenues of appeal.

Grants and donation pledges with payment terms in excess of one year are subject to discounting.

Earthjustice's volunteer members of the Board are active in oversight of fundraising events, activities and in making private contributions.

Allowance for doubtful accounts – Earthjustice provides for amounts that may be uncollectible on pledged contributions, grants and other receivables. After considering such factors as prior collection history, the ability of the debtor to pay and historical trends, management concluded that no allowances were deemed necessary at June 30, 2011 and 2010.

Cash and cash equivalents – Cash and cash equivalents include petty cash and cash held at banks and other insured financial institutions which have an original maturity of three months or less when purchased. For purposes of the statements of cash flows, cash and cash equivalents include:

	2011	2010
Operating cash, including client trust funds of \$110,442 and \$256,499, respectively	\$ 544,008	\$ 1,045,764
Cash equivalents included in:		
Short-term investments	8,305,667	2,529,028
	\$ 8,849,675	\$ 3,574,792

Short-term investments – Short-term investments consist of certificates of deposit, money market funds, cash equivalents and contributed marketable securities that have not yet been sold by Earthjustice in the normal course of business (if applicable). All short-term investments are carried at fair value. At June 30, 2011, included in the balance of \$8,305,667 are short-term reserves of \$4,134,131 representing the money market fund portion of Earthjustice’s “Ready Reserve Fund,” disclosed in Note 2. Fair value measurements are disclosed in Note 12. At June 30, 2011 and 2010, short-term investments consisted of certificates of deposit with maturities of three months or more having a fair value of \$204,750 and \$242,620 and cash equivalents of \$8,305,667 and \$2,529,028, respectively.

Long-term investments – Long-term investments, which include mutual funds and money market funds, federal treasury and agency instruments, equity securities, and a fund of funds, are carried at fair value. Fair value measurements are disclosed in Note 12.

Concentrations of credit risk – At June 30, 2011 and 2010, Earthjustice maintained approximately 60% and 42%, respectively, of total net assets at seven investment managers, the largest constituting approximately 14% and 11%, respectively, of net assets. (Assets segregated for split interest gifts are not included. Assets administered by The Vanguard Group but representing distinct registered investment companies are considered separate investments for purposes of this calculation.) Of the assets held by these investment managers, all but the alternatives portfolio take the form of mutual funds. That one investment is a fund of funds comprised of approximately 0% of total net assets for 2011 and 3% for 2010.

In the regular course of business, Earthjustice may maintain operating cash balances at a bank in excess of federally insured limits.

Promotional supplies – Earthjustice maintains supplies of miscellaneous promotional items. Such items are not significant and are primarily used as de minimus gifts to donors. Costs to replenish are expensed as incurred.

Property and equipment – Property and equipment are included in the financial statements at cost when acquired by purchase and at fair value when received by gift. Earthjustice capitalizes property and equipment with a cost or fair-market value of \$500 or more. Depreciation and amortization is provided using the straight-line method over estimated useful lives as follows:

Building	40 years
Furniture and equipment	7 years
Computer equipment and software	5 years
Leasehold improvements	Term of leases
Library holdings	7 years

Depreciation and amortization expense totaled \$613,885 and \$704,911 for the years ended June 30, 2011 and 2010, respectively.

Modification of gift – In the fiscal year ended 2008, a donor presented Earthjustice with a 5-year pledge to support a specific program. The total pledge amount was not to exceed \$3 million, and was recorded on the financial statements in 2008 at its discounted value. In 2010, due to the change in market conditions, the donor and Earthjustice subsequently agreed to renegotiate the pledge, and both parties considered the original pledge as completely fulfilled. The resulting loss of revenue recorded in 2010 is \$1,098,559. The donor continues to actively support the Organization.

EARTHJUSTICE

NOTES TO FINANCIAL STATEMENTS

Allocations to functional expenses – Expenses which apply to more than one functional category have been allocated between program, management and general, and fund-raising based on the time spent on these functions by specific employees as estimated by senior management. The remaining costs are charged directly to the appropriate functional category.

Donated services – Donated legal services are recognized as contributions and a corresponding expense at their estimated value at date of receipt, in accordance with accounting principles generally accepted in the United States of America, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the organization. Attorneys who contribute services provide Earthjustice a detail of the dollar value of the time spent. The value of law clerks' time is estimated by management using current rates included in court filings. Total donated legal services for the years ended June 30, 2011 and 2010, was estimated to be \$1,693,523 and \$1,731,576, respectively.

Earthjustice also receives donated space from national publications and ad placements in major U.S. airports for the purpose of public service announcements. The fair value of these donations has been estimated using published advertising rates for comparable space in the publications and an estimate for like kind space in airports and amounted to \$6,051,092 and \$5,530,629 for the years ended June 30, 2011 and 2010, respectively. It is Earthjustice's policy to record the value of the donated space when management becomes aware of the ad placement.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of the financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

The Organization has evaluated subsequent events through October 19, 2011, which is the date the financial statements are available to be issued. (See Note 13).

NOTE 2 – LONG-TERM INVESTMENTS

Substantially all of Earthjustice's long-term investments are held in marketable securities, federal treasury and agency instruments, equity securities, and fund of funds and are carried at fair value. Realized and unrealized gains and losses on investments, other than those held for split interest gift agreements, are reflected in the statements of activities. Realized and unrealized gains and losses on investments held for split interest gift agreements are reflected in the statements of financial position.

Earthjustice's long-term investments are grouped into two categories. The first category is comprised of assets held in segregated accounts with Union Bank for the purpose of supporting financial obligations of the split interest gift agreements. The second category represents reserve investments, which are maintained primarily as the repository for operating surpluses and as a reserve fund for future financial needs.

The reserve investments are, in turn, split into two pools of funds, a "Ready Reserves Fund" designed to provide a stable source for funding unanticipated budgetary needs (beyond those funded by short-term investments) and a "Sustaining Reserves Fund" designed to provide some potential for appreciation to sustain budgetary growth over a longer period. The Ready Reserve Fund is invested in money market funds and fixed income funds, while the Sustaining Reserves Fund is invested 80% in equity funds and 20% in a Treasury inflation-protected securities ("TIPS") fund. The asset allocation of the reserve funds follows the Investment Policy Statement, which is set by the Earthjustice Board of Trustees.

To a limited extent, the Board allows reserve investments to help fund current operations. In the process, donor restrictions in the use of these funds are honored.

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

The following table details long-term investments by category for the years ended June 30, 2011 and 2010:

	2011				2010			
	Split Interest Gifts	Reserve Investments	FJC Expert Fund	Total	Split Interest Gifts	Reserve Investments	FJC Expert Fund	Total
Investments, beginning of year	\$ 7,231,194	\$ 21,138,532	\$ 233,290	\$ 28,603,016	\$ 6,886,477	\$ 15,191,499	\$ 250,492	\$ 22,328,468
Transfers due to portfolio balancing, fulfillment of operating (requirements)/surpluses reclassification to short-term investments	-	(2,202,194)	-	(2,202,194)	-	4,000,000	(17,972)	3,982,028
Added split-interest gifts								
Gifts creating annuity trusts	833,987	-	-	833,987	394,900	-	-	394,900
Amount withdrawn at death of planned giving donors	(327,580)	-	-	(327,580)	(219,601)	-	-	(219,601)
Annuity and beneficiary payments	(616,416)	-	-	(616,416)	(588,880)	-	-	(588,880)
Investment returns (net of expenses and fees)								
Dividends, interest, rents and expenses	202,242	654,547	524	857,313	209,587	435,861	770	646,218
Realized and unrealized gains	685,291	3,413,217	-	4,098,508	548,711	1,511,172	-	2,059,883
Investments, end of year	<u>\$ 8,008,718</u>	<u>\$ 23,004,102</u>	<u>\$ 233,814</u>	<u>\$ 31,246,634</u>	<u>\$ 7,231,194</u>	<u>\$ 21,138,532</u>	<u>\$ 233,290</u>	<u>\$ 28,603,016</u>
Comprising of								
Marketable securities	\$ 7,175,814	\$ 23,004,102	\$ -	\$ 30,179,916	\$ 6,807,123	\$ 20,208,560	\$ -	\$ 27,015,683
Fund of funds	-	-	-	-	-	929,972	-	929,972
Cash equivalents	832,904	-	233,814	1,066,718	424,071	-	233,290	657,361
Total	<u>\$ 8,008,718</u>	<u>\$ 23,004,102</u>	<u>\$ 233,814</u>	<u>\$ 31,246,634</u>	<u>\$ 7,231,194</u>	<u>\$ 21,138,532</u>	<u>\$ 233,290</u>	<u>\$ 28,603,016</u>
Long-term investment classifications								
Permanently restricted	\$ -	\$ 1,544,635	\$ -	\$ 1,544,635	\$ -	\$ 1,367,639	\$ -	\$ 1,367,639
Temporarily restricted	4,335,925	1,290,675	233,814	5,860,414	3,021,792	1,143,296	233,290	4,398,378
Unrestricted	3,672,793	20,168,792	-	23,841,585	4,209,402	18,627,597	-	22,836,999
Total	<u>\$ 8,008,718</u>	<u>\$ 23,004,102</u>	<u>\$ 233,814</u>	<u>\$ 31,246,634</u>	<u>\$ 7,231,194</u>	<u>\$ 21,138,532</u>	<u>\$ 233,290</u>	<u>\$ 28,603,016</u>

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011 and 2010, include both unrestricted and temporarily restricted contributions, attributable to pledges, foundation grants, bequests and charitable remainder unitrusts. Pledges receivable and bequests which are expected to be collected over a period of time in excess of one year are discounted using the rate at the date of the contribution. These receivables consist of the following:

	2011		
	Unrestricted	Temporarily Restricted	Total
Foundation grants receivable	\$ -	\$ 3,222,000	\$ 3,222,000
Pledges receivable	17,775	789,878	807,653
Beneficial interest in charitable remainder unitrusts	-	295,674	295,674
Bequest receivables	1,165,220	108,578	1,273,798
	<u>\$ 1,182,995</u>	<u>\$ 4,416,130</u>	<u>\$ 5,599,125</u>
	2010		
	Unrestricted	Temporarily Restricted	Total
Foundation grants receivable	\$ -	\$ 257,500	\$ 257,500
Pledges receivable	17,775	2,512,077	2,529,852
Beneficial interest in charitable remainder unitrusts	-	305,804	305,804
Bequest receivables	1,067,548	314,294	1,381,842
	<u>\$ 1,085,323</u>	<u>\$ 3,389,675</u>	<u>\$ 4,474,998</u>

The receivable from the beneficial interest in charitable unitrusts not under the control of Earthjustice represents the present value of the estimated future benefits to be received from the trust upon death of the settlers or beneficiaries of the trusts. The receivable has been estimated using published actuarial tables.

Approximately 56% and 38% of the bequests receivable are from two estates at June 30, 2011 and 2010, respectively. All bequests and foundation grants receivable are expected to be received within one year.

NOTE 4 - PROPERTY AND EQUIPMENT

The major classes of property and equipment at June 30, 2011 and 2010 are as follows:

	2011	2010
Land - Alaska office	\$ 153,880	\$ 153,880
Building - Alaska office	135,174	135,174
Land - Alaska (donated)	79,000	79,000
Computer equipment and software	1,737,713	1,585,052
Furniture and equipment	1,094,665	828,888
Leasehold improvements	1,890,694	1,834,468
Library holdings	702,772	801,992
	5,793,898	5,418,454
Less accumulated depreciation and amortization	4,156,852	3,787,394
	\$ 1,637,046	\$ 1,631,060

NOTE 5 - LEASE COMMITMENTS

Earthjustice has entered into various lease agreements having initial terms greater than one year for office space which expire through 2015. Rental expense under these leases totaled \$2,154,351 and \$2,142,878 for the years ended June 30, 2011 and 2010, respectively. Certain of these lease agreements provide for periodic adjustments based on fixed percentage increases in rent.

The aggregate future minimum rental payments under these leases are as follows:

Year Ending June 30,

2012	\$ 1,266,447
2013	728,639
2014	728,562
2015	354,419
2016	41,187
Thereafter	41,187
	\$ 3,160,441

NOTE 6 - RETIREMENT ANNUITY PLAN

Earthjustice has established a retirement annuity plan and a tax-deferred annuity plan for its employees under Section 403(b) of the Internal Revenue Code. The retirement annuity plan provides for an employer contribution to a defined contribution retirement plan of 9% of an employee's gross earnings, with an increase to 10% of gross earnings provided the employee contributes at least 3% to the tax-deferred annuity plan. In addition, the Board of Trustees has elected to contribute an additional 6.2% of an employee's compensation above the social security wage base to the retirement annuity plan subject to regulatory limits. Contributions to the retirement annuity plan of \$1,124,283 and \$918,686 have been expensed for the years ended June 30, 2011 and 2010, respectively.

NOTE 7 - DEFERRED COMPENSATION PLAN

As of June 30, 2011, Earthjustice has established an eligible deferred compensation plan for a select group of highly compensated ("top hat") employees under Section 457(b) of the Internal Revenue Code. The plan allows for up to \$16,500 of pre-tax contributions per year through payroll deduction. Employees earning annual compensation of \$110,000 or over are eligible to participate. At June 30, 2011 four employees had elected to participate in the plan. The investments in this plan remain as assets of the organization until the employees retire.

EARTHJUSTICE

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – ALLOCATION OF JOINT COSTS

In accordance with accounting principles generally accepted in the United States of America, the portion of the expenditures associated with fund-raising direct mail campaigns can only be proportionally classified as program expenditures if certain specific hurdles relative to content, audience, and calls to action have been met. A component of Earthjustice's direct mail campaigns do pass these tests and have been allocated in part to public information, and to fund-raising based on the proportional cost of printing and mailing of informational materials that relate to these two functional categories.

	<u>2011</u>	<u>2010</u>
Public information	\$ 753,242	\$ 775,379
Fund-raising	200,229	206,114
	<u>\$ 953,471</u>	<u>\$ 981,493</u>

Earthjustice conducts limited lobbying activities in its efforts to provide increased public and policy-making awareness of environmental issues and the role of law in resolving them. Earthjustice incurred \$188,709 and \$52,422 in grassroots lobbying and an additional \$417,999 and \$235,354 in direct lobbying for total lobbying expenditures of \$606,708 and \$287,776 during the periods ended June 30, 2011 and 2010, respectively. All lobbying expenditures are included in the Public Information functional category.

As detailed in Note 1, Earthjustice received in-kind contributions of donated space in publications and major U.S. airports. The amount, if any, allocable to fundraising is negligible, hence the entire amount of the in-kind contribution is reflected as program services expense.

NOTE 9 – SPLIT-INTEREST GIFT AGREEMENTS

In the regular course of fund development, Earthjustice enters into various split interest gift agreements with donors. The assets for split interest gift agreements are segregated and are reflected in long-term investments (Note 2). Earthjustice currently has three different categories of such agreements.

Pooled income fund – Donors contributing to this category are assigned a specific number of units in the pool and receive a life interest in any income earned on those units. Upon the donor's death, the value of the units held by the donor within the fund becomes available to Earthjustice for its unrestricted use. At June 30, 2011 and 2010, the assets held in the pooled income fund have been valued at \$914,918 and \$1,128,561, respectively. The liabilities which totaled \$352,058 and \$420,622 at June 30, 2011 and 2010, have been estimated using published actuarial tables. The average rate of return on the fund for the years ended June 30, 2011 and 2010, was approximately 5% and 5.4%, respectively.

Charitable remainder unitrusts – Earthjustice held seven trusts at June 30, 2011 and 2010, whereby the donors have contributed assets to Earthjustice, in exchange for a life interest in the income from the trusts or a specified percentage of the fair value. Some of these trusts require Earthjustice to share the corpus upon maturity with another charity. During the year ended June 30, 2006, Earthjustice elected to gross up the assets held and the corresponding liabilities to include the amounts ultimately payable to the other charities. The liabilities associated with these trusts have been estimated using published actuarial tables.

At June 30, 2011 and 2010 assets held under such trust agreements totaled \$1,298,413 and \$1,147,312, respectively. Associated liabilities amounted to \$794,410 and \$682,024, respectively.

Charitable gift annuities – Donors contribute assets in exchange for a promise by Earthjustice to pay a fixed amount to designated beneficiaries until death of the last named beneficiary. At June 30, 2011 and 2010, the fair value of these assets totaled \$5,795,387 and \$4,955,321, respectively. Various states in which annuitants reside require that Earthjustice maintain statutory reserves. These statutory reserves typically require that Earthjustice segregate the associated assets from other assets to the extent of the reserve requirements. While Earthjustice elects to segregate all assets associated with the annuity contracts, assets in excess of required reserve requirements are essentially unrestricted. Earthjustice has computed the reserve requirements based upon the most restrictive computation, which exceeds the liability due to annuitants by \$87,309. As a result this amount constitutes temporarily restricted net assets. It is Earthjustice's practice not to liquidate the net asset value of annuity contracts until such time as the contracts mature.

Liabilities estimating the present value of the expected annuity payments have been reflected in the accompanying statements of financial position at \$3,672,793 and \$3,394,959 at June 30, 2011 and 2010, respectively.

NOTE 10 – RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2011 and 2010, are restricted for the following purposes:

	2011	2010
Program activities	\$ 7,299,078	\$ 3,778,036
Capital campaign - specific environmental litigation or programs	3,586,815	5,378,708
Charitable remainder trusts and pooled income fund agreements	1,272,580	1,053,126
Annuity agreements, segregation required by state law	2,122,594	745,919
	\$ 14,281,067	\$ 10,955,789

Temporarily restricted assets may be released from restriction due to satisfaction of program restrictions or due to the expiration of time restrictions. For Earthjustice the expiration of a time restriction will occur when contracts under the various split interest gift agreements mature. Details are as follows:

	2011	2010
Program restrictions	\$ 11,065,760	\$ 8,894,887
Split-interest gifts	327,759	125,644
	\$ 11,393,519	\$ 9,020,531

NOTE 11 – ENDOWMENTS

Interpretation of Relevant Law

The Board of Trustees of Earthjustice has interpreted the provisions of the California Prudent Management of Institutional Funds Act (“CPMIFA”) to allow endowment funds to be appropriated for expenditure or accumulated, as Earthjustice determines is prudent for the uses, benefits, purposes, and duration for which the endowment funds were established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by Earthjustice. In accordance with CPMIFA, Earthjustice considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of Earthjustice and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of Earthjustice
- g. The investment policies of Earthjustice

Spending Policy and How the Investment Objectives Relate to Spending Policy

Earthjustice has adopted a policy of appropriating for distribution each year up to four percent of its endowment fund’s average fair value over the prior twelve quarters through the most recent quarter end preceding the fiscal year in which the distribution is planned. In establishing this policy, Earthjustice considered the long-term expected return on its endowment. In accordance with CPMIFA, distributions are still allowed from the endowment funds even if the funds are “underwater.”

The endowment funds are invested in the Sustaining Reserves Fund, disclosed in Note 2.

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NOTES TO FINANCIAL STATEMENTS

Financial Statement Presentation

For financial statement purposes, Earthjustice classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Earthjustice in a manner consistent with the standard of prudence prescribed by CPMIFA.

Aggregate Amount of Deficiencies for Donor-Restricted Endowments

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires Earthjustice to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. At June 30, 2011 and 2010, the amount of the deficiency was \$4,940 and \$82,230, respectively. This deficiency resulted from unfavorable market fluctuations and continued appropriations as allowed by Earthjustice's spending policy.

The composition and changes in the endowment net assets as of June 30, 2011 and 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, July 1, 2010	\$ (174,483)	\$ -	\$ 1,447,833	\$ 1,273,350
Investment income (loss)	(57,483)	-	-	(57,483)
Net appreciation	228,578	2,036	-	230,614
Amounts appropriated for expenditure	<u>(78,842)</u>	<u>-</u>	<u>-</u>	<u>(78,842)</u>
Endowment net assets, June 30, 2010	(82,230)	2,036	1,447,833	1,367,639
Investment income	-	49,578	-	49,578
Net appreciation	151,582	50,128	-	201,710
Amounts appropriated for expenditure	<u>(74,292)</u>	<u>-</u>	<u>-</u>	<u>(74,292)</u>
Endowment net assets, June 30, 2011	<u>\$ (4,940)</u>	<u>\$ 101,742</u>	<u>\$ 1,447,833</u>	<u>\$ 1,544,635</u>

NOTE 12 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A framework for measuring fair value prioritizes the use of observable market-based inputs over the use of unobservable inputs when measuring fair value. An investment's categorization is based upon the lowest level of input that is significant to the fair value measurement.

Three levels of inputs are used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 includes highly liquid government bonds and exchange traded equities. Level 2 includes money market funds. Level 3 of the hierarchy includes beneficial interest in charitable remainder trusts.

The following table presents the fair value measurements of assets recognized in the accompanying Statement of Financial Position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2011 and 2010:

Fair Value Measurement Inputs	June 30, 2011			
	Total	Level 1	Level 2	Level 3
Description				
Assets:				
Beneficial interest in trusts				
Residential real estate	\$ 295,674	\$ -	\$ -	\$ 295,674
Short-term investments				
Cash equivalents	8,510,417	8,510,417	-	-
Deferred compensation assets				
Domestic equity mutual funds	24,438	24,438	-	-
International equity mutual funds	3,868	3,868	-	-
International term bond fund	30,471	30,471	-	-
Long-term investments				
Reserves				
Money market fund	233,814	-	233,814	-
Fixed income mutual funds	4,175,111	4,175,111	-	-
Domestic equity mutual funds	6,760,227	6,760,227	-	-
Treasury inflation protected securities Fund	5,376,033	5,376,033	-	-
International equity mutual funds	5,355,228	5,355,228	-	-
Real estate fund	1,337,503	1,337,503	-	-
Split interest gifts				
Cash and cash equivalents	832,905	832,905	-	-
Fixed income mutual funds	1,289,352	1,289,352	-	-
Domestic equity mutual funds	2,248,018	2,248,018	-	-
International equity mutual funds	670,003	670,003	-	-
Government obligations	2,436,131	2,436,131	-	-
Exchange traded funds	532,310	532,310	-	-
Total assets	<u>\$ 40,111,503</u>	<u>\$ 39,582,015</u>	<u>\$ 233,814</u>	<u>\$ 295,674</u>

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NOTES TO FINANCIAL STATEMENTS

Fair Value Measurement Inputs Description	June 30, 2010			
	Total	Level 1	Level 2	Level 3
Assets:				
Beneficial interest in trusts				
Mutual funds	\$ 21,282	\$ -	\$ -	\$ 21,282
Real estate	284,522	-	-	284,522
Short-term investments				
Cash equivalents	2,771,648	2,771,648	-	-
Long-term investments				
Reserves				
Money market fund	233,290	-	233,290	-
Mutual funds	20,208,560	20,208,560	-	-
Fund of funds	929,972	-	-	929,972
Split interest gifts				
Cash equivalents	424,071	424,071	-	-
Mutual funds	3,324,239	3,324,239	-	-
Government debt obligations	3,473,455	3,473,455	-	-
Equities	9,430	9,430	-	-
Total assets	<u>\$ 31,680,469</u>	<u>\$ 30,211,403</u>	<u>\$ 233,290</u>	<u>\$ 1,235,776</u>

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the period ended June 30, 2011 and 2010:

	Investments	Beneficial Interest in Trusts	Total
Balance, July 1, 2009	\$ 871,990	\$ 289,080	\$ 1,161,070
Unrealized gains on investments, included in realized and unrealized gains	57,982	16,724	74,706
Balance, June 30, 2010	929,972	305,804	1,235,776
Redemptions received from fund of fund investment	(929,972)	-	(929,972)
Unrealized loss on investments, included in realized and unrealized losses	-	(10,130)	(10,130)
Balance, June 30, 2011	<u>\$ -</u>	<u>\$ 295,674</u>	<u>\$ 295,674</u>

While management believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

The following table represents the liquidity and redemption restrictions on the financial investments above:

	June 30, 2011			
	Fair Value at Year-End	Redemption Frequency	Redemption Notice Period	Other Restrictions
Beneficial interest in trusts				
Real estate	\$ 295,674	Not eligible	Not applicable	None

	June 30, 2010			
	Fair Value at Year-End	Redemption Frequency	Redemption Notice Period	Other Restrictions
Beneficial interest in trusts				
Mutual funds	\$ 21,282	Not eligible	Not applicable	None
Real estate	\$ 284,522	Not eligible	Not applicable	None
Fund of funds	\$ 929,972	Annually	60 days prior to redemption date	None

Fair value for the beneficial interest in trusts is based on appraisals and discounted cash flows. The fund of funds invested with hedge funds and other experienced portfolio managers or otherwise utilizes the services of investment advisors or other investment managers employing a variety of trading styles or strategies, including, but not limited to, direct lending, convertible arbitrage, merger or risk arbitrage and other event-driven investing, distressed and long/short credit, long/short equity, multi-strategy and other relative value strategies. There was no change in valuation methods from June 30, 2010 to June 30, 2011.

NOTE 13 - SUBSEQUENT EVENT

On August 31, 2011, Earthjustice entered into a ten-year lease of 27,156 square feet of office space in San Francisco, CA to house the new headquarters offices of Earthjustice. The minimum lease commitment represented by this lease through December 31, 2021 totals \$10,504,425.