



Report of Independent Auditors and
Financial Statements



EARTHJUSTICE
BECAUSE THE EARTH NEEDS A GOOD LAWYER

June 30, 2013 and 2012

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Earthjustice

Report on the Financial Statements

We have audited the accompanying financial statements of Earthjustice, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years 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 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 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 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 Earthjustice as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



San Francisco, California
October 25, 2013

FINANCIAL STATEMENTS

EARTHJUSTICE
STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Operating cash, including client trust funds	\$ 761,741	\$ 1,134,010
Short-term investments at fair value, including cash equivalents	8,791,450	7,650,562
Receivables - contributions, net	4,734,863	9,080,235
Other receivables	30,782	86,453
Court awards receivable	704,197	487,219
Prepaid expenses	968,347	796,040
Deferred compensation asset	212,791	127,904
Long-term investments at fair value	40,201,321	31,986,317
Property and equipment, net of accumulated depreciation and amortization	<u>2,540,181</u>	<u>2,559,741</u>
	<u>\$ 58,945,673</u>	<u>\$ 53,908,481</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,103,722	\$ 1,086,428
Accrued vacation payable	1,325,473	1,303,749
Client trust funds	463,934	160,968
Deferred compensation liability	212,791	127,904
Liabilities related to split interest gift agreements	<u>5,138,673</u>	<u>5,112,079</u>
Total liabilities	<u>8,244,593</u>	<u>7,791,128</u>
NET ASSETS		
Unrestricted	34,700,416	25,918,484
Temporarily restricted	14,552,831	18,751,036
Permanently restricted	<u>1,447,833</u>	<u>1,447,833</u>
Total net assets	<u>50,701,080</u>	<u>46,117,353</u>
	<u>\$ 58,945,673</u>	<u>\$ 53,908,481</u>

See accompanying notes.

EARTHJUSTICE
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2013 and 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Contributions	\$ 20,800,506	\$ 10,040,158	\$ -	\$ 30,840,664	\$ 13,859,067	\$ 12,513,034	\$ -	\$ 26,372,101
Donated services	7,173,414	-	-	7,173,414	5,964,693	-	-	5,964,693
Bequests	1,174,485	594,344	-	1,768,829	4,927,263	1,087,305	-	6,014,568
Court awarded attorney fees and costs	4,109,088	-	-	4,109,088	5,077,109	-	-	5,077,109
Change in value of split interest gift agreements	103,347	235,514	-	338,861	44,212	95,534	-	139,746
Gain (Loss) on long-term investments	1,395,709	83,391	-	1,479,100	(301,484)	(23,446)	-	(324,930)
Interest and dividend income	867,250	-	-	867,250	682,413	-	-	682,413
Other income	67,710	-	-	67,710	116,281	-	-	116,281
Satisfaction of program/time restrictions	15,151,612	(15,151,612)	-	-	9,202,458	(9,202,458)	-	-
Total revenues	<u>50,843,121</u>	<u>(4,198,205)</u>	<u>-</u>	<u>46,644,916</u>	<u>39,572,012</u>	<u>4,469,969</u>	<u>-</u>	<u>44,041,981</u>
EXPENSES								
Program services								
Litigation	19,082,441	-	-	19,082,441	17,890,596	-	-	17,890,596
Donated litigation services	1,416,156	-	-	1,416,156	1,905,577	-	-	1,905,577
Public information	8,326,663	-	-	8,326,663	6,863,051	-	-	6,863,051
Donated public information services	5,721,779	-	-	5,721,779	4,059,116	-	-	4,059,116
Supporting services								
Management and general	2,507,855	-	-	2,507,855	3,752,376	-	-	3,752,376
Fundraising	5,006,295	-	-	5,006,295	4,710,762	-	-	4,710,762
Total expenses	<u>42,061,189</u>	<u>-</u>	<u>-</u>	<u>42,061,189</u>	<u>39,181,478</u>	<u>-</u>	<u>-</u>	<u>39,181,478</u>
CHANGE IN NET ASSETS	8,781,932	(4,198,205)	-	4,583,727	390,534	4,469,969	-	4,860,503
NET ASSETS, beginning of year	<u>25,918,484</u>	<u>18,751,036</u>	<u>1,447,833</u>	<u>46,117,353</u>	<u>25,527,950</u>	<u>14,281,067</u>	<u>1,447,833</u>	<u>41,256,850</u>
NET ASSETS, end of year	<u>\$ 34,700,416</u>	<u>\$ 14,552,831</u>	<u>\$ 1,447,833</u>	<u>\$ 50,701,080</u>	<u>\$ 25,918,484</u>	<u>\$ 18,751,036</u>	<u>\$ 1,447,833</u>	<u>\$ 46,117,353</u>

See accompanying notes.

EARTHJUSTICE
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2013 and 2012

	2013					2012				
	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	\$ 8,165,331	\$ -	\$ -	\$ -	\$ 8,165,331	\$ 7,542,549	\$ 28,631	\$ -	\$ -	\$ 7,571,180
Paralegal	315,155	-	-	-	315,155	258,928	-	-	-	258,928
Non-legal staff	3,099,880	3,329,792	983,709	2,170,120	9,583,501	2,615,562	2,863,216	1,915,055	1,127,829	8,521,662
Retirement plan contributions	885,906	238,988	51,762	124,985	1,301,641	777,939	204,474	139,805	79,349	1,201,567
Employee fringe benefits	1,985,589	555,310	149,022	375,905	3,065,826	1,779,662	510,518	347,439	204,148	2,841,767
Payroll taxes	856,507	231,640	62,026	151,859	1,302,032	765,094	203,968	128,916	78,491	1,176,469
	<u>15,308,368</u>	<u>4,355,730</u>	<u>1,246,519</u>	<u>2,822,869</u>	<u>23,733,486</u>	<u>13,739,734</u>	<u>3,810,807</u>	<u>2,531,215</u>	<u>1,489,817</u>	<u>21,571,573</u>
OTHER EXPENSES										
Direct case costs	942,869	-	-	-	942,869	1,078,127	-	-	-	1,078,127
Donated services	1,416,156	5,721,779	11,958	-	7,149,893	1,905,577	4,059,116	-	-	5,964,693
Grants and allocations	39,700	-	-	-	39,700	54,650	-	-	-	54,650
Fundraising professional services	-	-	-	274,486	274,486	-	-	-	252,529	252,529
Occupancy	1,206,926	450,907	262,256	123,511	2,043,600	1,253,574	509,212	266,514	158,358	2,187,658
Telephone and internet	289,971	37,088	11,620	12,047	350,726	264,119	55,943	19,465	4,423	343,950
Media	10,000	1,812,759	-	70,877	1,893,636	182,205	751,592	31,589	13,723	979,109
Travel, conferences, and meetings	428,907	240,344	182,693	86,414	938,358	350,812	117,356	115,871	74,209	658,248
Professional services	212,391	525,155	114,103	81,243	932,892	260,483	699,766	267,389	107,432	1,335,070
Printing, publications, and reproduction	3,783	85,263	22,761	691,877	803,684	3,308	329,099	70,220	857,820	1,260,447
Supplies	75,063	12,868	7,526	104,657	200,114	76,352	52,544	21,806	58,368	209,070
Postage	24,020	85,775	52,718	578,677	741,190	27,024	213,683	64,395	844,526	1,149,628
Depreciation and amortization	305,966	82,374	152,239	85,527	626,106	329,367	95,155	109,928	73,869	608,319
Equipment rental and maintenance	77,870	23,690	45,878	27,390	174,828	104,733	25,385	31,273	19,817	181,208
Contracted services	-	528,025	28,930	24,509	581,464	9,415	99,929	26,263	743,897	879,504
Bad debt expense	-	-	162,135	-	162,135	-	-	-	-	-
Miscellaneous	103,252	35,405	21,871	14,409	174,937	113,041	25,906	23,763	8,627	171,337
Research	10,739	22,323	7,684	3,441	44,187	10,441	53,815	3,437	1,678	69,371
Investment advisory and bank fees	-	-	171,601	-	171,601	-	-	150,405	-	150,405
Insurance	42,616	28,957	5,363	4,361	81,297	33,211	22,859	18,843	1,669	76,582
	<u>5,190,229</u>	<u>9,692,712</u>	<u>1,261,336</u>	<u>2,183,426</u>	<u>18,327,703</u>	<u>6,056,439</u>	<u>7,111,360</u>	<u>1,221,161</u>	<u>3,220,945</u>	<u>17,609,905</u>
	<u>\$ 20,498,597</u>	<u>\$ 14,048,442</u>	<u>\$ 2,507,855</u>	<u>\$ 5,006,295</u>	<u>\$ 42,061,189</u>	<u>\$ 19,796,173</u>	<u>\$ 10,922,167</u>	<u>\$ 3,752,376</u>	<u>\$ 4,710,762</u>	<u>\$ 39,181,478</u>

See accompanying notes.

EARTHJUSTICE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 4,583,727	\$ 4,860,503
Adjustments to reconcile changes in net assets to net cash from operating activities		
Depreciation and amortization	626,106	608,319
Allowance for doubtful accounts	17,874	-
Actuarial gain on split-interest liabilities	(338,861)	(139,746)
Donated property and equipment	(10,506)	-
Donated investments	(183,649)	-
Net realized and unrealized (gains) losses from long-term investments	(1,479,100)	324,930
Changes in assets and liabilities		
Receivables - contributions	4,345,372	(3,481,110)
Other receivables	37,797	(72,894)
Court awards receivable	(216,978)	(462,390)
Prepaid expenses	(172,307)	(46,552)
Accounts payable	17,294	101,823
Accrued vacation payable	21,724	149,801
Client trust funds	302,966	50,526
Liabilities relating to split interest gift agreements	26,594	292,818
Total adjustments	<u>2,994,326</u>	<u>(2,674,475)</u>
Net cash from operating activities	<u>7,578,053</u>	<u>2,186,028</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Proceeds from sales of short-term investments	22,719,112	15,700,000
Purchase of short-term investments	(23,860,000)	(14,840,145)
Proceeds from sales of long-term investments	5,044,339	2,238,773
Purchase of long-term investments	(10,122,221)	(4,028,753)
Purchase of property and equipment	(596,040)	(1,531,011)
Net cash used in investing activities	<u>(6,814,810)</u>	<u>(2,461,136)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	763,243	(275,108)
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,574,567</u>	<u>8,849,675</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 9,337,810</u>	<u>\$ 8,574,567</u>

See accompanying notes.

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 ninety-five attorneys in eleven regional offices: San Francisco, California (which also houses the administrative offices); Washington, D.C.; Denver, Colorado; Juneau, Alaska; Anchorage, Alaska; Seattle, Washington; Honolulu, Hawaii; Tallahassee, Florida; Bozeman, Montana; New York, New York; and Philadelphia, Pennsylvania.

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

The Organization 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, 2013 or 2012. Earthjustice files exempt organization returns and, if applicable, unrelated business income tax returns in the U.S. federal and California jurisdictions. With few exceptions, the Organization is no longer subject to United States federal or state/local income tax examinations by tax authorities for years before 2008.

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 purpose or time restrictions.

Temporarily restricted – Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization and/or the passage of time. When a donor-stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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, 2013 and 2012, 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 purpose. When a donor restriction expires, either through the passage of a stipulated time period or the purpose being completed, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as satisfaction of program/time 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. Grants and pledges with payment terms in excess of one year are subject to discounting using a rate of 3.5%.

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.

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

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 an allowance of \$17,847 and \$0 was necessary as of June 30, 2013 and 2012, respectively. In the year ended June 30, 2013, Earthjustice incurred an additional \$144,288 in bad debt expenses as the result of revaluing the longer-term collectability of certain bequests receivable and in redirecting a prior paid bequest to its intended beneficiary.

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. Client trust funds include court awards and other funds received for the possible benefit of clients that are initially deposited into separate client trust bank accounts. Once appropriately identified the funds are then refunded to the client or transferred into Earthjustice’s operating fund accounts. For purposes of the statements of cash flows, cash and cash equivalents include:

	<u>2013</u>	<u>2012</u>
Operating cash, including client trust funds of \$463,934 and \$160,968, respectively	\$ 761,741	\$ 1,134,010
Cash equivalents included in short-term investments	<u>8,576,069</u>	<u>7,440,557</u>
	<u>\$ 9,337,810</u>	<u>\$ 8,574,567</u>

Short-term investments – Short-term investments consist of certificates of deposit, money market funds, cash equivalents and contributed investments 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 as disclosed in Note 12. At June 30, 2013 and 2012, short-term investments consisted of certificates of deposit with maturities of three months or more having a fair value of \$215,381 and \$210,005 and cash equivalents of \$8,576,069 and \$7,440,557, respectively.

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

Concentrations of credit risk – At June 30, 2013 and 2012, Earthjustice maintained approximately 66% and 50%, respectively, of total net assets at seven investment managers, the largest constituting approximately 15% and 13%, 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.)

In the regular course of business, Earthjustice may maintain operating cash balances at a bank in excess of federally insured limits. The Organization seeks to control the risk of loss by maintaining deposits with only high quality financial institutions.

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. Leasehold improvements are amortized over the lesser of the useful life of the asset or the term of the lease. 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 \$626,106 and \$608,319 for the years ended June 30, 2013 and 2012, respectively.

Allocations to functional expenses – Expenses which apply to more than one functional category have been allocated between program, management and general, and fundraising 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, 2013 and 2012, was estimated to be \$1,416,156 and \$1,905,577, respectively. The estimate of donated administrative legal services for the year ended June 30, 2013 totaled \$11,958.

In the year ended June 30, 2013, Earthjustice received donated software and associated prepaid services, the estimated value of which totaled \$23,586.

Earthjustice also receives donated space for public service announcements in various print, television, and web-based media as well as in major U.S. airport locations and various outdoor locations. 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 \$5,721,779 and \$4,059,116 for the years ended June 30, 2013 and 2012, 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. Significant estimates include functional allocation of expenses, net present value of split-interest gift agreements, and the fair value determination of contributed goods and services.

Reclassification – Certain 2012 amounts have been reclassified to conform to the 2013 financial statement presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

NOTE 2 – LONG-TERM INVESTMENTS

Substantially all of Earthjustice's long-term investments are held in marketable securities, federal treasury and agency instruments, and equity securities 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 three 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 third is a donor restricted money market fund established to fund the costs, in particular expert witness fees, of litigation, brought in the Northeastern U.S.

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 Reserves 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, 2013 and 2012:

	2013				2012			
	Split Interest Gifts	Reserve Investments	FJC Expert Fund	Total	Split Interest Gifts	Reserve Investments	FJC Expert Fund	Total
Investments, beginning of year	\$ 8,535,648	\$ 23,216,709	\$ 233,960	\$ 31,986,317	\$ 8,008,718	\$ 23,004,102	\$ 233,814	\$ 31,246,634
Transfers due to portfolio balancing, fulfillment of operating (requirements)/surpluses, and reclassification to short-term investments	-	5,539,982	-	5,539,982	-	-	-	-
Added split-interest gifts								
Gifts creating annuity trusts	639,650	-	-	639,650	1,138,370	-	-	1,138,370
Amount withdrawn at death of planned giving donors	(61,712)	-	-	(61,712)	(83,964)	-	-	(83,964)
Annuity and beneficiary payments	(674,167)	-	-	(674,167)	(666,323)	-	-	(666,323)
Investment returns (net of expenses and fees)								
Dividends, interest, rents, and expenses	209,566	679,941	693	890,200	181,106	537,537	146	718,789
Realized and unrealized gains (losses)	401,951	1,479,100	-	1,881,051	(42,259)	(324,930)	-	(367,189)
Investments, end of year	<u>\$ 9,050,936</u>	<u>\$ 30,915,732</u>	<u>\$ 234,653</u>	<u>\$ 40,201,321</u>	<u>\$ 8,535,648</u>	<u>\$ 23,216,709</u>	<u>\$ 233,960</u>	<u>\$ 31,986,317</u>
Comprising of								
Marketable securities	\$ 8,607,551	\$ 30,915,732	\$ -	\$ 39,523,283	\$ 8,036,531	\$ 23,216,709	\$ -	\$ 31,253,240
Cash equivalents	443,385	-	234,653	678,038	499,117	-	233,960	733,077
Total	<u>\$ 9,050,936</u>	<u>\$ 30,915,732</u>	<u>\$ 234,653</u>	<u>\$ 40,201,321</u>	<u>\$ 8,535,648</u>	<u>\$ 23,216,709</u>	<u>\$ 233,960</u>	<u>\$ 31,986,317</u>
Long-term investment classifications								
Permanently restricted	\$ -	\$ 1,551,846	\$ -	\$ 1,551,846	\$ -	\$ 1,486,951	\$ -	\$ 1,486,951
Temporarily restricted	3,122,690	1,337,385	234,653	4,694,728	3,109,105	1,243,447	233,960	4,586,512
Unrestricted	5,928,246	28,026,501	-	33,954,747	5,426,543	20,486,311	-	25,912,854
Total	<u>\$ 9,050,936</u>	<u>\$ 30,915,732</u>	<u>\$ 234,653</u>	<u>\$ 40,201,321</u>	<u>\$ 8,535,648</u>	<u>\$ 23,216,709</u>	<u>\$ 233,960</u>	<u>\$ 31,986,317</u>

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – RECEIVABLES - CONTRIBUTIONS

Contributions receivable at June 30, 2013 and 2012, 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:

	2013		
	Unrestricted	Temporarily Restricted	Total
Foundation grants receivable	\$ -	\$ 714,530	\$ 714,530
Pledges receivable, net of discount of \$114,574	1,189,901	985,426	2,175,327
Beneficial interest in charitable remainder unitrusts	-	326,531	326,531
Bequest receivables, net of allowance of \$17,847	1,518,475	-	1,518,475
	<u>\$ 2,708,376</u>	<u>\$ 2,026,487</u>	<u>\$ 4,734,863</u>
	2012		
	Unrestricted	Temporarily Restricted	Total
Foundation grants receivable	\$ 1,000,000	\$ 3,002,476	\$ 4,002,476
Pledges receivable, net of discount of \$94,166	17,775	1,540,834	1,558,609
Beneficial interest in charitable remainder unitrusts	-	310,709	310,709
Bequest receivables	3,208,441	-	3,208,441
	<u>\$ 4,226,216</u>	<u>\$ 4,854,019</u>	<u>\$ 9,080,235</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 87% and 77% of the bequests receivable are from two estates at June 30, 2013 and 2012, 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, 2013 and 2012 are as follows:

	2013	2012
Computer equipment and software	\$ 1,886,864	\$ 1,811,570
Furniture and equipment	1,598,989	1,566,266
Leasehold improvements	1,093,010	1,443,820
Library holdings	457,504	593,424
Building	450,468	135,174
Land - Alaska office	153,880	153,880
Land - Alaska (donated)	79,000	79,000
	5,719,715	5,783,134
Less accumulated depreciation and amortization	<u>3,179,534</u>	<u>3,223,393</u>
Total property and equipment, net of accumulated	<u>\$ 2,540,181</u>	<u>\$ 2,559,741</u>

NOTE 5 – LEASE COMMITMENTS

Earthjustice has entered into various lease agreements having initial terms greater than one year for office space which expire through 2022. Rental expense under these leases totaled \$1,929,530 and \$2,018,623 for the years ended June 30, 2013 and 2012, 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:

<u>Year Ending June 30,</u>		
2014	\$	1,920,255
2015		1,563,992
2016		1,288,291
2017		1,249,703
2018		1,095,254
Thereafter		4,044,980
	<u>\$</u>	<u>11,162,475</u>

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 \$1,301,641 and \$1,201,567 have been expensed for the years ended June 30, 2013 and 2012, respectively.

NOTE 7 – DEFERRED COMPENSATION PLAN

On August 1, 2010, Earthjustice established an eligible deferred compensation plan for a select group of highly compensated employees under Section 457(b) of the Internal Revenue Code. The plan allows pre-tax contributions of the maximum amount allowed by law per year through payroll deduction. At June 30, 2013 and 2012, seven and five employees, respectively, had elected to participate in the plan. The investments in this plan remain as assets of the organization until the employees retire.

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 fundraising 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. In the year ended June 30, 2012, a component of Earthjustice's direct mail campaigns did pass these tests and have been allocated in part to public information, and to fundraising based on the proportional cost of printing and mailing of informational materials that relate to these two functional categories. In the year ended June 30, 2013, a broader shift in communication strategy has created a purer separation between contact with the general public and potential donors, thereby obviating the need to negotiate these imposed hurdles.

	<u>2013</u>	<u>2012</u>
Public information	\$ -	\$ 384,840
Fundraising	-	695,648
	<u>\$ -</u>	<u>\$ 1,080,488</u>

Earthjustice has conducted 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 \$46,965 and \$92,887 in grassroots lobbying and an additional \$861,045 and \$650,831 in direct lobbying for total lobbying expenditures of \$908,010 and \$743,718 during the periods ended June 30, 2013 and 2012, respectively. All lobbying expenditures were included in the Public Information functional category.

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

As detailed in Note 1, Earthjustice received in-kind contributions of donated space in publications and other media outlets. The amount, if any, allocable to fundraising is negligible, hence the entire amount of the in-kind contribution is reflected as program services expense. Earthjustice conducted no lobbying activities in the period ended June 30, 2013.

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 based on their contribution 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, 2013 and 2012, the assets held in the pooled income fund have been valued at \$873,086 and \$919,547, respectively. The liabilities which totaled \$298,114 and \$316,540 at June 30, 2013 and 2012, respectively, have been estimated using published actuarial tables. The average rate of return on the fund for the years ended June 30, 2013 and 2012, was approximately 4.2% and 4.5%, respectively.

Charitable remainder unitrusts – Earthjustice held seven trusts at June 30, 2013 and 2012, 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, 2013 and 2012, assets held under such trust agreements totaled \$1,244,671 and \$1,201,860, respectively. Associated liabilities amounted to \$736,563 and \$751,340, 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, 2013 and 2012, the fair value of these assets totaled \$6,933,179 and \$6,414,241, 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 \$1,051,550 and \$987,697 for June 30, 2013 and 2012, respectively. 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 amounted to \$4,103,996 and \$4044,199 at June 30, 2013 and 2012, respectively.

NOTE 10 – RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2013 and 2012, are restricted for the following purposes:

	<u>2013</u>	<u>2012</u>
Program activities	\$ 7,865,731	\$ 10,688,780
Time restricted funds and investments	4,552,469	6,021,031
Charitable remainder trusts and pooled income fund agreements	1,083,081	1,053,528
Annuity agreements, segregation required by state law	<u>1,051,550</u>	<u>987,697</u>
	<u>\$ 14,552,831</u>	<u>\$ 18,751,036</u>

NOTE 11 - ENDOWMENTS

Interpretation of Relevant Law

The Board of Trustees of Earthjustice has interpreted the provisions of the California's Uniform Prudent Management of Institutional Funds Act ("CUPMIFA") 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 CUPMIFA, 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 4% 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 CUPMIFA, distributions are 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.

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 CUPMIFA.

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, 2013 and 2012, the amount of the deficiency was \$2,563 and \$23,373, respectively. This deficiency resulted from unfavorable market fluctuations and continued appropriations as allowed by Earthjustice's spending policy.

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

The composition and changes in the endowment net assets as of June 30, 2013 and 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, June 30, 2011	\$ (4,940)	\$ 101,742	\$ 1,447,833	\$ 1,544,635
Investment income	-	37,631	-	37,631
Net appreciation (depreciation)	51,635	(76,882)	-	(25,247)
Amounts appropriated for expenditure	<u>(70,068)</u>	<u>-</u>	<u>-</u>	<u>(70,068)</u>
Endowment net assets, June 30, 2012	(23,373)	62,491	1,447,833	1,486,951
Investment income	-	55,712	-	55,712
Net appreciation (depreciation)	93,278	(11,627)	-	81,651
Amounts appropriated for expenditure	<u>(72,468)</u>	<u>-</u>	<u>-</u>	<u>(72,468)</u>
Endowment net assets, June 30, 2013	<u>\$ (2,563)</u>	<u>\$ 106,576</u>	<u>\$ 1,447,833</u>	<u>\$ 1,551,846</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 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

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of investments with similar characteristics or discounted cash flows. Level 2 investments include most fixed income investments traded in a limited market and certificates of deposit. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. Level 3 investments include beneficial interests in non-trusted trusts which hold residential real estate. Inputs used for valuation of remainder interests trusts are based on qualified appraisals provided by the trustee, the life expectancy of the income beneficiaries, and an applicable discount rate determined by the organization. The fair value of beneficial interests is reviewed and updated annually by adjusting the current life expectancies of the income beneficiaries, applicable discount rate and market value of the trust.

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

The following table presents the fair value measurements of assets recognized in the accompanying Statements 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, 2013 and 2012:

<u>Fair Value Measurement Inputs</u>	<u>June 30, 2013</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Beneficial interest in trusts				
Residential real estate	\$ 326,531	\$ -	\$ -	\$ 326,531
Short-term investments				
Cash equivalents	8,791,450	8,791,450	-	-
Deferred compensation assets				
Fixed income mutual funds	127,632	127,632	-	-
Domestic equity mutual funds	66,252	66,252	-	-
International equity mutual funds	18,907	18,907	-	-
Long-term investments				
Reserves				
Money market fund	234,653	-	234,653	-
Fixed income mutual funds	4,560,809	4,560,809	-	-
Domestic equity mutual funds	11,653,411	11,653,411	-	-
Treasury inflation protected securities Fund	7,016,193	7,016,193	-	-
International equity mutual funds	5,715,433	5,715,433	-	-
Real estate fund	1,969,886	1,969,886	-	-
Split-interest gifts				
Cash and cash equivalents	577,609	577,609	-	-
Fixed income mutual funds	2,368,283	2,368,283	-	-
Domestic equity mutual funds	2,697,586	2,697,586	-	-
International equity mutual funds	540,285	540,285	-	-
Alternatives mutual funds	133,498	133,498	-	-
Real estate mutual fund	3,404	3,404	-	-
Exchange traded mutual funds	610,182	610,182	-	-
Equities	72,127	72,127	-	-
Government obligations	2,047,962	2,047,962	-	-
Total assets	<u>\$ 49,532,093</u>	<u>\$ 48,970,909</u>	<u>\$ 234,653</u>	<u>\$ 326,531</u>

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

Fair Value Measurement Inputs	June 30, 2012			
	Total	Level 1	Level 2	Level 3
Assets				
Beneficial interest in trusts				
Residential real estate	\$ 310,709	\$ -	\$ -	\$ 310,709
Short-term investments				
Cash equivalents	7,650,562	7,650,562	-	-
Deferred compensation assets				
Domestic equity mutual funds	38,894	38,894	-	-
International equity mutual funds	5,814	5,814	-	-
International term bond fund	83,196	83,196	-	-
Long-term investments				
Reserves				
Money market fund	233,960	-	233,960	-
Fixed income mutual funds	4,353,858	4,353,858	-	-
Domestic equity mutual funds	6,732,798	6,732,798	-	-
Treasury inflation protected securities fund	6,013,648	6,013,648	-	-
International equity mutual funds	4,604,098	4,604,098	-	-
Real estate fund	1,512,307	1,512,307	-	-
Split-interest gifts				
Cash and cash equivalents	510,231	510,231	-	-
Fixed income mutual funds	1,626,706	1,626,706	-	-
Domestic equity mutual funds	3,019,978	3,019,978	-	-
International equity mutual funds	379,042	379,042	-	-
Government obligations	2,375,261	2,375,261	-	-
Real estate fund	3,218	3,218	-	-
Exchange traded funds	621,212	621,212	-	-
Total assets	<u>\$ 40,075,492</u>	<u>\$ 39,530,823</u>	<u>\$ 233,960</u>	<u>\$ 310,709</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, 2013 and 2012:

	Beneficial Interest in Trusts
Balance, June 30, 2011	<u>\$ 295,674</u>
Unrealized gains on investments, included in realized and unrealized gains	<u>15,035</u>
Balance, June 30, 2012	<u>310,709</u>
Unrealized gain on investments, included in realized and unrealized losses	<u>15,822</u>
Balance, June 30, 2013	<u>\$ 326,531</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, 2013			
	Fair Value at Year-End	Redemption Frequency	Redemption Notice Period	Other Restrictions
Beneficial interest in trusts				
Residential real estate	\$ 326,531	Not eligible	Not applicable	None

	June 30, 2012			
	Fair Value at Year-End	Redemption Frequency	Redemption Notice Period	Other Restrictions
Beneficial interest in trusts				
Residential real estate	\$ 310,709	Not eligible	Not applicable	None

Transfers to or from Level 3 measurements are based on relevant accounting guidance and are assessed during the period of the transfer and are recognized at the end of the fiscal year.

Fair value for the beneficial interest in trusts is based on appraisals and discounted cash flows. There was no change in valuation methods from June 30, 2013 to June 30, 2012.

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events – Subsequent events are events or transactions that occur after the statements 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 statements 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 statements of the financial position but arose after the statements of financial position date and before the financial statements are available to be issued.

The Organization entered into two lease agreements subsequent to June 30, 2013. The leases are for 5 and 10 years for Hawaii and New York, respectively.

The Organization has evaluated subsequent events through October 25, 2013, which is the date the financial statements are available to be issued.