



Report of Independent Auditors and  
Financial Statements



**EARTHJUSTICE**  
BECAUSE THE EARTH NEEDS A GOOD LAWYER

June 30, 2014 and 2013

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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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, 2014 and 2013, 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Earthjustice as of June 30, 2014 and 2013, 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 23, 2014

## **FINANCIAL STATEMENTS**

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**EARTHJUSTICE**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Operating cash, including client trust funds	\$ 580,640	\$ 761,741
Short-term investments at fair value, including cash equivalents	15,609,923	8,791,450
Receivables - contributions, net	5,609,423	4,734,863
Other receivables	42,471	30,782
Court awards receivable	730,860	704,197
Prepaid expenses	845,299	968,347
Deferred compensation asset	333,486	212,791
Long-term investments at fair value	45,236,327	40,201,321
Property and equipment, net of accumulated depreciation and amortization	<u>2,447,048</u>	<u>2,540,181</u>
	<u>\$ 71,435,477</u>	<u>\$ 58,945,673</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 1,562,937	\$ 1,103,722
Accrued vacation payable	1,515,593	1,325,473
Client trust funds	138,078	463,934
Deferred compensation liability	333,486	212,791
Liabilities related to split interest gift agreements	<u>5,048,305</u>	<u>5,138,673</u>
Total liabilities	<u>8,598,399</u>	<u>8,244,593</u>
<b>NET ASSETS</b>		
Unrestricted	44,988,386	34,700,416
Temporarily restricted	16,400,859	14,552,831
Permanently restricted	<u>1,447,833</u>	<u>1,447,833</u>
Total net assets	<u>62,837,078</u>	<u>50,701,080</u>
	<u>\$ 71,435,477</u>	<u>\$ 58,945,673</u>

*See accompanying notes.*

**EARTHJUSTICE**  
**STATEMENTS OF ACTIVITIES**  
**Years Ended June 30, 2014 and 2013**

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES</b>								
Contributions	\$ 17,613,990	\$ 21,161,872	\$ -	\$ 38,775,862	\$ 20,800,506	\$ 10,040,158	\$ -	\$ 30,840,664
Donated services	3,867,783	-	-	3,867,783	7,173,414	-	-	7,173,414
Bequests	3,162,433	624,491	-	3,786,924	1,174,485	594,344	-	1,768,829
Court awarded attorney fees and costs	2,337,012	-	-	2,337,012	4,109,088	-	-	4,109,088
Change in value of split interest gift agreements	36,870	434,964	-	471,834	103,347	235,514	-	338,861
Gain on long-term investments	3,947,062	195,909	-	4,142,971	1,395,709	83,391	-	1,479,100
Interest and dividend income	982,390	-	-	982,390	867,250	-	-	867,250
Other income	79,803	-	-	79,803	67,710	-	-	67,710
Satisfaction of program/time restrictions	20,569,208	(20,569,208)	-	-	15,151,612	(15,151,612)	-	-
Total revenues	<u>52,596,551</u>	<u>1,848,028</u>	<u>-</u>	<u>54,444,579</u>	<u>50,843,121</u>	<u>(4,198,205)</u>	<u>-</u>	<u>46,644,916</u>
<b>EXPENSES</b>								
Program services								
Litigation	21,873,069	-	-	21,873,069	19,082,441	-	-	19,082,441
Donated litigation services	1,621,622	-	-	1,621,622	1,416,156	-	-	1,416,156
Public information	8,825,983	-	-	8,825,983	8,326,663	-	-	8,326,663
Donated public information services	2,219,321	-	-	2,219,321	5,721,779	-	-	5,721,779
Supporting services								
Management and general	2,273,931	-	-	2,273,931	2,507,855	-	-	2,507,855
Fundraising	5,494,655	-	-	5,494,655	5,006,295	-	-	5,006,295
Total expenses	<u>42,308,581</u>	<u>-</u>	<u>-</u>	<u>42,308,581</u>	<u>42,061,189</u>	<u>-</u>	<u>-</u>	<u>42,061,189</u>
<b>CHANGE IN NET ASSETS</b>	10,287,970	1,848,028	-	12,135,998	8,781,932	(4,198,205)	-	4,583,727
<b>NET ASSETS, beginning of year</b>	<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>
<b>NET ASSETS, end of year</b>	<u>\$ 44,988,386</u>	<u>\$ 16,400,859</u>	<u>\$ 1,447,833</u>	<u>\$ 62,837,078</u>	<u>\$ 34,700,416</u>	<u>\$ 14,552,831</u>	<u>\$ 1,447,833</u>	<u>\$ 50,701,080</u>

See accompanying notes.

**EARTHJUSTICE**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**Years Ended June 30, 2014 and 2013**

	2014					2013				
	Program		Management and General	Fund-Raising	Total	Program		Management and General	Fund-Raising	Total
	Litigation	Public Information				Litigation	Public Information			
<b>SALARIES AND RELATED EXPENSES</b>										
Attorneys	\$ 8,696,420	\$ 38,831	\$ -	\$ -	\$ 8,735,251	\$ 8,165,331	\$ -	\$ -	\$ -	\$ 8,165,331
Paralegal	290,847	125	-	-	290,972	315,155	-	-	-	315,155
Non-legal staff	3,579,715	3,606,063	867,414	2,242,179	10,295,371	3,099,880	3,329,792	983,709	2,170,120	9,583,501
Retirement plan contributions	977,215	290,480	45,084	140,320	1,453,099	885,906	238,988	51,762	124,985	1,301,641
Employee fringe benefits	2,256,345	660,917	143,603	377,316	3,438,181	1,985,589	555,310	149,022	375,905	3,065,826
Payroll taxes	927,177	261,580	57,773	159,474	1,406,004	856,507	231,640	62,026	151,859	1,302,032
	<u>16,727,719</u>	<u>4,857,996</u>	<u>1,113,874</u>	<u>2,919,289</u>	<u>25,618,878</u>	<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>
<b>OTHER EXPENSES</b>										
Direct case costs	\$ 1,629,684	\$ 8,882	\$ -	\$ -	\$ 1,638,566	\$ 942,869	\$ -	\$ -	\$ -	\$ 942,869
Donated services	1,621,622	2,219,321	26,840	-	3,867,783	1,416,156	5,721,779	11,958	-	7,149,893
Grants and allocations	53,125	-	-	-	53,125	39,700	-	-	-	39,700
Fundraising professional services	-	-	-	279,601	279,601	-	-	-	274,486	274,486
Occupancy	1,450,275	524,469	254,706	119,798	2,349,248	1,206,926	450,907	262,256	123,511	2,043,600
Telephone and internet	390,600	43,503	10,054	8,880	453,037	289,971	37,088	11,620	12,047	350,726
Media	400	1,966,258	50	64,435	2,031,143	10,000	1,812,759	-	70,877	1,893,636
Travel, conferences, and meetings	467,228	204,229	166,424	70,885	908,766	428,907	240,344	182,693	86,414	938,358
Professional services	327,186	730,734	113,804	92,616	1,264,340	212,391	525,155	114,103	81,243	932,892
Printing, publications, and reproduction	8,179	51,644	35,750	644,138	739,711	3,783	85,263	22,761	691,877	803,684
Supplies	81,014	14,729	6,987	93,184	195,914	75,063	12,868	7,526	104,657	200,114
Postage	24,070	48,004	32,294	599,401	703,769	24,020	85,775	52,718	578,677	741,190
Depreciation and amortization	364,690	111,309	152,580	86,869	715,448	305,966	82,374	152,239	85,527	626,106
Equipment rental and maintenance	136,335	54,245	61,467	39,937	291,984	77,870	23,690	45,878	27,390	174,828
Contracted services	-	35,718	21,431	445,548	502,697	-	528,025	28,930	24,509	581,464
Bad debt expense	-	-	37,708	-	37,708	-	-	162,135	-	162,135
Miscellaneous	143,074	82,851	19,167	20,906	265,998	103,252	35,405	21,871	14,409	174,937
Research	15,499	78,138	4,956	2,623	101,216	10,739	22,323	7,684	3,441	44,187
Investment advisory and bank fees	-	-	208,002	-	208,002	-	-	171,601	-	171,601
Insurance	53,991	13,274	7,837	6,545	81,647	42,616	28,957	5,363	4,361	81,297
	<u>6,766,972</u>	<u>6,187,308</u>	<u>1,160,057</u>	<u>2,575,366</u>	<u>16,689,703</u>	<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>\$ 23,494,691</u>	<u>\$ 11,045,304</u>	<u>\$ 2,273,931</u>	<u>\$ 5,494,655</u>	<u>\$ 42,308,581</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>

See accompanying notes.

**EARTHJUSTICE**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 12,135,998	\$ 4,583,727
Adjustments to reconcile changes in net assets to net cash from operating activities		
Depreciation and amortization	715,448	626,106
Allowance for doubtful accounts	56,478	17,874
Actuarial gain on split-interest liabilities	(1,191,834)	(338,861)
Donated property and equipment	-	(10,506)
Donated investments	(4,058)	(183,649)
Dividends reinvested	(159,473)	-
Net realized and unrealized gains from long-term investments	(4,142,971)	(1,479,100)
Changes in assets and liabilities		
Receivables - contributions	(931,038)	4,345,372
Other receivables	(11,689)	37,797
Court awards receivable	(26,663)	(216,978)
Prepaid expenses	123,048	(172,307)
Accounts payable	459,215	17,294
Accrued vacation payable	190,120	21,724
Client trust funds	(325,856)	302,966
Liabilities relating to split interest gift agreements	(90,368)	26,594
Total adjustments	<u>(5,339,641)</u>	<u>2,994,326</u>
Net cash from operating activities	<u>6,796,357</u>	<u>7,578,053</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Proceeds from sales of short-term investments	1,930,066	22,719,112
Purchase of short-term investments	(8,736,421)	(23,860,000)
Proceeds from sales of long-term investments	7,264,173	5,044,339
Purchase of long-term investments	-	(10,122,221)
Proceeds from sale of property and equipment	34,695	-
Purchase of property and equipment	(657,010)	(596,040)
Net cash used in investing activities	<u>(164,497)</u>	<u>(6,814,810)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	6,631,860	763,243
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>9,337,810</u>	<u>8,574,567</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 15,969,670</u>	<u>\$ 9,337,810</u>

See accompanying notes.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**History and organization** – Earthjustice (the “Organization”) is the premier nonprofit environmental law organization in the country, wielding the power of law to protect people’s health; to preserve magnificent places and wildlife; to advance clean energy; and to combat climate change. The Organization achieves long-lasting protection of the environment through far-reaching, high-impact litigation, strengthened by savvy lobbying and communications. Earthjustice takes on the biggest, most precedent-setting cases across the country, partnering with thousands of groups, supporters and citizens to bring about positive change in the law.

For over 40 years, the Organization has represented more than 1,000 public interest clients, ranging from large national to smaller grassroots organizations. This free legal expertise is an essential service that helps clients think strategically about their work, participate effectively in administrative processes, challenge the government or industry in court when needed, and negotiate skillfully when litigation (or the threat of it) brings stake-holders to the bargaining table.

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. This nationwide litigation effort is supported by policy and legislation experts and by the organization’s veteran communications team, which has broad experience in print and broadcast media as well as web-based advocacy.

Recent Earthjustice victories include: winning the right for communities to ban fracking within their boundaries; shutting down some of the nation’s dirtiest coal-fired power plants; protecting old growth habitat; and beating back an attempt to allow widespread slaughter of wild bison in Montana.

Earthjustice has divided its current work into three key program areas: fighting for healthy communities, by holding polluters and the government accountable for following our nation’s bedrock environmental laws that exist to ensure widespread protections from pollution and toxic chemicals; preserving the wild, by enforcing laws to ensure that species and wild ecosystems can freely exist and adapt to a changing world; advancing clean energy and a healthy climate, by using the courts to cut carbon emissions and to force a shift from dirty to clean energy. Earthjustice is committed to securing lasting protections that help restore the earth to ecological balance and to ensure a healthy environment for all.

Earthjustice’s volunteer members of the Board are active in oversight of governance, finances, investments and fundraising, and in making private contributions.

**Income taxes** - The Organization has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d 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, 2014 or 2013. 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 2010.

**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 satisfaction of program/time 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 of prudence prescribed by UPMIFA. As of June 30, 2014 and 2013, Earthjustice had \$1,447,833 in permanently restricted net assets.

## EARTHJUSTICE NOTES TO FINANCIAL STATEMENTS

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**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.

**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 \$74,352 and \$17,874 was necessary as of June 30, 2014 and 2013, respectively. In the year ended June 30, 2014 and 2013, Earthjustice incurred an additional \$37,708 and \$162,135, respectively, 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>2014</u>	<u>2013</u>
Operating cash, including client trust funds of \$138,078 and \$463,934, respectively	\$ 580,640	\$ 761,741
Cash equivalents included in short-term investments	<u>15,389,030</u>	<u>8,576,069</u>
	<u>\$ 15,969,670</u>	<u>\$ 9,337,810</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 11. At June 30, 2014 and 2013, short-term investments consisted of certificates of deposit with maturities of three months or more having a fair value of \$220,893 and \$215,381 and cash equivalents of \$15,389,030 and \$8,576,069, 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 11.

**Concentrations of credit risk** – At June 30, 2014 and 2013, Earthjustice maintained approximately 56% and 60%, respectively, of total net assets at nine investment managers, the largest constituting approximately 12% 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 \$715,448 and \$626,106 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013, was estimated to be \$1,621,622 and \$1,416,156, respectively. The estimate of donated administrative legal services for the years ended June 30, 2014 and 2013 totaled \$26,840 and \$11,958, respectively.

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 \$2,219,321 and \$5,721,779 for the years ended June 30, 2014 and 2013, respectively. It is Earthjustice's policy to record the value of the donated space when management becomes aware of the ad placement.

**Lobbying** - 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 \$81,727 and \$46,965 in grassroots lobbying and an additional \$502,279 and \$861,045 in direct lobbying for total lobbying expenditures of \$584,007 and \$908,010 during the periods ended June 30, 2014 and 2013, respectively. All lobbying expenditures are included in the Public Information functional category.

**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, fair value of investments and the fair value determination of contributed goods and services.

**Reclassification** – Certain 2013 amounts have been reclassified to conform to the 2014 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 activities.

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**

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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 third category was closed during the year ended June 30, 2014 and the funds were transferred into the second category.

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.

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The following table details long-term investments by category for the years ended June 30, 2014 and 2013:

	2014				2013			
	Split Interest Gifts	Reserve Investments	FJC Expert Fund	Total	Split Interest Gifts	Reserve Investments	FJC Expert Fund	Total
Investments, beginning of year	\$ 9,050,936	\$ 30,915,732	\$ 234,653	\$ 40,201,321	\$ 8,535,648	\$ 23,216,709	\$ 233,960	\$ 31,986,317
Transfers due to portfolio balancing, fulfillment of operating (requirements)/surpluses, and reclassification to short-term investments	-	(216,000)	(235,212)	(451,212)	-	5,539,982	-	5,539,982
Added split-interest gifts								
Gifts creating annuity trusts	639,014	-	-	639,014	639,650	-	-	639,650
Amount withdrawn at death of planned giving donors	(198,083)	-	-	(198,083)	(61,712)	-	-	(61,712)
Annuity and beneficiary payments	(704,942)	-	-	(704,942)	(674,167)	-	-	(674,167)
Investment returns (net of expenses and fees)								
Dividends, interest, rents, and expenses	191,896	805,477	559	997,932	209,566	679,941	693	890,200
Realized and unrealized gains	726,031	4,026,266	-	4,752,297	401,951	1,479,100	-	1,881,051
Investments, end of year	<u>\$ 9,704,852</u>	<u>\$ 35,531,475</u>	<u>\$ -</u>	<u>\$ 45,236,327</u>	<u>\$ 9,050,936</u>	<u>\$ 30,915,732</u>	<u>\$ 234,653</u>	<u>\$ 40,201,321</u>
Comprising of								
Marketable securities	\$ 9,261,073	\$ 35,531,475	\$ -	\$ 44,792,548	\$ 8,607,551	\$ 30,915,732	\$ -	\$ 39,523,283
Cash equivalents	443,779	-	-	443,779	443,385	-	234,653	678,038
Total	<u>\$ 9,704,852</u>	<u>\$ 35,531,475</u>	<u>\$ -</u>	<u>\$ 45,236,327</u>	<u>\$ 9,050,936</u>	<u>\$ 30,915,732</u>	<u>\$ 234,653</u>	<u>\$ 40,201,321</u>
Long-term investment classifications								
Permanently restricted	\$ -	\$ 1,746,029	\$ -	\$ 1,746,029	\$ -	\$ 1,551,846	\$ -	\$ 1,551,846
Temporarily restricted	3,271,374	2,100,908	-	5,372,282	3,122,690	1,337,385	234,653	4,694,728
Unrestricted	6,433,478	31,684,538	-	38,118,016	5,928,246	28,026,501	-	33,954,747
Total	<u>\$ 9,704,852</u>	<u>\$ 35,531,475</u>	<u>\$ -</u>	<u>\$ 45,236,327</u>	<u>\$ 9,050,936</u>	<u>\$ 30,915,732</u>	<u>\$ 234,653</u>	<u>\$ 40,201,321</u>

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**NOTE 3 – RECEIVABLES - CONTRIBUTIONS**

Contributions receivable at June 30, 2014 and 2013, 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:

	<b>2014</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Foundation grants receivable	\$ -	\$ 3,495,276	\$ 3,495,276
Pledges receivable, net of discount of \$84,656	837,775	770,344	1,608,119
Beneficial interest in charitable remainder unitrusts	-	343,158	343,158
Bequest receivables, net of allowance of \$74,352	162,870	-	162,870
	<u>\$ 1,000,645</u>	<u>\$ 4,608,778</u>	<u>\$ 5,609,423</u>
	<b>2013</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Foundation grants receivable	\$ -	\$ 714,530	\$ 714,530
Pledges receivable, net of discount of \$114,574	1,207,775	985,426	2,193,201
Beneficial interest in charitable remainder unitrusts	-	326,531	326,531
Bequest receivables, net of allowance of \$17,874	1,500,601	-	1,500,601
	<u>\$ 2,708,376</u>	<u>\$ 2,026,487</u>	<u>\$ 4,734,863</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 91% and 87% of the bequests receivable are from three and two estates at June 30, 2014 and 2013, respectively. All bequests and foundation grants receivable are expected to be received within one year.

Of the pledge receivable balance of \$1,608,119 at June 30, 2014, \$1,035,000 is estimated to be collected within one year, with the remainder estimated to be collected by June 30, 2017.

**NOTE 4 - PROPERTY AND EQUIPMENT**

The major classes of property and equipment at June 30, 2014 and 2013 are as follows:

	<b>2014</b>	<b>2013</b>
Computer equipment and software	\$ 2,127,687	\$ 1,886,864
Furniture and equipment	1,767,334	1,598,989
Leasehold improvements	1,176,441	1,093,010
Library holdings	-	457,504
Building	444,222	450,468
Land - Alaska office	153,880	153,880
Land - Alaska (donated)	79,000	79,000
	5,748,564	5,719,715
Less accumulated depreciation and amortization	3,301,516	3,179,534
Total property and equipment, net	\$ 2,447,048	\$ 2,540,181

In 2014, Earthjustice fully expensed the remainder of its library holdings, which progressively had been obsolesced by online research media. The effect of the asset write-down, net of depreciation, totaled \$34,690.

**NOTE 5 - LEASE COMMITMENTS**

Earthjustice has entered into various lease agreements having initial terms greater than one year for office space which expire through 2025. Rental expense under these leases totaled \$2,176,694 and \$1,929,530 for the years ended June 30, 2014 and 2013, 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>		
2015	\$	2,152,678
2016		2,261,505
2017		2,254,566
2018		2,132,161
2019		1,742,672
Thereafter		4,447,018
	\$	14,990,600

**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 \$1,453,099 and \$1,301,641 have been expensed for the years ended June 30, 2014 and 2013, respectively.

**EARTHJUSTICE**  
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**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, 2014 and 2013, six and seven 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 – 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, 2014 and 2013, the assets held in the pooled income fund have been valued at \$834,678 and \$873,086, respectively. The liabilities which totaled \$261,244 and \$298,114 at June 30, 2014 and 2013, respectively, have been estimated using published actuarial tables. The average rate of return on the fund for the years ended June 30, 2014 and 2013, was approximately 3.8% and 4.2%, respectively.

**Charitable remainder unitrusts** – Earthjustice held seven trusts at June 30, 2014 and 2013, 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, 2014 and 2013, assets held under such trust agreements totaled \$1,330,146 and \$1,244,671, respectively. Associated liabilities amounted to \$688,249 and \$736,563, 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, 2014 and 2013, the fair value of these assets totaled \$7,540,028 and \$6,933,179, 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 \$1,106,550 and \$1,051,550 for June 30, 2014 and 2013, 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 \$4,098,813 and \$4,103,996 at June 30, 2014 and 2013, respectively.

**NOTE 9 – RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2014 and 2013, are restricted for the following purposes:

	<b>2014</b>	<b>2013</b>
Program activities	\$ 10,748,671	\$ 7,865,731
Time restricted funds and investments	3,410,309	4,552,469
Charitable remainder trusts and pooled income fund agreements	1,135,329	1,083,081
Annuity agreements, segregation required by state law	1,106,550	1,051,550
	<b>\$ 16,400,859</b>	<b>\$ 14,552,831</b>

**NOTE 10 – 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.

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**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, 2014 and 2013, the amount of the deficiency was \$0 and \$2,563, 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, 2014 and 2013 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, 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	(2,563)	106,576	1,447,833	1,551,846
Investment income	-	40,152	-	40,152
Net appreciation	2,563	196,907	-	199,470
Amounts appropriated for expenditure	<u>-</u>	<u>(45,440)</u>	<u>-</u>	<u>(45,440)</u>
Endowment net assets, June 30, 2014	<u>\$ -</u>	<u>\$ 298,195</u>	<u>\$ 1,447,833</u>	<u>\$ 1,746,028</u>

**NOTE 11 - 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, 2014 and 2013.

<u>Fair Value Measurement Inputs</u>	<u>June 30, 2014</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Beneficial interest in trusts				
Residential real estate	\$ 343,158	\$ -	\$ -	\$ 343,158
Short-term investments				
Cash equivalents	15,609,923	15,609,923	-	-
Deferred compensation assets				
Fixed income mutual funds	227,230	227,230	-	-
Domestic equity mutual funds	68,298	68,298	-	-
International term bond fund	37,958	37,958	-	-
Long-term investments				
Reserves				
Fixed income mutual funds	5,029,426	5,029,426	-	-
Domestic equity mutual funds	13,896,365	13,896,365	-	-
Treasury inflation protected securities fund	7,600,716	7,600,716	-	-
International equity mutual funds	6,711,046	6,711,046	-	-
Real estate fund	2,293,922	2,293,922	-	-
Split-interest gifts				
Cash and cash equivalents	523,544	523,544	-	-
Fixed income mutual funds	2,474,650	2,474,650	-	-
Domestic equity mutual funds	3,243,328	3,243,328	-	-
International equity mutual funds	680,623	680,623	-	-
Alternatives mutual funds	270,428	270,428	-	-
Real estate mutual fund	-	-	-	-
Exchange traded mutual funds	617,107	617,107	-	-
Equities	56,626	56,626	-	-
Government obligations	1,838,546	1,838,546	-	-
Total assets	<u>\$ 61,522,894</u>	<u>\$ 61,179,736</u>	<u>\$ -</u>	<u>\$ 343,158</u>

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**

Fair Value Measurement Inputs	Total	Level 1	Level 2	Level 3
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>

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, 2014 and 2013:

	Beneficial Interest in Trusts	Total
Balance, June 30, 2012	<u>\$ 310,709</u>	<u>\$ 310,709</u>
Unrealized gains on investments, included in realized and unrealized gains	<u>15,822</u>	<u>15,822</u>
Balance, June 30, 2013	<u>326,531</u>	<u>326,531</u>
Unrealized gain on investments, included in realized and unrealized losses	<u>16,627</u>	<u>16,627</u>
Balance, June 30, 2014	<u>\$ 343,158</u>	<u>\$ 343,158</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:

	<b>June 30, 2014</b>			
	<b>Fair Value at Year-End</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>	<b>Other Restrictions</b>
Beneficial interest in trusts				
Residential real estate	\$ 343,158	Not eligible	Not applicable	None
	<b>June 30, 2013</b>			
	<b>Fair Value at Year-End</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>	<b>Other Restrictions</b>
Beneficial interest in trusts				
Residential real estate	\$ 326,531	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, 2014 to June 30, 2013.