

EARTHJUSTICE

FINANCIAL STATEMENTS

June 30, 2020 and 2019



EARTHJUSTICE

T A B L E O F C O N T E N T S

	Page(s)
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6–28



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INDEPENDENT AUDITORS' REPORT

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, 2020 and 2019, 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.

Auditors' 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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, 2020 and 2019, 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.

BPM LLP

San Francisco, California
October 26, 2020

EARTHJUSTICE
STATEMENTS OF FINANCIAL POSITION

As of June 30, 2020 and 2019

	2020	2019
ASSETS		
Operating cash, including client trust funds	\$ 16,480,106	\$ 8,172,376
Short-term investments at fair value, including cash equivalents	36,413,068	20,068,788
Contributions receivables, net	39,203,510	26,993,730
Court awards receivable	733,321	1,105,143
Prepaid expenses and other assets	3,045,214	2,080,005
Deferred compensation asset	825,327	642,553
Split-interest gift agreements	10,451,813	10,019,288
Long-term investments at fair value	129,897,261	111,019,934
Property and equipment, net	9,524,120	3,513,218
Total assets	\$ 246,573,740	\$ 183,615,035
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 3,809,087	\$ 2,284,823
Accrued vacation payable	4,021,630	2,851,396
Client trust funds	491,767	565,235
Deferred compensation liability	825,327	642,553
Deferred rent and lease incentive liabilities	8,136,913	2,005,576
Liabilities related to split-interest gift agreements	5,652,847	5,263,802
Total liabilities	22,937,571	13,613,385
Net assets:		
Without donor restrictions:		
For current operations	14,572,948	12,156,308
Board designated - Cash Flow Reserve Fund	38,130,494	34,877,533
Board designated - Endowment Fund	111,583,790	73,597,009
Investment in property and equipment	9,524,120	3,513,218
Total without donor restrictions	173,811,352	124,144,068
With donor restrictions:		
Unspent purpose restricted fund	19,794,853	30,880,907
Time restricted funds and investments	25,613,789	10,836,336
Split-interest gift reserves, net of liabilities	2,508,174	2,232,402
Endowment	1,908,001	1,907,937
Total with donor restrictions	49,824,817	45,857,582
Total net assets	223,636,169	170,001,650
Total liabilities and net assets	\$ 246,573,740	\$ 183,615,035

The accompanying notes are an integral
part of these financial statements.

EARTHJUSTICE

STATEMENTS OF ACTIVITIES

For the years ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Contributions	\$ 54,079,886	\$ 63,056,267	\$ 117,136,153	\$ 43,983,704	\$ 37,920,053	\$ 81,903,757
Donated services	4,187,207	-	4,187,207	4,085,068	-	4,085,068
Bequests	19,839,476	2,060,766	21,900,242	13,750,126	50,000	13,800,126
Court awarded attorney fees and costs	5,850,038	-	5,850,038	3,487,389	-	3,487,389
Change in value of split-interest gift agreements	(220,057)	308,309	88,252	331,410	124,542	455,952
Net realized and unrealized gain from investments and split-interest agreements	3,224,277	82,530	3,306,807	4,764,269	175,059	4,939,328
Interest and dividend income, net	2,117,372	57,247	2,174,619	2,181,627	63,169	2,244,796
Other (loss) income	(169,530)	-	(169,530)	200,259	-	200,259
Satisfaction of program/time restrictions	61,597,884	(61,597,884)	-	31,568,402	(31,568,402)	-
Total revenues	150,506,553	3,967,235	154,473,788	104,352,254	6,764,421	111,116,675
Expenses:						
Program services:						
Litigation	52,033,825	-	52,033,825	43,938,501	-	43,938,501
Donated litigation services	3,119,889	-	3,119,889	3,303,422	-	3,303,422
Public information	22,983,130	-	22,983,130	17,665,197	-	17,665,197
Donated public information services	1,067,317	-	1,067,317	781,646	-	781,646
Supporting services:						
Management and general	10,933,940	-	10,933,940	8,732,601	-	8,732,601
Fundraising	10,701,168	-	10,701,168	8,105,852	-	8,105,852
Total expenses	100,839,269	-	100,839,269	82,527,219	-	82,527,219
Change in net assets	49,667,284	3,967,235	53,634,519	21,825,035	6,764,421	28,589,456
Net assets, beginning of year	124,144,068	45,857,582	170,001,650	102,319,033	39,093,161	141,412,194
Net assets, end of year	\$ 173,811,352	\$ 49,824,817	\$ 223,636,169	\$ 124,144,068	\$ 45,857,582	\$ 170,001,650

The accompanying notes are an integral
part of these financial statements.

EARTHJUSTICE

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2020

	Program				2020 Total
	Litigation	Public Information	Management and General	Fundraising	
Salaries and related expenses:					
Salary	\$ 29,425,838	\$ 9,921,899	\$ 5,042,909	\$ 5,057,501	\$ 49,448,147
Employee benefits	3,849,913	1,454,788	746,753	680,478	6,731,932
Payroll taxes	2,054,178	714,110	370,189	356,588	3,495,065
Retirement plan contributions	1,937,839	612,893	274,987	322,341	3,148,060
Total salaries and related expenses	37,267,768	12,703,690	6,434,838	6,416,908	62,823,204
Other expenses:					
Professional and contracted services	1,593,455	2,744,420	1,670,687	1,404,996	7,413,558
Occupancy	3,813,163	1,661,488	792,245	752,263	7,019,159
Donated services	3,119,889	1,067,317	-	-	4,187,206
Direct case costs	3,293,740	717,206	9,334	20,742	4,041,022
Travel, conferences, and meetings	1,782,510	644,657	667,565	428,128	3,522,860
Printing, publications, and reproduction	44,973	1,270,617	212,727	327,557	1,855,874
Equipment rental and maintenance	842,221	265,890	377,756	128,186	1,614,053
Grants and allocations	1,176,989	118,811	7,440	15,087	1,318,327
Depreciation and amortization	679,870	296,533	142,422	134,217	1,253,042
Postage	25,719	650,392	268,263	210,566	1,154,940
Media	23,651	1,100,610	4,332	2,151	1,130,744
Bank fees	61,203	197,538	69,167	688,866	1,016,774
Telephone and internet	392,368	165,267	74,716	74,544	706,895
Supplies	257,136	187,764	73,675	57,477	576,052
Research	323,351	171,361	59,584	15,990	570,286
Miscellaneous	199,892	86,886	63,853	18,124	368,755
Insurance	255,816	-	5,336	5,366	266,518
Total other expenses	17,885,946	11,346,757	4,499,102	4,284,260	38,016,065
	\$ 55,153,714	\$ 24,050,447	\$ 10,933,940	\$ 10,701,168	\$ 100,839,269

The accompanying notes are an integral part of these financial statements.

EARTHJUSTICE
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2019

	Program				2019 Total
	Litigation	Public Information	Management and General	Fundraising	
Salaries and related expenses:					
Salary	\$ 23,985,174	\$ 7,692,852	\$ 3,593,276	\$ 4,223,161	\$ 39,494,463
Employee benefits	2,861,727	1,075,266	611,304	490,278	5,038,575
Payroll taxes	1,681,654	555,409	287,652	298,475	2,823,190
Retirement plan contributions	1,811,911	506,799	233,360	227,369	2,779,439
 Total salaries and related expenses	 30,340,466	 9,830,326	 4,725,592	 5,239,283	 50,135,667
Other expenses:					
Professional services	2,409,741	2,097,535	1,264,348	1,038,438	6,521,055
Occupancy	2,814,737	1,117,069	494,486	605,090	5,031,382
Donated services	3,303,422	781,646	-	-	4,085,068
Direct case costs	3,509,448	-	3,249	3,249	3,515,946
Travel, conferences, and meetings	1,312,685	800,262	644,694	444,314	3,201,955
Media	36,741	1,483,082	76,268	80,250	1,676,341
Equipment rental and maintenance	768,388	239,733	272,335	79,757	1,360,213
Miscellaneous	701,706	214,156	224,127	93,098	1,233,087
Depreciation and amortization	646,018	256,250	122,958	112,435	1,137,661
Printing, publications, and reproduction	18,192	749,350	118,719	168,592	1,054,853
Postage	26,579	508,635	190,524	139,428	865,166
Telephone and internet	425,344	108,476	42,684	44,737	621,241
Grants and allocations	479,393	30,000	3,750	11,250	524,393
Bank fees	40,682	16,137	377,393	7,080	441,292
Supplies	234,083	93,083	36,078	27,066	390,310
Research	174,298	99,043	47,156	11,785	332,282
Insurance	-	22,060	88,240	-	110,300
 Total other expenses	 16,901,457	 8,616,517	 4,007,009	 2,866,569	 32,102,545
	 <u>\$ 47,241,923</u>	 <u>\$ 18,446,843</u>	 <u>\$ 8,732,601</u>	 <u>\$ 8,105,852</u>	 <u>\$ 82,238,212</u>

The accompanying notes are an integral
part of these financial statements.

EARTHJUSTICE
STATEMENTS OF CASH FLOWS

For the years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 53,634,519	\$ 28,589,456
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,253,042	1,137,661
Loss on disposal of property and equipment	231,755	-
Change in discount on contributions receivable	950,272	459,192
Contributions and actuarial loss (gain) on split-interest liabilities	701,321	(55,714)
Net realized and unrealized gains from investments and split-interest agreements	(3,225,190)	(4,855,105)
Investment income from endowment	(57,247)	(32,307)
Bad debts	(144,646)	(113,306)
Deferred rent and lease incentive liabilities	6,131,337	654,139
Changes in assets and liabilities:		
Contributions receivables	(13,015,406)	(8,106,781)
Court awards receivable	371,822	(306,961)
Prepaid expenses and other assets	(965,209)	(485,441)
Accounts payable	1,277,201	(211,597)
Accrued vacation payable	1,170,234	450,157
Client trust funds	(73,468)	(248,183)
Net cash provided by operating activities	48,240,337	16,875,210
Cash flows from investing activities:		
Proceeds of short-term investments	-	35,290
Proceeds from sales of long-term investments	-	1,979,067
Purchase of long-term investments	(15,653,894)	(16,794,599)
Proceeds from dissolution of charitable trusts	286,906	767,274
Purchase of property and equipment	(7,248,636)	(1,230,757)
Net cash used in investing activities	(22,615,624)	(15,243,725)
Cash flows from financing activities:		
Investment income from endowment	57,247	32,307
Investment income from split-interest agreement	(203,227)	(185,123)
Payments to split-interest beneficiaries	681,288	665,803
Additions of new split-interest gifts	(1,509,769)	(1,048,519)
Net cash used in financing activities	(974,461)	(535,532)
Change in cash and cash equivalents	24,650,252	1,095,953
Cash and cash equivalents, beginning of year	28,007,447	26,911,494
Cash and cash equivalents, end of year	\$ 52,657,699	\$ 28,007,447
Noncash financing and investing activities:		
Change in accounts payable related to purchase of property and equipment	\$ 247,063	\$ -

The accompanying notes are an integral part of these financial statements.

EARTHJUSTICE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. History and Organization

Earthjustice 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. Earthjustice achieves long-lasting protection of the environment through far-reaching, high-impact litigation, strengthened by targeted lobbying and communications, and by protecting access to the courts. 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.

For 50 years, Earthjustice has represented more than 1,000 clients, ranging from large national health and environmental organizations to smaller community groups. 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 over 100 attorneys in fifteen locations: San Francisco, California (which also houses the organization headquarters); Los Angeles, California; Sacramento, California; Washington, D.C.; Denver, Colorado; Juneau, Alaska; Anchorage, Alaska; Seattle, Washington; Honolulu, Hawaii; Tallahassee, Florida; Miami, Florida; Bozeman, Montana; New York, New York; Philadelphia, Pennsylvania; and Chicago, Illinois. This nationwide litigation effort is supported by policy and legislation experts and by the organization's communications team, which has broad experience in print and broadcast media as well as digital advocacy and social media.

Earthjustice divides its current work into four key program areas: fighting for healthy communities by holding polluters and the government accountable for following our nation's bedrock environmental laws safeguarding human health; preserving the wild by enforcing laws to protect endangered species, sensitive habitats and threatened wildlands and waters; advancing clean energy and a stable climate by using the power of law to speed a transformation from dirty fossil fuels to renewable energy; and advancing access to justice.

Earthjustice's volunteer members of the Board are active in oversight of governance, finances, investments and fundraising, and all make a contribution to the organization.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and 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:

Net Assets Without Donor Restrictions – Those net assets and activities which represent the portion of expendable funds that are available to support Earthjustice's operations. Additionally, the Board of Directors may designate a portion of these net assets for specified purposes. As of June 30, 2020, the following funds were established by the Board of Directors:

Cash Flow Reserve Fund – These funds are designated to provide a stable source of funding for anticipated and unanticipated budgetary needs, maintained at approximately three months of operating expenses.

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. **Summary of Significant Accounting Policies**, continued

Basis of Presentation, continued

Endowment Fund – These funds are designated to protect Earthjustice’s work commitments in the event of a longer term change in revenue prospects. Earthjustice represents clients in legal matters that create ethical obligations to clients and courts requiring long term investments of staff and financial resources to fulfill. The fund is designed to provide stable funding to support meeting client commitments on existing work if needed. While the Board Designated Endowment is intended to support Earthjustice's work and client obligations over time, it does not functionally operate as an endowment.

Net Assets With Donor Restrictions – Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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, except funds held in long-term investment or split-interest purposes. 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:

	2020	2019
Operating cash, including client trust funds of \$491,767 and \$565,235 in 2020 and 2019, respectively	\$ 16,480,106	\$ 8,172,376
Cash equivalents included in short-term investments	36,177,593	19,835,071
	\$ 52,657,699	\$ 28,007,447

Contributions and Receivables

Contributions of cash and other assets, including unconditional promises to give, are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, either through the passage of a stipulated time period or the purpose being completed, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as satisfaction of program/time restrictions. Revenue from contractual foundation grants is recorded as contribution with donor restrictions upon contract ratification.

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies, continued

Contributions and Receivables, continued

Such grants normally have outlined expenditures that Earthjustice will incur upon collection of the receivable, however, the contributions are not considered conditional based on the occurrence of such costs. Contributions receivable with payment terms in excess of one year are subject to discounting using a rate of 3.5%. One multi-year pledge of \$5 million is subject to discounting using a rate of 12%. Conditional promises to give are excluded from revenue and support until the conditions are substantially met. As of June 30, 2020 and 2019, there were no conditional promises to give outstanding.

Revenue from bequests is recognized as receivables and contributions if they are irrevocable, unconditional, and measurable. If a gift does not meet these criteria it is not recognized as contribution revenue until the will is declared valid and subject to final distribution. At that time, Earthjustice recognizes the contribution at fair value, net of a discount for likely fees and taxes, based on historical experience. Bequest amounts estimated to be received in excess of one year are subject to discounting.

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 Earthjustice. 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, 2020 and 2019, was estimated to be \$3,119,889 and \$3,303,422, respectively.

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 \$1,067,317 and \$781,646 for the years ended June 30, 2020 and 2019, respectively. It is Earthjustice's policy to record the value of the donated space when management becomes aware of the ad placement.

Court Awarded Attorney Fees and Costs

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 \$389,206 and \$266,022 was necessary as of June 30, 2020 and 2019, respectively. In the years ended June 30, 2020 and 2019, Earthjustice incurred an additional \$144,646 and \$113,306, respectively, in bad debt expenses as the result of revaluing the longer-term collectability of all pledges receivable and in forgiving certain pledges receivable in prior years.

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of Significant Accounting Policies, continued

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. At June 30, 2020 and 2019, short-term investments consisted of certificates of deposit with maturities of three months or more having a fair value of \$235,474 and \$233,717, respectively, and cash equivalents of \$36,177,594 and \$19,835,071, 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 7. Earthjustice also invests in various collective trust funds that are measured on a net asset value (“NAV”) per share basis, which approximates fair value. These funds are index funds that seek investment results that correspond with the underlying assets of the funds, which the investment objectives to approximate the performance of benchmark index funds over the long term. Investments in the collective trust fund are fully redeemable and Earthjustice may make withdrawals from the fund at any time with no restrictions at the NAV per share less an exit fee. There are no unfunded commitments for these investments. 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 as change in value of split-interest gift agreements.

Long-term investments consist of a pool of funds that includes both donor restricted and board-designated funds. The reserve investments are, in turn, split into two pools of funds, a Cash Flow Reserve Fund and an Endowment Fund. The Cash Flows Reserve Fund is invested in money market funds and fixed income funds, while the Endowment 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.

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. The categorization of an asset or liability 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.

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

Level 1 assets include highly liquid government bonds, actively traded mutual funds, and exchange traded equities. Level 2 assets may include fixed income investments traded in a limited market, certificates of deposit, and collective trust funds. In certain cases where Level 1 or Level 2 inputs are not available, assets are classified within Level 3 of the hierarchy. Level 3 assets and liabilities may include financial instruments whose value is determined using discounted cash flows methodologies or similar techniques as well as instruments for which the determination of fair value requires significant management judgement or estimation. Level 3 assets include beneficial interests in non-trusted trusts which hold residential real estate and liabilities related to split-interest agreements.

In addition, Earthjustice reports certain investments using the NAV per share as determined by investment managers under the so-called “practical expedient.” The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met.

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”) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary, and 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.”

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies, continued

Endowments, continued

Financial Statement Presentation

For financial statement purposes, Earthjustice classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, and (d) the remaining portion of the donor-restricted endowment fund whose use is restricted until those amounts are appropriated for expenditure by Earthjustice in a manner consistent with the standard of prudence prescribed by California's enacted version of UPMIFA.

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 net assets with donor restrictions. For the years ended June 30, 2020 and 2019, there were no such deficiencies.

Split-Interest Gift Agreements

Earthjustice has entered into several Charitable Gift Annuity Agreements and Charitable Remainder Unitrusts whereby Earthjustice is the trustee and the donor contributes assets in exchange for distributions based on the value of trust assets for a specified period of time to the donor or other beneficiaries. These assets are recorded as split-interest gifts (Note 5). At the end of the specified time, the remaining assets are available for Earthjustice's use. Assets received are recorded at fair value on the date the agreement or unitrust is recognized and, as required by state law, are invested primarily in U.S. government obligations. A liability equal to the present value of the future distributions to other beneficiaries is recorded. The difference between the fair value of the assets received and the liability to the donor or other beneficiaries is recognized as contribution revenue as change in value of split-interest gift agreements in the statement of activities. Assets held by third-party trustees are recorded as a beneficial interest within contribution receivables.

Assets of pooled income funds are stated at fair value based on present value techniques that involve estimations of investment returns, life expectancies based on mortality tables, and discount rates. The remainder interest in the assets received is recognized as contributed income with donor restrictions in the period in which the assets are received from the donor and is measured at the fair value of the assets received, discounted for the estimated time period until the donor's death.

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies, continued

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 an aggregate cost or fair-market value of \$5,000 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

Deferred Rent and Lease Incentive Liabilities

Earthjustice recognizes rent expense on a straight-line basis over the life of the lease. Leasehold improvements paid for by the landlord are recorded as a deferred lease incentive liabilities and amortized over the lease term on a straight-line basis.

Concentrations of Credit Risk

At June 30, 2020 and 2019, Earthjustice maintained its investments with three investment firms, the largest single investment constituting approximately 30% of investments. (Assets separated 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). As of June 30, 2020 and 2019, Earthjustice held investments in excess of the Securities Investor Protection Corporation (“SIPC”) insurance limits.

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

Allocation of Functional Expenses

Expenses are summarized and categorized based upon their functional classification as program, management and general or fundraising. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and related expenses; occupancy; depreciation and amortization; and indirect operating expenses. These expenses are allocated on the basis of estimated time and effort by employees.

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of Significant Accounting Policies, continued

Advertising

Earthjustice expenses advertising costs as incurred. For the years ended June 30, 2020 and 2019, advertising and media expenses amounted to \$1,909,071 and \$1,108,690, respectively.

Income Taxes

Earthjustice 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 files exempt organization returns and, if applicable, unrelated business income tax returns in the U.S. federal and California jurisdictions.

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.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

Recent Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The accounting for contributions has been modified to clarify distinguishing whether grants or contracts should be accounted for as non-reciprocal contributions, or as exchange transactions that follow revenue recognition accounting. For exchange transactions, the standard clarifies when each party directly receives commensurate value in the transaction, and how to deal with third party payers to a transaction. Additionally, the criteria for determining whether a contribution is conditional has been changed from a probability-based approach to one focused on barriers in an arrangement. Earthjustice has adopted this accounting standard in the current fiscal year. There was no significant impact on the financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*. This new guidance has removed the requirement to present the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The ASU is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. Earthjustice expects to adopt this guidance when required by the FASB.

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In February 2016, the FASB issued ASU 2016-02, *Leases (842)*. The new guidance requires lessees to recognize a right-to-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The new guidance is effective for years beginning after December 15, 2021 and interim periods beginning the following year. Early application is permitted. Earthjustice is currently evaluating the impact of adoption on its financial statements.

3. Liquidity and Availability

Earthjustice's working capital and cash flows have seasonal variation during the year attributable to the high concentration of contributions received near calendar year end. With the oversight of the Board Investment Committee, management projects for future cash needs on a biannual basis and maintains roughly 4–6 months in liquid assets available for current operations. If needed, reserve funds are available to meet general expenditures.

The following reflects Earthjustice's financial assets as of June 30, 2020:

	2020	2019
Financial assets at fiscal year end:		
Operating cash, including client trust funds	\$ 16,480,106	\$ 8,172,376
Short-term investments at fair value, including cash equivalents	36,413,068	20,068,788
Contribution receivables, net	39,203,510	26,993,730
Court awards receivable	733,321	1,105,143
Long-term investments at fair value	129,897,261	111,019,934
Deferred compensation assets	825,327	642,553
Total financial assets	223,552,593	168,002,524
Less amounts unavailable for general expenditure within one year:		
Contribution receivables due after one year, net	(18,801,511)	(13,693,272)
Deferred compensation assets	(825,327)	(642,553)
Donor-imposed restrictions:		
Subject to appropriation and satisfaction of donor restrictions	(1,908,001)	(1,907,937)
Board-designated reserve funds	(149,714,284)	(108,474,542)
Financial assets available to meet cash needs for general expenditures within one year	\$ 52,303,470	\$ 43,284,220

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

4. Contributions Receivables

Contributions receivable at June 30, 2020 and 2019, include both contributions with and without donor restrictions that are 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 a discount rate at the date of the contribution. These receivables consist of the following:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Foundation grants receivable, net of discount of \$626,284	\$ -	\$ 13,430,396	\$ 13,430,396
Pledges receivable, net of discount of \$4,168,205	-	22,662,561	22,662,561
Beneficial interest in charitable remainder unitrust	-	672,420	672,420
Bequest receivables	766,573	2,060,766	2,827,339
Allowance for doubtful accounts	(389,206)	-	(389,206)
	\$ 377,367	\$ 38,826,143	\$ 39,203,510
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Foundation grants receivable, net of discount of \$520,228	\$ 2,000,000	\$ 8,054,309	\$ 10,054,309
Pledges receivable, net of discount of \$3,323,989	3,762,242	10,036,940	13,799,182
Beneficial interest in charitable remainder unitrust	-	639,883	639,883
Bequest receivables	2,716,378	50,000	2,766,378
Allowance for doubtful accounts	(266,022)	-	(266,022)
	\$ 8,212,598	\$ 18,781,132	\$ 26,993,730

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.

Bequests receivable are from seven and four estates at June 30, 2020 and 2019, respectively. All bequests receivable are expected to be received within one year.

One donor comprised of 9% and 16% of total contributions for the years ended June 30, 2020 and 2019, respectively. Another donor made a multi-year unconditional promise to give comprising of 11% of total contributions for the year ended June 30, 2020.

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

4. Contributions Receivables, continued

The pledge receivable and foundation grant receivable balances at June 30, 2020, are expected to be collected as follows:

Year ending June 30:	
2021	\$ 17,291,446
2022	6,387,000
2023	2,621,000
2024	4,021,000
2025	3,816,000
Thereafter	6,751,000
	40,887,446
Less discount	(4,794,489)
Less allowance	(389,206)
	\$ 35,703,751

5. Split-Interest Gift Agreements

In the regular course of fund development, Earthjustice enters into various split-interest gift agreements with donors. 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. The liabilities at June 30, 2020 have been estimated using applicable published actuarial tables and the estimated average rate of return on the fund, which was approximately 4%.

Charitable Remainder Unitrusts – Earthjustice held five trusts at June 30, 2020, 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. The assets held and the corresponding liabilities are grossed up to include the amounts ultimately payable to the other charities. The liabilities associated with these trusts have been estimated using applicable published actuarial tables and an estimated average rate of return on the trusts of 6%.

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. Various states in which annuitants reside require that Earthjustice maintain statutory reserves. These statutory reserves typically require that Earthjustice separate the associated assets from other assets to the extent of the reserve requirements. While Earthjustice elects to separate 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 \$1,722,625 and \$1,420,806 for June 30, 2020 and 2019, respectively. As a result, this amount constitutes net assets with donor restrictions. It is Earthjustice’s practice not to liquidate the net asset value of annuity contracts until such time as the contracts mature. Liabilities estimating the present value of the expected annuity payments have been estimated using applicable published actuarial tables and an estimated average rate of return on the trusts of 6%.

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

5. Split-Interest Gift Agreements, continued

Split-interest gift agreements as of June 30, 2020 are as follows:

	Pooled Income Fund	Charitable Remainder Unitrusts	Charitable Gift Annuities	Split- Interest Gifts Total
Investments, beginning of year	\$ 824,153	\$ 589,872	\$ 8,605,263	\$ 10,019,288
Added split-interest gifts:				
Gifts creating annuity trusts	7,195	-	1,502,574	1,509,769
Amounts withdrawn at death of planned giving donors	-	-	(286,906)	(286,906)
Annuity and beneficiary payments	(36,982)	(32,813)	(611,493)	(681,288)
Investment returns:				
Interest and dividend	35,698	14,082	153,447	203,227
Realized and unrealized gains	(71,670)	(9,272)	(231,335)	(312,277)
Investments, end of year	<u>\$ 758,394</u>	<u>\$ 561,869</u>	<u>\$ 9,131,550</u>	<u>\$ 10,451,813</u>
Liabilities related to split-interest gift agreements	<u>\$ 300,929</u>	<u>\$ 233,786</u>	<u>\$ 5,118,132</u>	<u>\$ 5,652,847</u>
Comprising of:				
Marketable securities	\$ 741,908	\$ 545,290	\$ 8,821,953	\$ 10,109,151
Cash equivalents	16,486	16,579	309,597	342,662
Total	<u>\$ 758,394</u>	<u>\$ 561,869</u>	<u>\$ 9,131,550</u>	<u>\$ 10,451,813</u>
Split-interest gift investment classifications:				
With donor restrictions	\$ 758,394	\$ 561,869	\$ 1,100,739	\$ 2,421,002
Without donor restrictions	-	-	8,030,811	8,030,811
Total	<u>\$ 758,394</u>	<u>\$ 561,869</u>	<u>\$ 9,131,550</u>	<u>\$ 10,451,813</u>

Continued

EARTHJUSTICE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

5. Split-Interest Gift Agreements, continued

Split-interest gift agreements as of June 30, 2019 are as follows:

	Pooled Income Fund	Charitable Remainder Unitrusts	Charitable Gift Annuities	Split- Interest Gifts Total
Investments, beginning of year	\$ 799,549	\$ 674,718	\$ 8,504,792	\$ 9,979,059
Added split-interest gifts:				
Gifts creating annuity trusts	-	-	1,048,519	1,048,519
Amounts withdrawn at death of planned giving donors	-	(77,601)	(689,673)	(767,274)
Annuity and beneficiary payments	(34,336)	(37,583)	(593,884)	(665,803)
Investment returns:				
Interest and dividend	38,143	17,141	129,839	185,123
Realized and unrealized gains	20,797	13,197	205,670	239,664
Investments, end of year	\$ 824,153	\$ 589,872	\$ 8,605,263	\$ 10,019,288
Liabilities related to split-interest gift agreements	\$ 348,439	\$ 253,990	\$ 4,661,373	\$ 5,263,802
Comprising of:				
Marketable securities	\$ 807,185	\$ 558,825	\$ 8,210,658	\$ 9,576,668
Cash equivalents	16,968	31,047	394,605	442,620
Total	\$ 824,153	\$ 589,872	\$ 8,605,263	\$ 10,019,288
Split-interest gift investment classifications:				
With donor restrictions	\$ 824,153	\$ 589,872	\$ 867,880	\$ 2,281,905
Without donor restrictions	-	-	7,737,383	7,737,383
Total	\$ 824,153	\$ 589,872	\$ 8,605,263	\$ 10,019,288

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

6. Long-Term Investments

The following table details long-term investments by category for the years ended June 30, 2020 and 2019:

	2020	2019
Investments, beginning of year	\$ 111,019,934	\$ 91,424,417
Net transfers due to portfolio balancing, fulfillment of operating (requirements)/surpluses, and reclassification to short-term investments	13,836,000	13,054,000
Investment returns:		
Interest and dividends, net of fees	1,817,894	1,761,530
Realized and unrealized gains	3,223,433	4,779,987
Investments, end of year	\$ 129,897,261	\$ 111,019,934
Long-term investment classifications:		
With donor restrictions	\$ 3,677,473	\$ 3,643,746
Without donor restrictions	126,219,788	107,376,188
Total	\$ 129,897,261	\$ 111,019,934

Continued

EARTHJUSTICE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

7. Fair Value Measurements

The following table presents the fair value measurements of assets and liabilities 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, 2020 and 2019:

	2020				
	Level 1	Level 2	Level 3	NAV	Total
Assets:					
Receivables - contributions, net:					
Beneficial interest in unitrust	\$ -	\$ -	\$ 672,420	\$ -	\$ 672,420
Short-term investments:					
Cash equivalents and certificates of deposit	35,968,826	444,242	-	-	36,413,068
Deferred compensation assets:					
Cash and cash equivalents	4,528	-	-	-	4,528
Fixed income mutual funds	225,346	-	-	-	225,346
Target retire mutual funds	535,977	-	-	-	535,977
International term bond fund	59,476	-	-	-	59,476
Total deferred compensation assets	825,327	-	-	-	825,327
Long-term investments:					
Board designated funds:					
Money market fund	275,040	-	-	-	275,040
Fixed income mutual funds	22,935,406	-	-	-	22,935,406
Domestic equity mutual funds	27,827,847	-	-	-	27,827,847
Treasury inflation protected securities fund	21,001,994	-	-	-	21,001,994
International equity mutual funds	11,011,007	-	-	-	11,011,007
Real estate mutual fund	8,442,607	-	-	-	8,442,607
Developed ex-fossil fuel funds - NAV	-	-	-	38,403,360	38,403,360
Total long-term investments	91,493,901	-	-	38,403,360	129,897,261
Split-interest gifts:					
Cash and cash equivalents	342,662	-	-	-	342,662
Fixed income mutual funds	915,670	-	-	-	915,670
International equity mutual funds	266,553	-	-	-	266,553
Real estate mutual fund	138,422	-	-	-	138,422
Exchange traded mutual funds	5,187,355	-	-	-	5,187,355
Government obligations	620,356	-	-	-	620,356
Receivables	-	108,287	-	-	108,287
Mortgage Backed Securities	83	-	-	-	83
Common Collective Trusts - NAV:					
Fixed income	-	-	-	1,347,716	1,347,716
Real estate	-	-	-	147,171	147,171
Exchange traded funds	-	-	-	701,667	701,667
Government obligations	-	-	-	675,871	675,871
Total split-interest gifts	7,471,101	108,287	-	2,872,425	10,451,813
Total for assets measured at fair value	<u>\$ 135,759,155</u>	<u>\$ 552,529</u>	<u>\$ 672,420</u>	<u>\$ 41,275,785</u>	<u>\$ 178,259,889</u>
Liabilities:					
Liabilities under split-interest agreement	\$ -	\$ -	\$ 5,652,847	\$ -	\$ 5,652,847
Deferred compensation liabilities	825,327	-	-	-	825,327
Total for liabilities measured at fair value	<u>\$ 825,327</u>	<u>\$ -</u>	<u>\$ 5,652,847</u>	<u>\$ -</u>	<u>\$ 6,478,174</u>

Continued

EARTHJUSTICE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

7. Fair Value Measurements, continued

	2019				Total
	Level 1	Level 2	Level 3	NAV	
Assets:					
Receivables - contributions, net:					
Beneficial interest in unitrust	\$ -	\$ -	\$ 639,883	\$ -	\$ 639,883
Short-term investments:					
Cash equivalents and certificates of deposit	19,627,510	441,278	-	-	20,068,788
Deferred compensation assets:					
Fixed income mutual funds	186,233	-	-	-	186,233
Target retire mutual funds	403,971	-	-	-	403,971
International term bond fund	52,329	-	-	-	52,329
Total deferred compensation assets	642,533	-	-	-	642,533
Long-term investments:					
Board designated funds:					
Money market fund	57,179	-	-	-	57,179
Fixed income mutual funds	21,039,523	-	-	-	21,039,523
Domestic equity mutual funds	23,495,626	-	-	-	23,495,626
Treasury inflation protected securities fund	17,900,942	-	-	-	17,900,942
International equity mutual funds	8,767,541	-	-	-	8,767,541
Real estate mutual fund	7,083,977	-	-	-	7,083,977
Developed ex-fossil fuel funds - NAV	-	-	-	32,675,146	32,675,146
Total long-term investments	78,344,788	-	-	32,675,146	111,019,934
Split-interest gifts:					
Cash and cash equivalents	442,620	-	-	-	442,620
Fixed income mutual funds	954,872	-	-	-	954,872
International equity mutual funds	233,131	-	-	-	233,131
Real estate mutual fund	252,070	-	-	-	252,070
Exchange traded mutual funds	4,802,040	-	-	-	4,802,040
Government obligations	680,600	-	-	-	680,600
Receivables	-	189,863	-	-	189,863
Mortgage Backed Securities	109	-	-	-	109
Common Collective Trusts - NAV:					
Fixed income	-	-	-	857,262	857,262
Real estate	-	-	-	261,783	261,783
Exchange traded funds	-	-	-	747,637	747,637
Government obligations	-	-	-	597,301	597,301
Total split-interest gifts	7,365,442	189,863	-	2,463,983	10,019,288
Total for assets measured at fair value	<u>\$ 105,980,273</u>	<u>\$ 631,141</u>	<u>\$ 639,883</u>	<u>\$ 35,139,129</u>	<u>\$ 142,390,426</u>
Liabilities:					
Liabilities under split-interest agreement	\$ -	\$ -	\$ 5,263,802	\$ -	\$ 5,263,802
Deferred compensation liabilities	642,553	-	-	-	642,553
Total for liabilities measured at fair value	<u>\$ 642,553</u>	<u>\$ -</u>	<u>\$ 5,263,802</u>	<u>\$ -</u>	<u>\$ 5,906,355</u>

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

7. Fair Value Measurements, continued

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.

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. No such transfers occurred for the years ended June 30, 2020 and 2019.

Inputs used for valuation of remainder interest 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. The fair value of liabilities associated with these trusts have been adjusted using applicable published actuarial tables. There was no change in valuation methods during the current fiscal year.

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the periods ended June 30, 2020 and 2019:

	<u>Beneficial Interest in Trusts</u>
Balance, June 30, 2018	\$ 608,837
Increase in value due to change in market value and actuarial life expectancy	<u>31,046</u>
Balance, June 30, 2019	639,883
Increase in value due to change in market value and actuarial life expectancy	<u>32,537</u>
Balance, June 30, 2020	<u><u>\$ 672,420</u></u>

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

7. Fair Value Measurements, continued

The following table provides a reconciliation of liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the periods ended June 30, 2020 and 2019:

	<u>Liabilities under Split-Interest Agreements</u>
Balance, June 30, 2018	\$ 5,117,944
New agreements	858,655
Payments to beneficiaries	(665,803)
Dissolution of agreements	(767,274)
Increase in value due to change in market value and actuarial life expectancy	<u>720,280</u>
Balance, June 30, 2019	5,263,802
New agreements	1,509,769
Payments to beneficiaries	(681,288)
Dissolution of agreements	(286,906)
Decrease in value due to change in market value and actuarial life expectancy	<u>(152,529)</u>
Balance, June 30, 2020	<u><u>\$ 5,652,848</u></u>

8. Property and Equipment

The major classes of property and equipment at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Computer equipment and software	\$ 3,702,106	\$ 3,306,651
Furniture and equipment	3,066,653	2,437,509
Leasehold improvements	9,421,660	4,275,935
Building	475,112	475,112
Land - Alaska office	153,880	153,880
Land - Alaska (donated)	<u>79,000</u>	<u>79,000</u>
	16,898,411	10,728,087
Less accumulated depreciation and amortization	<u>(7,374,291)</u>	<u>(7,214,869)</u>
	<u><u>\$ 9,524,120</u></u>	<u><u>\$ 3,513,218</u></u>

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

8. Property and Equipment, continued

Depreciation and amortization expense totaled \$1,253,042 and \$1,137,661 for the years ended June 30, 2020 and 2019, respectively.

As of June 30, 2020, Earthjustice was in escrow for the sale of the Alaska donated land carried at \$79,000. The sale was finalized in July 2020 and will be recognized in the fiscal year ended June 30, 2021.

9. Commitments and Contingencies

Lease Commitments

Earthjustice has entered into various lease agreements having initial terms greater than one year for office space which expire through 2031. Rental expense under these leases totaled \$6,278,286 and \$4,944,365 for the years ended June 30, 2020 and 2019, respectively.

Additionally, Earthjustice has entered into various lease agreements for the use of office equipment ranging in lease terms from 3 to 5 years, with total annual payments approximating \$75,500.

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

Year ending June 30:	
2021	\$ 5,820,660
2022	7,477,042
2023	7,361,087
2024	7,519,527
2025	6,866,123
Thereafter	<u>22,688,684</u>
	<u><u>\$ 57,733,123</u></u>

COVID-19

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude of the effect that the pandemic will have on Earthjustice’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact on its financial condition, liquidity, operations, and workforce.

Continued

EARTHJUSTICE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

10. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2020 and 2019, are restricted for the following purposes:

	2020		2019	
	Balance	Releases	Balance	Releases
Subject to expenditure of specified purpose:				
Climate and Energy	\$ 11,805,406	\$ (31,154,266)	\$ 8,361,417	\$ (11,564,786)
Healthy Communities	5,217,850	(5,194,559)	5,473,914	(5,475,809)
Lands, Wildlife and Oceans	1,185,225	(6,859,714)	8,482,776	(5,424,361)
Operational	213,281	(3,936,855)	3,258,529	(3,638,942)
Geographic	1,373,091	(8,630,678)	5,304,271	(2,534,624)
	19,794,853	(55,776,072)	30,880,907	(28,638,522)
Subject to passage of time	25,613,789	(5,750,134)	10,836,336	(2,860,715)
Charitable remainder trusts and pooled income fund agreements	785,548	-	811,596	-
Annuity agreements, segregation required by state law	1,722,626	-	1,420,806	-
Endowments:				
Subject to Earthjustice's spending policy and appropriation:				
Investment in perpetuity, which once appropriated, is expendable to support program activities	1,908,001	(71,678)	1,907,937	(69,165)
	<u>\$ 49,824,817</u>	<u>\$ (61,597,884)</u>	<u>\$ 45,857,582</u>	<u>\$ (31,568,402)</u>

Net assets are restricted to endowment investments and contributions and are entirely donor restricted endowments. However, the earnings on these investments can be spent either on general operations, specific programs, or must be added to endowment principal, depending on donor restrictions. The composition and changes in the endowment net assets as of June 30, 2020 and 2019 are as follows:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
	Board-designated endowment fund	\$ 111,583,790	\$ -
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	1,447,833	1,447,833
Accumulated appreciation	-	460,168	460,168
	<u>\$ 111,583,790</u>	<u>\$ 1,908,001</u>	<u>\$ 113,491,791</u>

Continued

EARTHJUSTICE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

10. Net Assets with Donor Restrictions, continued

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment fund	\$ 73,597,009	\$ -	\$ 73,597,009
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	1,447,833	1,447,833
Accumulated appreciation	-	460,104	460,104
Total funds	\$ 73,597,009	\$ 1,907,937	\$ 75,504,946

Changes in endowment net assets for the fiscal years ended June 30, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Net Assets
Endowment net assets, June 30, 2018	\$ -	\$ 1,853,959	\$ 1,853,959
Investment income	-	32,307	32,307
Net appreciation	-	90,836	90,836
Amounts appropriated for expenditure	-	(69,165)	(69,165)
Endowment net assets, June 30, 2019	-	1,907,937	1,907,937
Investment income	-	30,676	30,676
Net appreciation	-	41,066	41,066
Amounts appropriated for expenditure	-	(71,678)	(71,678)
Endowment net assets, June 30, 2020	\$ -	\$ 1,908,001	\$ 1,908,001

11. Retirement Plans

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 3.5% of an employee's gross earnings after one year of service. After two years of service, the employer contribution increases to 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. Contributions to the retirement annuity plan of \$3,148,060 and \$2,779,439 have been expensed for the years ended June 30, 2020 and 2019, respectively.

Continued

EARTHJUSTICE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

11. Retirement Plans, continued

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, 2020, 8 employees had elected to participate in the plan. The investments in this plan remain as assets of the organization until the employees retire, and is the deferred compensation assets and liabilities on the statement of financial position.

12. Related Parties

In 2017, the Earthjustice board authorized the formation of an affiliated, but independent 501(c)(4) organization to help advance protection of the environment through political advocacy. Earthjustice Action was incorporated on June 27, 2017. Some members of the Earthjustice Action Board are also on the Earthjustice Board as of June 30, 2020. There is a formal cost-sharing agreement under which Earthjustice Action reimburses personnel and overhead costs incurred on its behalf by Earthjustice. Expenses charged to Earthjustice Action by Earthjustice under the cost sharing agreement were \$46,197 and \$18,477 for the years ended June 30, 2020 and 2019, respectively.

13. Subsequent Events

Earthjustice evaluated subsequent events for recognition and disclosure through October 26, 2020, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2020 that required recognition or disclosure in such financial statements.