

**EARTHJUSTICE**

**FINANCIAL STATEMENTS**

June 30, 2023 and 2022



# EARTHJUSTICE

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

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Earthjustice

### Opinion

We have audited the financial statements of Earthjustice, which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Earthjustice as of June 30, 2023 and 2022, 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 ("U.S. GAAP").

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Earthjustice and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Earthjustice's ability to continue as a going concern for one year after the date that the financial statements are issued.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Trustees of  
Earthjustice

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Earthjustice's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Earthjustice's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BPM LLP

San Francisco, California  
November 1, 2023

# EARTHJUSTICE

## STATEMENTS OF FINANCIAL POSITION

As of June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Operating cash, including client trust funds	\$ 8,984,686	\$ 26,709,106
Short-term investments at fair value, including cash equivalents	6,510,983	10,456,602
Contributions receivables, net	32,474,382	31,080,086
Prepaid expenses and other assets	3,983,167	5,031,422
Deferred compensation asset	1,972,754	1,733,834
Split-interest gift agreements	14,078,422	13,259,895
Operating right-of-use lease asset, net	27,125,664	-
Long-term investments at fair value	192,512,849	179,821,843
Property and equipment, net	7,130,093	8,558,906
Total assets	<u>\$ 294,773,000</u>	<u>\$ 276,651,694</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 12,015,695	\$ 12,590,626
Deferred compensation liability	1,972,754	1,733,834
Deferred rent and lease incentive liabilities	-	8,912,422
Operating lease liabilities	34,541,799	-
Liabilities related to split-interest gift agreements	7,918,436	7,604,894
Total liabilities	<u>56,448,684</u>	<u>30,841,776</u>
Net assets:		
Without donor restrictions:		
For current operations	16,597,654	31,398,309
Board-designated endowment fund	174,768,275	168,800,248
Investment in property and equipment	7,130,093	8,558,906
Total without donor restrictions	<u>198,496,022</u>	<u>208,757,463</u>
With donor restrictions:		
Purpose restricted	17,519,755	17,398,350
Time restricted	16,577,764	14,101,348
Split-interest gift reserves, net of liabilities	3,641,967	3,626,510
Endowment	2,088,808	1,926,247
Total with donor restrictions	<u>39,828,294</u>	<u>37,052,455</u>
Total net assets	<u>238,324,316</u>	<u>245,809,918</u>
Total liabilities and net assets	<u>\$ 294,773,000</u>	<u>\$ 276,651,694</u>

# EARTHJUSTICE

## STATEMENTS OF ACTIVITIES

For the years ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Contributions	\$ 59,851,292	\$ 49,491,379	\$ 109,342,671	\$ 63,093,834	\$ 56,075,863	\$ 119,169,697
Donated services	10,865,004	-	10,865,004	10,802,159	-	10,802,159
Bequests	6,757,701	1,350,104	8,107,805	8,620,651	326,065	8,946,716
Court awarded attorney fees and costs	3,161,033	-	3,161,033	7,297,428	-	7,297,428
Change in value of split-interest gift agreements	782,404	207,273	989,677	(2,335,274)	(299,970)	(2,635,244)
Net realized and unrealized gain (loss) from investments and split-interest agreements	13,222,277	193,929	13,416,206	(37,264,883)	(248,717)	(37,513,600)
Interest and dividend income, net	4,813,637	52,861	4,866,498	4,414,497	47,795	4,462,292
Other income	151,129	-	151,129	365,958	-	365,958
Release of restrictions	48,519,707	(48,519,707)	-	57,530,774	(57,530,774)	-
Total revenues	148,124,184	2,775,839	150,900,023	112,525,144	(1,629,738)	110,895,406
Expenses:						
Program services:						
Litigation	81,801,772	-	81,801,772	71,323,818	-	71,323,818
Donated litigation services	3,638,812	-	3,638,812	2,710,869	-	2,710,869
Public information	36,355,397	-	36,355,397	31,842,704	-	31,842,704
Donated public information services	7,226,192	-	7,226,192	8,091,290	-	8,091,290
Supporting services:						
Management and general	14,599,316	-	14,599,316	12,006,968	-	12,006,968
Fundraising	14,764,136	-	14,764,136	12,460,576	-	12,460,576
Total expenses	158,385,625	-	158,385,625	138,436,225	-	138,436,225
Change in net assets	(10,261,441)	2,775,839	(7,485,602)	(25,911,081)	(1,629,738)	(27,540,819)
Net assets, beginning of year	208,757,463	37,052,455	245,809,918	234,668,544	38,682,193	273,350,737
Net assets, end of year	\$ 198,496,022	\$ 39,828,294	\$ 238,324,316	\$ 208,757,463	\$ 37,052,455	\$ 245,809,918

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

**EARTHJUSTICE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended June 30, 2023

	Program				2023 Total
	Litigation	Public Information	Management and General	Fundraising	
Salaries and related expenses:					
Salary	\$ 49,704,594	\$ 16,912,474	\$ 7,546,681	\$ 7,581,082	\$ 81,744,831
Employee benefits	4,261,330	1,788,361	964,638	637,556	7,651,885
Retirement plan contributions	3,655,090	1,265,141	594,975	559,801	6,075,007
Payroll taxes	3,412,157	1,218,517	501,990	535,730	5,668,394
<b>Total salaries and related expenses</b>	<b>61,033,171</b>	<b>21,184,493</b>	<b>9,608,284</b>	<b>9,314,169</b>	<b>101,140,117</b>
Other expenses:					
Donated services	3,638,812	7,226,192	-	-	10,865,004
Professional and contracted services	3,274,089	4,332,219	1,786,996	1,858,775	11,252,079
Occupancy	4,534,048	1,949,221	733,470	763,120	7,979,859
Direct case costs	3,017,334	653,746	680	321	3,672,081
Media	36,294	2,797,784	75,885	105,287	3,015,250
Grants and allocations	3,098,975	419,638	27,487	77,179	3,623,279
Travel, conferences, and meetings	2,240,687	981,895	616,253	650,470	4,489,305
Equipment rental and maintenance	1,468,084	662,800	643,475	249,418	3,023,777
Printing, publications, and reproduction	27,259	1,263,744	169,574	393,475	1,854,052
Depreciation and amortization	993,456	439,448	177,301	167,769	1,777,974
Mailing	32,226	547,842	259,187	210,223	1,049,478
Research	577,054	344,301	103,563	20,689	1,045,607
Telephone and internet	520,882	216,518	88,664	86,821	912,885
Bank fees	207	314,509	157,691	410,641	883,048
Supplies	341,033	206,060	81,693	65,907	694,693
Insurance	440,448	-	9,176	9,176	458,800
Miscellaneous	166,525	41,179	59,937	380,696	648,337
<b>Total other expenses</b>	<b>24,407,413</b>	<b>22,397,096</b>	<b>4,991,032</b>	<b>5,449,967</b>	<b>57,245,508</b>
	<b>\$ 85,440,584</b>	<b>\$ 43,581,589</b>	<b>\$ 14,599,316</b>	<b>\$ 14,764,136</b>	<b>\$ 158,385,625</b>

**EARTHJUSTICE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended June 30, 2022

	Program			Fundraising	2022 Total
	Litigation	Public Information	Management and General		
Salaries and related expenses:					
Salary	\$ 41,955,346	\$ 13,702,112	\$ 6,024,286	\$ 6,386,337	\$ 68,068,081
Employee benefits	4,452,724	1,678,818	911,985	673,458	7,716,985
Retirement plan contributions	3,057,245	1,017,402	460,221	475,281	5,010,149
Payroll taxes	2,931,319	1,021,672	459,253	443,422	4,855,666
<b>Total salaries and related expenses</b>	<b>52,396,634</b>	<b>17,420,004</b>	<b>7,855,745</b>	<b>7,978,498</b>	<b>85,650,881</b>
Other expenses:					
Donated services	2,710,869	8,091,290	-	-	10,802,159
Professional and contracted services	2,730,769	4,595,808	1,297,063	1,718,589	10,342,229
Occupancy	4,513,932	1,979,497	757,997	739,835	7,991,261
Direct case costs	3,882,193	446,142	8,464	20,488	4,357,287
Media	67,089	2,773,082	86,018	63,425	2,989,614
Grants and allocations	2,317,725	144,025	7,775	16,275	2,485,800
Travel, conferences, and meetings	1,174,396	361,829	554,799	336,410	2,427,434
Equipment rental and maintenance	1,260,058	501,693	436,920	146,428	2,345,099
Printing, publications, and reproduction	24,257	1,507,415	259,659	393,125	2,184,456
Depreciation and amortization	1,095,828	486,573	184,328	179,842	1,946,571
Mailing	34,126	751,304	255,282	219,072	1,259,784
Research	562,171	275,313	67,561	18,348	923,393
Telephone and internet	474,252	193,720	77,221	77,558	822,751
Bank fees	7	207,117	27,664	477,565	712,353
Supplies	293,375	172,951	54,463	57,871	578,660
Insurance	367,150	-	7,649	7,649	382,448
Miscellaneous	129,856	26,231	68,360	9,598	234,045
<b>Total other expenses</b>	<b>21,638,053</b>	<b>22,513,990</b>	<b>4,151,223</b>	<b>4,482,078</b>	<b>52,785,344</b>
	<b>\$ 74,034,687</b>	<b>\$ 39,933,994</b>	<b>\$ 12,006,968</b>	<b>\$ 12,460,576</b>	<b>\$ 138,436,225</b>

# EARTHJUSTICE

## STATEMENTS OF CASH FLOWS

For the years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (7,485,602)	\$ (27,540,819)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,777,974	1,946,571
Change in discount on contributions receivable	(645,926)	(204,000)
Contributions and actuarial (gain) loss on split-interest liabilities	(251,881)	3,353,659
Net realized and unrealized (gain) loss from investments and split-interest agreements	(13,279,953)	37,481,892
Investment income from endowment	(52,861)	(47,795)
Bad debts	354,570	31,683
Deferred rent and lease incentive liabilities	-	(527,503)
Amortization of right-of-use assets	5,842,077	-
Changes in assets and liabilities:		
Contributions receivables	(1,102,940)	(2,439,076)
Prepaid expenses and other assets	1,048,254	(323,440)
Accounts payable and accrued liabilities	(574,931)	2,439,700
Operating lease liabilities	(7,338,364)	-
Net cash (used in) provided by operating activities	(21,709,583)	14,170,872
Cash flows from investing activities:		
Proceeds from sales of long-term investments	5,637,651	57,848,716
Purchase of long-term investments	(5,049,176)	(62,258,095)
Proceeds from dissolution of charitable trusts	639,990	725,047
Purchase of property and equipment	(349,161)	(464,109)
Net cash provided by (used in) in investing activities	879,304	(4,148,441)
Cash flows from financing activities:		
Investment income from endowment	52,861	47,795
Payments to split-interest beneficiaries	(893,094)	(946,665)
Net cash used in financing activities	(840,233)	(898,870)
Change in cash and cash equivalents	(21,670,512)	9,123,561
Cash and cash equivalents, beginning of year	36,929,198	27,805,637
Cash and cash equivalents, end of year	\$ 15,258,686	\$ 36,929,198
Noncash investing and financing activities:		
Operating lease right-of-use asset obtained in exchange for operating lease liabilities	\$ 32,967,741	\$ -

# EARTHJUSTICE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

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### 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 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 most precedent-setting cases across the country, partnering with thousands of groups, supporters and citizens to bring about positive change.

For over 50 years, Earthjustice has represented more than 1,000 clients, ranging from large national environmental and health 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 stakeholders to the bargaining table.

Earthjustice was incorporated in March 1970, under the laws of the State of California. It presently employs approximately 200 attorneys in seventeen office locations: Anchorage, Alaska; Juneau, Alaska; Los Angeles, California; Sacramento, California; San Francisco, California (which also houses the organization's headquarters); Denver, Colorado; Washington, D.C.; Miami, Florida; Tallahassee, Florida; Honolulu, Hawaii; Chicago, Illinois; New Orleans, Louisiana; Bozeman, Montana; New York, New York; Philadelphia, Pennsylvania; Houston, Texas; and Seattle, Washington. 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 of Trustees ("Board") are active in oversight of governance, finance, investments and fundraising activities of 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 ("U.S. GAAP") applicable to nonprofits. 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 may designate a portion of these net assets for specified purposes. As of June 30, 2023, the following fund was established by the Board:

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

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

***Basis of Presentation***, continued

***Board-Designated Endowment Fund*** – This fund is 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 Fund 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. The corresponding client trust liability is included in the accounts payable and accrued liabilities on the statement of financial position. Once appropriately identified the funds are then transferred to the client and/or transferred into Earthjustice’s operating fund accounts. For purposes of the statements of cash flows, cash and cash equivalents include:

	2023	2022
Operating cash, including client trust funds of \$169,449 and \$877,475 in 2023 and 2022, respectively	\$ 8,984,686	\$ 26,709,106
Cash equivalents included in short-term investments	6,274,000	10,220,092
	\$ 15,258,686	\$ 36,929,198

***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 contributions with donor restrictions upon contract ratification.

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

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

***Contributions and Receivables***, continued

Such grants normally have anticipated expenditures that Earthjustice will incur upon collection of the receivable; however, the contributions are not considered conditional based on the occurrence of such expenditures. 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, 2023 and 2022, there were no outstanding conditional promises to give.

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 bequest is declared valid and subject to final distribution. At that time, Earthjustice recognizes the contribution at fair value, net of a discount, generally 0% - 75%, 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 U.S. GAAP, 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 details 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, 2023 and 2022, was estimated to be \$3,638,812 and \$2,710,869, respectively. There are no donor restrictions associated with the donated legal services.

Earthjustice also receives donated space for public service announcements in various print, television, and web-based media as well as in major United States of America ("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 \$7,226,192 and \$8,091,290 for the years ended June 30, 2023 and 2022, respectively. It is Earthjustice's policy to record the value of the donated space when management becomes aware of the ad placement. There are no donor restrictions associated with the donated space for public service announcements.

***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 allowances of \$320,140 and \$306,439 were necessary as of June 30, 2023 and 2022, respectively. In the years ended June 30, 2023 and 2022, Earthjustice incurred \$354,570 and \$31,683, 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.

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

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**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. As of June 30, 2023 and 2022, short-term investments consisted of certificates of deposit with maturities of three months or more having a fair value of \$449,461 and \$447,743, respectively, and cash equivalents of \$6,061,522 and \$10,220,092, 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. The collective trust funds are index funds and seek investment results that correspond with the underlying assets of the funds. The objective is to provide returns as close to the benchmark indexes as possible 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 a change in value of split-interest gift agreements. There were no investments measured using the NAV basis as of June 30, 2023.

Long-term investments consist of a pool of funds that includes both donor-restricted and Board-designated funds. To a limited extent, the Board allows Board-Designated Endowment Fund investments to help fund current operations, subject to any donor-imposed restrictions on the initial contributions.

***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.

# EARTHJUSTICE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

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

#### ***Fair Value Measurements***, continued

Level 1 assets include highly liquid government bonds, 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 flow 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 NAV per share to represent fair value for reporting purposes when the criteria for using this method are met. There were no investments measured using the NAV basis as of June 30, 2023 and 2022.

#### ***Endowments***

##### **Interpretation of Relevant Law**

The Board of Earthjustice has interpreted the provisions of the California’s Uniform Prudent Management of Institutional Funds Act (“CUPMIFA”) as requiring the preservation of the gift principle at the fair value 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 when investing or 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 below the fair value of the gift principal.

**EARTHJUSTICE**  
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**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, 2023 and 2022, 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 (see 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 a 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.

**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

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

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

***Leases***

Earthjustice determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (“ROU”) assets and lease liabilities in the statement of financial position. ROU assets represent Earthjustice’s right to use an underlying asset for the lease term and lease liabilities represent Earthjustice’s obligation to make lease payments arising from the leases. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As Earthjustice’s leases do not provide an implicit rate, Earthjustice generally use the risk-free rate at commencement date. The operating lease ROU assets also include any lease payments made and excludes lease incentives. Operating lease expense is recognized on a straight-line basis over the lease term. Earthjustice does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, these are reported as lease expense when the expense is incurred.

***Concentrations of Credit Risk***

As of June 30, 2023 and 2022, Earthjustice maintained its investments with three investment firms, the largest single investment constituting approximately 26% and 23% of investments, respectively. (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, 2023 and 2022, 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.

***Advertising***

Earthjustice expenses advertising costs as incurred. For the years ended June 30, 2023 and 2022, advertising and media expenses amounted to \$9,917,143 and \$10,795,663, respectively, which includes \$7,226,192 and \$8,091,290, respectively, in donated advertising services.

***Income Taxes***

Earthjustice has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code (“IRC”) 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 tax returns and, if applicable, unrelated business income tax returns in the U.S. Federal and California jurisdictions.

Tax returns will remain open for examination by federal and state taxing authorities for three and four years, respectively.

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

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

***Grants***

Grants are expensed when the unconditional promise to give is approved by management. Conditional grants are recognized as grant expense in the period in which the recipient meets certain criteria or barriers.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP 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.

***Recently Adopted Accounting Standards***

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2016 02, *Leases (Topic 842)*, and subsequent amendments to the initial guidance: ASU 2017-13, ASU 2018-10, ASU 2018-11, ASU 2018-20, and ASU 2019-01 (collectively, “Topic 842”). Topic 842 aims to increase transparency and comparability among organizations by requiring lessees to recognize leases with a term greater than 12 months as a ROU asset and corresponding lease liabilities on the statement of financial position, regardless of lease classification, and requiring disclosure of key information about leasing arrangements. The lease liability should be initially measured at the present value of the remaining contractual lease payments. Subsequently, the ROU assets will be amortized generally on a straight-line basis over the lease term, and the lease liability will bear interest expense and be reduced for lease payments. Earthjustice adopted Topic 842 as of July 1, 2022, using the modified retrospective approach.

In addition, Earthjustice elected the transition package of three practical expedients, which allow companies not to reassess (i) whether agreements contain leases, (ii) the classification of leases, and (iii) the capitalization of initial direct costs. Earthjustice also made an accounting policy election to recognize lease expense for leases with a term of 12 months or less on a straight-line basis over the lease term and recognize no ROU asset or lease liability for those leases. Further, Earthjustice elected not to separate lease and non-lease components for all asset classes. Earthjustice also elected the practical expedient to utilize the risk-free rate at the date of lease commencement as opposed to Earthjustice’s incremental borrowing rate.

Earthjustice’s lease portfolio consists of real estate and equipment leases. Based upon the nature of the items leased and the structure of the leases, Earthjustice’s leases classified as operating leases continue to be classified as an operating lease under the new accounting standard.

As a result of the adoption of Topic 842, Earthjustice recognized as of July 1, 2022:

- Operating lease liabilities of \$41,880,163, which represent the present value of the remaining lease payments as of the date of adoption, are discounted using the risk-free rate on the date of adoption.
- Operating lease ROU assets of \$32,967,741, represent the value of the operating lease liabilities less adjustments for deferred rent of approximately \$8,912,422.

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

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**3. Liquidity and Availability**

Earthjustice's working capital and cash flows have seasonal variations 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, Earthjustice has a Board-designated endowment fund available for re-designation if additional funds are needed.

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

	2023	2022
Financial assets at fiscal year-end:		
Operating cash, excluding client trust funds	\$ 8,815,237	\$ 25,831,631
Short-term investments at fair value, including cash equivalents	6,510,983	10,456,602
Contribution receivables, net	32,474,382	31,080,086
Other assets - court awards receivable	298,984	1,949,181
Long-term investments at fair value	192,512,849	179,821,843
Deferred compensation assets	1,972,754	1,733,834
Split-interest gift agreements	14,078,422	13,259,895
Total financial assets	256,663,611	264,133,072
Less: amounts unavailable for general expenditure within one year:		
Contribution receivables due after one year, net	(9,567,634)	(15,664,375)
Deferred compensation assets	(1,972,754)	(1,733,834)
Split-interest gift agreements	(14,078,422)	(13,259,895)
Donor-imposed restrictions:		
Subject to appropriation and satisfaction of donor restrictions	(2,088,808)	(1,926,247)
Board-designated endowment fund	(174,768,275)	(168,800,248)
Financial assets available to meet cash needs for general expenditures within one year	\$ 54,187,718	\$ 62,748,473

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

**4. Contributions Receivables**

Contributions receivable as of June 30, 2023 and 2022, 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. These receivables consist of the following:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
	Foundation grants receivable, net of discount of \$529,994	\$ -	\$ 13,940,007
Pledges receivable, net of discount of \$2,021,666	-	16,866,342	16,866,342
Beneficial interest in charitable remainder unitrust	-	780,513	780,513
Bequest receivables	-	1,207,660	1,207,660
Allowance for doubtful accounts	-	(320,140)	(320,140)
	\$ -	\$ 32,474,382	\$ 32,474,382

  

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
	Foundation grants receivable, net of discount of \$490,463	\$ -	\$ 11,704,538
Pledges receivable, net of discount of \$2,707,124	-	18,627,054	18,627,054
Beneficial interest in charitable remainder unitrust	-	742,644	742,644
Bequest receivables	-	312,289	312,289
Allowance for doubtful accounts	-	(306,439)	(306,439)
	\$ -	\$ 31,080,086	\$ 31,080,086

Receivables from beneficial interests in charitable unitrusts not under control of Earthjustice represent 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 eight and five estates as of June 30, 2023 and 2022, respectively. All bequests receivable are expected to be received within one year.

One donor comprised 14% and 11% of total contributions for the years ended June 30, 2023 and 2022, respectively. For the years ended June 30, 2023 and 2022, one donor comprised 23% and two donors comprised 45%, respectively, of total contributions receivables.

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

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**4. Contributions Receivables**, continued

The pledge receivable and foundation grant receivable balances as of June 30, 2023, are expected to be collected as follows:

Year ending June 30:		
2024	\$	21,238,715
2025		5,456,794
2026		2,262,500
2027		2,350,000
2028		350,000
Thereafter		1,700,000
		33,358,009
Less: discount		(2,551,660)
Less: allowance		(320,140)
	\$	30,486,209

**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 as of June 30, 2023 and 2022 have been estimated using applicable published actuarial tables and the estimated average rate of return on the fund, which was approximately 3%.

***Charitable Remainder Unitrusts*** – Earthjustice held seven trusts as of June 30, 2023 and 2022, respectively, 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 \$2,467,976 and \$2,359,288 for the years ending June 30, 2023 and 2022, respectively. As a result, this amount constitutes net assets with donor restrictions. It is Earthjustice’s practice not to liquidate the NAV 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%.

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

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**5. Split-Interest Gift Agreements, continued**

Split-interest gift agreements as of June 30, 2023 are as follows:

	Pooled Income Fund	Charitable Remainder Unitrusts	Charitable Gift Annuities	Split- Interest Gifts Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Investments, beginning of year	\$ 573,125	\$ 2,490,063	\$ 10,196,707	\$ 13,259,895
Contributions	-	-	1,445,250	1,445,250
Amounts withdrawn at death of planned giving donors	(154,776)	-	(485,214)	(639,990)
Annuity and beneficiary payments	(13,808)	(156,270)	(723,016)	(893,094)
Investment returns:				
Interest and dividend	14,880	45,595	192,703	253,178
Realized and unrealized loss	794	123,600	528,789	653,183
Investments, end of year	<u>\$ 420,215</u>	<u>\$ 2,502,988</u>	<u>\$ 11,155,219</u>	<u>\$ 14,078,422</u>
Comprised of:				
Marketable securities	<u>\$ 420,215</u>	<u>\$ 2,502,988</u>	<u>\$ 11,155,219</u>	<u>\$ 14,078,422</u>
Liabilities related to split-interest gift agreements	<u>\$ 150,903</u>	<u>\$ 1,726,394</u>	<u>\$ 6,041,139</u>	<u>\$ 7,918,436</u>
Split-interest gift net asset classifications:				
With donor restrictions	\$ 420,215	\$ 2,502,988	\$ 2,467,976	\$ 5,391,179
Without donor restrictions	<u>-</u>	<u>-</u>	<u>8,687,243</u>	<u>8,687,243</u>
Total	<u>\$ 420,215</u>	<u>\$ 2,502,988</u>	<u>\$ 11,155,219</u>	<u>\$ 14,078,422</u>

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

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**5. Split-Interest Gift Agreements, continued**

Split-interest gift agreements as of June 30, 2022 are as follows:

	Pooled Income Fund	Charitable Remainder Unitrusts	Charitable Gift Annuities	Split- Interest Gifts Total
Investments, beginning of year	\$ 818,881	\$ 2,393,515	\$ 12,714,459	\$ 15,926,855
Contributions	-	903,498	678,795	1,582,293
Amounts withdrawn at death of planned giving donors	(143,746)	(175,736)	(405,565)	(725,047)
Annuity and beneficiary payments	(26,150)	(195,466)	(725,049)	(946,665)
Investment returns:				
Interest and dividend	20,809	82,354	162,296	265,459
Realized and unrealized loss	(96,669)	(518,102)	(2,228,229)	(2,843,000)
Investments, end of year	\$ 573,125	\$ 2,490,063	\$ 10,196,707	\$ 13,259,895
Comprised of:				
Marketable securities	\$ 573,125	\$ 2,490,063	\$ 10,196,707	\$ 13,259,895
Liabilities related to split-interest gift agreements	\$ 167,499	\$ 1,756,552	\$ 5,680,843	\$ 7,604,894
Split-interest gift net asset classifications:				
With donor restrictions	\$ 573,125	\$ 2,490,063	\$ 2,359,288	\$ 5,422,476
Without donor restrictions	-	-	7,837,419	7,837,419
Total	\$ 573,125	\$ 2,490,063	\$ 10,196,707	\$ 13,259,895

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

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**6. Long-Term Investments**

The following table details long-term investments by category for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Investments, beginning of year	\$ 179,821,843	\$ 212,894,827
Net transfers due to portfolio balancing, fulfillment of operating requirements and surpluses, and reclassification to short-term investments	(5,588,222)	5,414
Investment returns:		
Interest and dividends	4,999,275	4,407,577
Realized and unrealized gain (loss)	<u>13,279,953</u>	<u>(37,485,975)</u>
Investments, end of year	<u>\$ 192,512,849</u>	<u>\$ 179,821,843</u>
Long-term investment classifications:		
With donor restrictions	\$ 3,391,810	\$ 3,127,847
Without donor restrictions	<u>189,121,039</u>	<u>176,693,996</u>
Total	<u>\$ 192,512,849</u>	<u>\$ 179,821,843</u>

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

**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 as of June 30, 2023 and 2022:

	2023			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Receivables - contributions, net:				
Beneficial interest in unitrust	\$ -	\$ -	\$ 780,513	\$ 780,513
Short-term investments:				
Cash equivalents and certificates of deposit	6,061,522	449,461	-	6,510,983
Deferred compensation assets:				
Mutual funds:				
International equity	37,662	-	-	37,662
Global fixed income	13,221	-	-	13,221
Target date retirement	1,819,116	-	-	1,819,116
Domestic equity	38,549	-	-	38,549
Domestic fixed income	64,206	-	-	64,206
Total deferred compensation assets	1,972,754	-	-	1,972,754
Long-term investments:				
Cash equivalents	623,506	-	-	623,506
Equities:				
Domestic	66,592,134	-	-	66,592,134
International	77,782,580	-	-	77,782,580
Exchange traded funds	49,430	-	-	49,430
REITs	15,077,377	-	-	15,077,377
Mutual funds:				
Fixed income	16,673,513	-	-	16,673,513
Treasury inflation protected securities	8,773,083	-	-	8,773,083
Real estate	6,941,226	-	-	6,941,226
Total long-term investments	192,512,849	-	-	192,512,849
Split-interest gifts:				
Cash equivalents	164,618	-	-	164,618
Mutual funds:				
Domestic equity	4,716,951	-	-	4,716,951
International equity	2,995,652	-	-	2,995,652
Domestic real estate	2,022,564	-	-	2,022,564
Fixed income	4,178,637	-	-	4,178,637
Total split-interest gifts	14,078,422	-	-	14,078,422
Total for assets measured at fair value	<u>\$ 214,625,547</u>	<u>\$ 449,461</u>	<u>\$ 780,513</u>	<u>\$ 215,855,521</u>
<b>Liabilities:</b>				
Liabilities under split-interest agreement	\$ -	\$ -	\$ 7,918,436	\$ 7,918,436
Deferred compensation liabilities	1,972,754	-	-	1,972,754
Total for liabilities measured at fair value	<u>\$ 1,972,754</u>	<u>\$ -</u>	<u>\$ 7,918,436</u>	<u>\$ 9,891,190</u>

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

**7. Fair Value Measurements**, continued

	2022			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Receivables - contributions, net:				
Beneficial interest in unitrust	\$ -	\$ -	\$ 742,644	\$ 742,644
Short-term investments:				
Cash equivalents and certificates of deposit	10,008,859	447,743	-	10,456,602
Deferred compensation assets:				
Mutual funds:				
International equity	31,773	-	-	31,773
Global fixed income	13,186	-	-	13,186
Target date retirement	1,601,191	-	-	1,601,191
Domestic equity	30,854	-	-	30,854
Domestic fixed income	56,830	-	-	56,830
Total deferred compensation assets	1,733,834	-	-	1,733,834
Long-term investments:				
Cash equivalents	152,988	-	-	152,988
Equities:				
Domestic	10,355,419	-	-	10,355,419
International	41,925,700	-	-	41,925,700
Exchange traded funds	35,076,663	-	-	35,076,663
REITs	297,246	-	-	297,246
Mutual funds:				
Fixed income	30,466,031	-	-	30,466,031
Domestic equity	17,083,259	-	-	17,083,259
Treasury inflation protected securities	34,705,096	-	-	34,705,096
Real estate	9,759,441	-	-	9,759,441
Total long-term investments	179,821,843	-	-	179,821,843
Split-interest gifts:				
Cash equivalents	616,204	-	-	616,204
Mutual funds:				
Domestic equity	4,225,372	-	-	4,225,372
International equity	2,060,452	-	-	2,060,452
Emerging markets equity	676,883	-	-	676,883
Domestic real estate	1,294,726	-	-	1,294,726
International real estate	634,530	-	-	634,530
Fixed income	3,751,728	-	-	3,751,728
Total split-interest gifts	13,259,895	-	-	13,259,895
Total for assets measured at fair value	<u>\$ 204,824,431</u>	<u>\$ 447,743</u>	<u>\$ 742,644</u>	<u>\$ 206,014,818</u>
<b>Liabilities:</b>				
Liabilities under split-interest agreement	\$ -	\$ -	\$ 7,604,894	\$ 7,604,894
Deferred compensation liabilities	1,733,834	-	-	1,733,834
Total for liabilities measured at fair value	<u>\$ 1,733,834</u>	<u>\$ -</u>	<u>\$ 7,604,894</u>	<u>\$ 9,338,728</u>

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

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**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, 2023 and 2022.

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, 2023 and 2022:

	Beneficial Interest in Trusts
Balance, June 30, 2021	\$ 706,660
Increase in value due to change in market value and actuarial life expectancy	35,984
Balance, June 30, 2022	742,644
Increase in value due to change in market value and actuarial life expectancy	37,869
Balance, June 30, 2023	\$ 780,513

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**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, 2023 and 2022:

	<u>Liabilities Under Split-Interest Agreements</u>
Balance, June 30, 2021	\$ 7,139,812
New agreements	1,582,293
Payments to beneficiaries	(946,665)
Dissolution of agreements	(725,047)
Increase in value due to change in market value and actuarial life expectancy	<u>554,501</u>
Balance, June 30, 2022	7,604,894
New agreements	1,445,250
Payments to beneficiaries	(893,094)
Dissolution of agreements	(639,990)
Increase in value due to change in market value and actuarial life expectancy	<u>401,376</u>
Balance, June 30, 2023	<u><u>\$ 7,918,436</u></u>

**8. Property and Equipment**

The major classes of property and equipment as of June 30, 2023 and 2022 are as follows:

	2023	2022
Computer equipment and software	\$ 4,881,931	\$ 4,539,820
Furniture and equipment	3,226,089	3,234,708
Leasehold improvements	11,246,010	11,301,911
Building	475,112	475,112
Land - Alaska office	<u>153,880</u>	<u>153,880</u>
	19,983,022	19,705,431
Less: accumulated depreciation and amortization	<u>(12,852,929)</u>	<u>(11,146,525)</u>
	<u><u>\$ 7,130,093</u></u>	<u><u>\$ 8,558,906</u></u>

Depreciation and amortization expense totaled \$1,777,974 and \$1,946,571 for the years ended June 30, 2023 and 2022, respectively.

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

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**9. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities as of June 30, 2023 and 2022 are as follows:

	2023	2022
Accounts payable	\$ 3,321,784	\$ 3,517,219
Accrued vacation	6,571,308	6,630,738
Client trust funds	627,592	878,008
Other accrued expenses	1,495,011	1,564,661
	\$ 12,015,695	\$ 12,590,626

**10. Commitments and Contingencies**

***Lease Commitments***

Earthjustice has entered into various lease agreements for the use of equipment and office spaces with lease terms expiring at various dates ranging from 2023 – 2030. The leases may include the option to extend, however, it is not reasonably certain that Earthjustice will execute these extension options and the extension options have not been included in the measurement of operating lease liabilities.

Minimum operating lease commitments under these leases are as follows:

Year ending June 30:	
2024	\$ 7,976,947
2025	7,063,156
2026	4,474,608
2027	4,545,160
2028	4,647,973
Thereafter	9,014,391
Total undiscounted cash flows	37,722,235
Less: present value discount	(3,180,436)
Operating lease liability	34,541,799
Less: current portion	(7,054,129)
Operating lease liability, net of current portion	\$ 27,487,670

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**10. Commitments and Contingencies**, continued

***Lease Commitments***

Additional information related to Earthjustice's leases include the following as of and for the year ended June 30, 2023:

	Equipment	Office Space
Fixed operating lease costs	\$ 71,094	\$ 5,770,983
Remaining lease terms (years)	1.7	6.1
Weighted-average discount rate	3%	3%

***Insurance***

Effective January 1, 2023, Earthjustice is self-insured for its employee welfare benefit plan for all eligible and covered employees and dependents. Earthjustice recognizes the expected ultimate cost for claims incurred (undiscounted) as a liability at the statement of financial position date. The expected ultimate cost for claims incurred is estimated based upon analysis of historical data and actuarial estimates.

Earthjustice's self-insurance liabilities, which are included in accounts payable and accrued liabilities in the statement of financial position, was \$621,624 for the year ended June 30, 2023.

**11. Net Assets with Donor Restrictions**

Net assets with donor restrictions as of June 30, 2023 and 2022, are restricted for the following purposes:

	2023		2022	
	Balance	Releases	Balance	Releases
Subject to expenditure of specified purpose:				
Climate and Energy	\$ 12,089,726	\$ (24,232,300)	\$ 8,611,003	\$ (31,303,734)
Healthy Communities	3,093,678	(6,011,763)	5,997,884	(4,347,206)
Lands, Wildlife and Oceans	1,387,359	(3,833,990)	1,982,288	(4,000,689)
Operational	271,214	(1,327,756)	570,798	(4,055,061)
Geographic	677,778	(5,688,275)	236,377	(5,265,289)
Total subject to expenditure of specified purpose	17,519,755	(41,094,084)	17,398,350	(48,971,979)
Subject to passage of time	16,577,764	(7,341,394)	14,101,348	(8,481,405)
Charitable remainder trusts and pooled income fund agreements	1,173,991	-	1,267,222	-
Annuity agreements, segregation required by state law	2,467,976	-	2,359,288	-
Endowments:				
Subject to Earthjustice's spending policy and appropriation:				
Investment in perpetuity, which once appropriated, is expendable to support program activities	2,088,808	(84,229)	1,926,247	(77,390)
	\$ 39,828,294	\$ (48,519,707)	\$ 37,052,455	\$ (57,530,774)

# EARTHJUSTICE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

### 11. Net Assets with Donor Restrictions, continued

Net assets with donor restrictions 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, 2023 and 2022 are as follows:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
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	-	640,975	640,975
Total endowment funds	\$ -	\$ 2,088,808	\$ 2,088,808

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
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	-	478,414	478,414
Total endowment funds	\$ -	\$ 1,926,247	\$ 1,926,247

Changes in endowment net November 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, 2021	\$ -	\$ 1,908,000	\$ 1,908,000
Investment income	-	47,795	47,795
Net appreciation	-	47,842	47,842
Amounts appropriated for expenditure	-	(77,390)	(77,390)
Endowment net assets, June 30, 2022	-	1,926,247	1,926,247
Investment income	-	52,861	52,861
Net appreciation	-	193,929	193,929
Amounts appropriated for expenditure	-	(84,229)	(84,229)
Endowment net assets, June 30, 2023	\$ -	\$ 2,088,808	\$ 2,088,808

**EARTHJUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

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**12. Retirement Plans**

Earthjustice has established a retirement annuity plan and a tax-deferred annuity plan for its employees under Section 403 (b) of the IRC. 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 \$6,075,007 and \$5,010,149 have been expensed for the years ended June 30, 2023 and 2022, respectively.

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 IRC. The plan allows pre-tax contributions of the maximum amount allowed by law per year through payroll deduction. As of June 30, 2023, 29 employees had elected to participate in the plan. The investments in this plan remain as assets of the organization until the employees retire or are eligible for distribution and are presented as deferred compensation assets and corresponding liabilities on the statement of financial position.

**13. Related Parties**

On June 27, 2017, the Earthjustice Board authorized the formation of Earthjustice Action, an independent 501(c)(4) organization to help advance protection of the environment through political advocacy. Some members of the Earthjustice Action Board are also on the Earthjustice Board as of June 30, 2023. 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 \$501,341 and \$278,804 for the years ended June 30, 2023 and 2022, respectively. As of June 30, 2023, Earthjustice recorded a receivable from Earthjustice Action of \$108,281, which is included in the prepaid expenses and other assets on the statement of financial position.

**14. Subsequent Events**

Earthjustice evaluated subsequent events for recognition and disclosure through November 1, 2023, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2023 that require recognition or disclosure in such financial statements.