



Report of Independent Auditors and  
Financial Statements



**EARTHJUSTICE**  
*Because the earth needs a good lawyer*

June 30, 2012 and 2011

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of  
Earthjustice

We have audited the accompanying statements of financial position of Earthjustice as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Earthjustice. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Earthjustice's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Earthjustice as of June 30, 2012 and 2011, and the changes in net assets, functional expenses, and cash flows for the years then ended in conformity with accounting standards generally accepted in the United States of America.

*Moss Adams LLP*

San Francisco, California  
October 18, 2012

## **FINANCIAL STATEMENTS**

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**EARTHJUSTICE**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2012 and 2011**

|  | <u>2012</u>          | <u>2011</u>          |
|--|----------------------|----------------------|
| ASSETS   |                      |                      |
| Operating cash, including client trust funds                             | \$ 1,134,010         | \$ 544,008           |
| Short-term investments at fair value, including cash equivalents         | 7,650,562            | 8,510,417            |
| Receivables - contributions  | 9,080,235            | 5,599,125            |
| Other receivables  | 86,453               | 13,559               |
| Court awards receivable  | 487,219              | 24,829               |
| Prepaid expenses   | 796,040              | 749,488              |
| Deferred compensation asset  | 127,904              | 58,777               |
| Long-term investments at fair value                                      | 31,986,317           | 31,246,634           |
| Property and equipment, net of accumulated depreciation and amortization | <u>2,559,741</u>     | <u>1,637,046</u>     |
|  | <u>\$ 53,908,481</u> | <u>\$ 48,383,883</u> |
| LIABILITIES AND NET ASSETS   |                      |                      |
| LIABILITIES  |                      |                      |
| Accounts payable   | \$ 1,086,428         | \$ 984,605           |
| Accrued vacation payable   | 1,303,749            | 1,153,948            |
| Client trust funds   | 160,968              | 110,442              |
| Deferred compensation liability  | 127,904              | 58,777               |
| Liabilities related to split interest gift agreements                    | <u>5,112,079</u>     | <u>4,819,261</u>     |
| Total liabilities  | <u>7,791,128</u>     | <u>7,127,033</u>     |
| NET ASSETS   |                      |                      |
| Unrestricted   | 25,918,484           | 25,527,950           |
| Temporarily restricted   | 18,751,036           | 14,281,067           |
| Permanently restricted   | <u>1,447,833</u>     | <u>1,447,833</u>     |
| Total net assets   | <u>46,117,353</u>    | <u>41,256,850</u>    |
|  | <u>\$ 53,908,481</u> | <u>\$ 48,383,883</u> |

*See accompanying notes.*

**EARTHJUSTICE**  
**STATEMENTS OF ACTIVITIES**  
**Years Ended June 30, 2012 and 2011**

|   | 2012                 |                           |                           |                      | 2011                 |                           |                           |                      |
|---|----------------------|---------------------------|---------------------------|----------------------|----------------------|---------------------------|---------------------------|----------------------|
|   | Unrestricted         | Temporarily<br>Restricted | Permanently<br>Restricted | Total                | Unrestricted         | Temporarily<br>Restricted | Permanently<br>Restricted | Total                |
| <b>REVENUES</b>                                   |                      |                           |                           |                      |                      |                           |                           |                      |
| Contributions                                     | \$ 13,859,067        | \$ 12,513,034             | \$ -                      | \$ 26,372,101        | \$ 13,641,877        | \$ 13,824,376             | \$ -                      | \$ 27,466,253        |
| Donated services                                  | 5,964,693            | -                         | -                         | 5,964,693            | 7,744,615            | -                         | -                         | 7,744,615            |
| Bequests  | 4,927,263            | 1,087,305                 | -                         | 6,014,568            | 2,062,208            | 101,059                   | -                         | 2,163,267            |
| Court awarded attorney fees and costs             | 5,077,109            | -                         | -                         | 5,077,109            | 3,970,034            | -                         | -                         | 3,970,034            |
| Change in value of split interest gift agreements | 44,212               | 95,534                    | -                         | 139,746              | (327,580)            | 643,362                   | -                         | 315,782              |
| (Loss) Gain on long-term investments              | (301,484)            | (23,446)                  | -                         | (324,930)            | 3,263,217            | 150,000                   | -                         | 3,413,217            |
| Interest and dividend income                      | 682,413              | -                         | -                         | 682,413              | 806,800              | -                         | -                         | 806,800              |
| Other income                                      | 116,281              | -                         | -                         | 116,281              | 110,288              | -                         | -                         | 110,288              |
| Satisfaction of program/time restrictions         | 9,202,458            | (9,202,458)               | -                         | -                    | 11,393,519           | (11,393,519)              | -                         | -                    |
| <b>Total revenues</b>                             | <b>39,572,012</b>    | <b>4,469,969</b>          | <b>-</b>                  | <b>44,041,981</b>    | <b>42,664,978</b>    | <b>3,325,278</b>          | <b>-</b>                  | <b>45,990,256</b>    |
| <b>EXPENSES</b>                                   |                      |                           |                           |                      |                      |                           |                           |                      |
| Program services                                  |                      |                           |                           |                      |                      |                           |                           |                      |
| Litigation  | 17,890,596           | -                         | -                         | 17,890,596           | 16,517,272           | -                         | -                         | 16,517,272           |
| Donated litigation services                       | 1,905,577            | -                         | -                         | 1,905,577            | 1,693,523            | -                         | -                         | 1,693,523            |
| Public information                                | 6,863,051            | -                         | -                         | 6,863,051            | 6,581,946            | -                         | -                         | 6,581,946            |
| Donated public information services               | 4,059,116            | -                         | -                         | 4,059,116            | 6,051,092            | -                         | -                         | 6,051,092            |
| Supporting services                               |                      |                           |                           |                      |                      |                           |                           |                      |
| Management and general                            | 3,752,376            | -                         | -                         | 3,752,376            | 2,645,210            | -                         | -                         | 2,645,210            |
| Fundraising                                       | 4,710,762            | -                         | -                         | 4,710,762            | 3,621,877            | -                         | -                         | 3,621,877            |
| <b>Total expenses</b>                             | <b>39,181,478</b>    | <b>-</b>                  | <b>-</b>                  | <b>39,181,478</b>    | <b>37,110,920</b>    | <b>-</b>                  | <b>-</b>                  | <b>37,110,920</b>    |
| <b>CHANGE IN NET ASSETS</b>                       | <b>390,534</b>       | <b>4,469,969</b>          | <b>-</b>                  | <b>4,860,503</b>     | <b>5,554,058</b>     | <b>3,325,278</b>          | <b>-</b>                  | <b>8,879,336</b>     |
| <b>NET ASSETS, beginning of year</b>              | <b>25,527,950</b>    | <b>14,281,067</b>         | <b>1,447,833</b>          | <b>41,256,850</b>    | <b>19,973,892</b>    | <b>10,955,789</b>         | <b>1,447,833</b>          | <b>32,377,514</b>    |
| <b>NET ASSETS, end of year</b>                    | <b>\$ 25,918,484</b> | <b>\$ 18,751,036</b>      | <b>\$ 1,447,833</b>       | <b>\$ 46,117,353</b> | <b>\$ 25,527,950</b> | <b>\$ 14,281,067</b>      | <b>\$ 1,447,833</b>       | <b>\$ 41,256,850</b> |

See accompanying notes.

**EARTHJUSTICE**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**Years Ended June 30, 2012 and 2011**

|  | 2012                 |                       |                           |                     |                      | 2011                 |                       |                           |                     |                      |
|--|----------------------|-----------------------|---------------------------|---------------------|----------------------|----------------------|-----------------------|---------------------------|---------------------|----------------------|
|  | Program              |                       | Management<br>and General | Fund-Raising        | Total                | Program              |                       | Management<br>and General | Fund-Raising        | Total                |
|  | Litigation           | Public<br>Information |                           |                     |                      | Litigation           | Public<br>Information |                           |                     |                      |
| <b>SALARIES AND RELATED EXPENSES</b>     |                      |                       |                           |                     |                      |                      |                       |                           |                     |                      |
| Attorneys                                | \$ 7,542,549         | \$ 28,631             | \$ -                      | \$ -                | \$ 7,571,180         | \$ 6,371,920         | \$ 7,195              | \$ -                      | \$ -                | \$ 6,379,115         |
| Paralegal                                | 258,928              | -                     | -                         | -                   | 258,928              | 270,751              | -                     | -                         | -                   | 270,751              |
| Non-legal staff                          | 2,615,562            | 2,863,216             | 1,915,055                 | 1,127,829           | 8,521,662            | 2,603,838            | 2,696,905             | 1,287,439                 | 1,030,168           | 7,618,350            |
| Retirement plan contributions            | 777,939              | 204,474               | 139,805                   | 79,349              | 1,201,567            | 730,369              | 203,941               | 104,829                   | 85,144              | 1,124,283            |
| Employee fringe benefits                 | 1,779,662            | 510,518               | 347,439                   | 204,148             | 2,841,767            | 1,578,975            | 407,301               | 227,998                   | 187,402             | 2,401,676            |
| Payroll taxes                            | 765,094              | 203,968               | 128,916                   | 78,491              | 1,176,469            | 677,725              | 190,336               | 88,902                    | 71,725              | 1,028,688            |
|  | <u>13,739,734</u>    | <u>3,810,807</u>      | <u>2,531,215</u>          | <u>1,489,817</u>    | <u>21,571,573</u>    | <u>12,233,578</u>    | <u>3,505,678</u>      | <u>1,709,168</u>          | <u>1,374,439</u>    | <u>18,822,863</u>    |
| <b>OTHER EXPENSES</b>                    |                      |                       |                           |                     |                      |                      |                       |                           |                     |                      |
| Direct case costs                        | 1,078,127            | -                     | -                         | -                   | 1,078,127            | 1,186,761            | -                     | -                         | -                   | 1,186,761            |
| Donated services                         | 1,905,577            | 4,059,116             | -                         | -                   | 5,964,693            | 1,693,523            | 6,051,092             | -                         | -                   | 7,744,615            |
| Grants and allocations                   | 54,650               | -                     | -                         | -                   | 54,650               | 74,400               | -                     | -                         | -                   | 74,400               |
| Fundraising professional services        | -                    | -                     | -                         | 252,529             | 252,529              | -                    | -                     | -                         | 304,894             | 304,894              |
| Occupancy                                | 1,253,574            | 509,212               | 266,514                   | 158,358             | 2,187,658            | 1,305,318            | 471,881               | 240,599                   | 201,614             | 2,219,412            |
| Telephone and internet                   | 264,119              | 55,943                | 19,465                    | 4,423               | 343,950              | 278,162              | 34,831                | 7,570                     | 6,674               | 327,237              |
| Media                                    | 182,205              | 751,592               | 31,589                    | 13,723              | 979,109              | -                    | 897,402               | -                         | -                   | 897,402              |
| Travel, conferences, and meetings        | 350,812              | 117,356               | 115,871                   | 74,209              | 658,248              | 411,808              | 116,635               | 71,298                    | 55,494              | 655,235              |
| Professional services                    | 260,483              | 699,766               | 267,389                   | 107,432             | 1,335,070            | 304,238              | 533,332               | 194,719                   | 145,357             | 1,177,646            |
| Printing, publications, and reproduction | 3,308                | 329,099               | 70,220                    | 857,820             | 1,260,447            | 91,432               | 212,559               | 94,095                    | 389,642             | 787,728              |
| Supplies                                 | 76,352               | 52,544                | 21,806                    | 58,368              | 209,070              | 65,726               | 78,001                | 6,896                     | 5,945               | 156,568              |
| Postage                                  | 27,024               | 213,683               | 64,395                    | 844,526             | 1,149,628            | 26,872               | 360,437               | 19,051                    | 441,398             | 847,758              |
| Depreciation and amortization            | 329,367              | 95,155                | 109,928                   | 73,869              | 608,319              | 310,233              | 113,609               | 98,663                    | 91,380              | 613,885              |
| Equipment rental and maintenance         | 104,733              | 25,385                | 31,273                    | 19,817              | 181,208              | 75,433               | 11,326                | 3,920                     | 5,406               | 96,085               |
| Contracted services                      | 9,415                | 99,929                | 26,263                    | 743,897             | 879,504              | 5,236                | 208,277               | 14,150                    | 572,930             | 800,593              |
| Miscellaneous                            | 113,041              | 25,906                | 23,763                    | 8,627               | 171,337              | 87,843               | 10,970                | 21,413                    | 9,439               | 129,665              |
| Research                                 | 10,441               | 53,815                | 3,437                     | 1,678               | 69,371               | 703                  | 18,328                | 7,300                     | 7,193               | 33,524               |
| Investment advisory and bank fees        | -                    | -                     | 150,405                   | -                   | 150,405              | -                    | -                     | 151,623                   | -                   | 151,623              |
| Insurance                                | 33,211               | 22,859                | 18,843                    | 1,669               | 76,582               | 59,529               | 8,680                 | 4,745                     | 10,072              | 83,026               |
|  | <u>6,056,439</u>     | <u>7,111,360</u>      | <u>1,221,161</u>          | <u>3,220,945</u>    | <u>17,609,905</u>    | <u>5,977,217</u>     | <u>9,127,360</u>      | <u>936,042</u>            | <u>2,247,438</u>    | <u>18,288,057</u>    |
|  | <u>\$ 19,796,173</u> | <u>\$ 10,922,167</u>  | <u>\$ 3,752,376</u>       | <u>\$ 4,710,762</u> | <u>\$ 39,181,478</u> | <u>\$ 18,210,795</u> | <u>\$ 12,633,038</u>  | <u>\$ 2,645,210</u>       | <u>\$ 3,621,877</u> | <u>\$ 37,110,920</u> |

See accompanying notes.

**EARTHJUSTICE**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2012 and 2011**

|  | 2012         | 2011         |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES   |              |              |
| Changes in net assets  | \$ 4,860,503 | \$ 8,879,336 |
| Adjustments to reconcile changes in net assets to net cash from operating activities |              |              |
| Depreciation and amortization  | 608,319      | 613,885      |
| Actuarial gain on split-interest liabilities   | (139,746)    | (315,782)    |
| Net realized and unrealized losses (gains) from long-term investments                | 324,930      | (3,413,217)  |
| Changes in assets and liabilities  |              |              |
| Receivables - contributions  | (3,481,110)  | (1,124,127)  |
| Other receivables  | (72,894)     | 1,951        |
| Court awards receivable  | (462,390)    | 8,047        |
| Prepaid expenses   | (46,552)     | (53,433)     |
| Accounts payable   | 101,823      | (111,531)    |
| Accrued vacation payable   | 149,801      | 110,774      |
| Client trust funds   | 50,526       | (146,057)    |
| Liabilities relating to split interest gift agreements                               | 292,818      | 321,656      |
| Total adjustments  | (2,674,475)  | (4,107,834)  |
| Net cash from operating activities   | 2,186,028    | 4,771,502    |
| CASH FLOWS FROM INVESTING ACTIVITIES   |              |              |
| Proceeds from sales of short-term investments  | 15,700,000   | 21,420,951   |
| Purchase of short-term investments   | (14,840,145) | (21,380,174) |
| Proceeds from sales of long-term investments   | 2,238,773    | 5,725,000    |
| Purchase of long-term investments  | (4,028,753)  | (4,642,525)  |
| Purchase of property and equipment   | (1,531,011)  | (619,871)    |
| Net cash from investing activities   | (2,461,136)  | 503,381      |
| CHANGE IN CASH AND CASH EQUIVALENTS  | (275,108)    | 5,274,883    |
| CASH AND CASH EQUIVALENTS, beginning of year   | 8,849,675    | 3,574,792    |
| CASH AND CASH EQUIVALENTS, end of year   | \$ 8,574,567 | \$ 8,849,675 |

*See accompanying notes.*



## **EARTHJUSTICE**

### **NOTES TO FINANCIAL STATEMENTS**

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

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

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

Earthjustice receives no support from the federal government. It has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes is included in the financial statements. Earthjustice, under certain circumstances, may accept attorneys' fees and not compromise its exempt status; although, to date, Earthjustice has chosen not to accept such fees. Earthjustice adopted the provisions of accounting for uncertain tax positions on July 1, 2009. Earthjustice had no unrecognized tax benefits at June 30, 2012 or 2011. Earthjustice files exempt organization returns and, if applicable, unrelated business income tax returns in the U.S. federal and California jurisdictions. With few exceptions, the Organization is no longer subject to United States federal or state/local income tax examinations by tax authorities for years before 2007.

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

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

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

*Permanently restricted* – Unconditional promises to give by a donor that specifies that the assets donated be invested to provide a permanent source of income. Permanently restricted gifts (endowments) are managed according to the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) law of the State of California. If the donor does not restrict the allowed use of the income, the organization classifies income as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard prudence prescribed by UPMIFA. As of June 30, 2012 and 2011, Earthjustice had \$1,447,833 in permanently restricted net assets.

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

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

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

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

Grants and pledges with payment terms in excess of one year are subject to discounting using a rate of 3.5%

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

**Allowance for doubtful accounts** – Earthjustice provides for amounts that may be uncollectible on pledged contributions, grants and other receivables. After considering such factors as prior collection history, the ability of the debtor to pay, and historical trends, management concluded that no allowances were deemed necessary at June 30, 2012 and 2011.

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

|  | <b>2012</b>  | <b>2011</b>  |
|--|--------------|--------------|
| Operating cash, including client trust funds of<br>\$160,968 and \$110,442, respectively | \$ 1,134,010 | \$ 544,008   |
| Cash equivalents included in<br>Short-term investments                                   | 7,440,557    | 8,305,667    |
|  | \$ 8,574,567 | \$ 8,849,675 |

**Short-term investments** – Short-term investments consist of certificates of deposit, money market funds, cash equivalents and contributed marketable securities that have not yet been sold by Earthjustice in the normal course of business (if applicable). All short-term investments are carried at fair value as disclosed in Note 12. At June 30, 2012 and 2011, short-term investments consisted of certificates of deposit with maturities of three months or more having a fair value of \$210,005 and \$204,750 and cash equivalents of \$7,440,557 and \$8,305,667, respectively.

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

**Concentrations of credit risk** – At June 30, 2012 and 2011, Earthjustice maintained approximately 58% and 60%, respectively, of total net assets at seven investment managers, the largest constituting approximately 15% and 14%, respectively, of net assets. (Assets segregated for split-interest gifts are not included. Assets administered by The Vanguard Group but representing distinct registered investment companies are considered separate investments for purposes of this calculation.)

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

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

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

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

Depreciation and amortization expense totaled \$608,319 and \$613,885 for the years ended June 30, 2012 and 2011, respectively.

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

**Donated services** – Donated legal services are recognized as contributions and a corresponding expense at their estimated value at date of receipt, in accordance with accounting principles generally accepted in the United States of America, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the organization. Attorneys who contribute services provide Earthjustice a detail of the dollar value of the time spent. The value of law clerks' time is estimated by management using current rates included in court filings. Total donated legal services for the years ended June 30, 2012 and 2011, was estimated to be \$1,905,577 and be \$1,693,523, respectively.

## **EARTHJUSTICE**

### **NOTES TO FINANCIAL STATEMENTS**

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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 \$4,059,116 and \$6,051,092 for the years ended June 30, 2012 and 2011, respectively. It is Earthjustice's policy to record the value of the donated space when management becomes aware of the ad placement.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassification** – Certain 2011 amounts have been reclassified to conform to the 2012 financial statement presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

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

The Organization has evaluated subsequent events through October 18, 2012, which is the date the financial statements are available to be issued.

#### **NOTE 2 – LONG-TERM INVESTMENTS**

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

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

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

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

The following table details long-term investments by category for the years ended June 30, 2012 and 2011:

|   | 2012                    |                        |                    |                      | 2011                    |                        |                    |                      |
|---|-------------------------|------------------------|--------------------|----------------------|-------------------------|------------------------|--------------------|----------------------|
|   | Split<br>Interest Gifts | Reserve<br>Investments | FJC<br>Expert Fund | Total                | Split<br>Interest Gifts | Reserve<br>Investments | FJC<br>Expert Fund | Total                |
| Investments, beginning of year  | \$ 8,008,718            | \$ 23,004,102          | \$ 233,814         | \$ 31,246,634        | \$ 7,231,194            | \$ 21,138,532          | \$ 233,290         | \$ 28,603,016        |
| Transfers due to portfolio balancing,<br>fulfillment of operating (requirements)/surpluses,<br>and reclassification to short-term investments | -                       | -                      | -                  | -                    | -                       | (2,202,194)            | -                  | (2,202,194)          |
| Added split-interest gifts  |                         |                        |                    |                      |                         |                        |                    |                      |
| Gifts creating annuity trusts   | 1,138,370               | -                      | -                  | 1,138,370            | 833,987                 | -                      | -                  | 833,987              |
| Amount withdrawn at death of planned<br>giving donors   | (83,964)                | -                      | -                  | (83,964)             | (327,580)               | -                      | -                  | (327,580)            |
| Annuity and beneficiary payments  | (666,323)               | -                      | -                  | (666,323)            | (616,416)               | -                      | -                  | (616,416)            |
| Investment returns (net of expenses and fees)   |                         |                        |                    |                      |                         |                        |                    |                      |
| Dividends, interest, rents, and expenses  | 181,106                 | 537,537                | 146                | 718,789              | 202,242                 | 654,547                | 524                | 857,313              |
| Realized and unrealized gains (losses)  | (42,259)                | (324,930)              | -                  | (367,189)            | 685,291                 | 3,413,217              | -                  | 4,098,508            |
| Investments, end of year  | <u>\$ 8,535,648</u>     | <u>\$ 23,216,709</u>   | <u>\$ 233,960</u>  | <u>\$ 31,986,317</u> | <u>\$ 8,008,718</u>     | <u>\$ 23,004,102</u>   | <u>\$ 233,814</u>  | <u>\$ 31,246,634</u> |
| Comprising of   |                         |                        |                    |                      |                         |                        |                    |                      |
| Marketable securities   | \$ 8,036,531            | \$ 23,216,709          | \$ -               | \$ 31,253,240        | \$ 7,175,814            | \$ 23,004,102          | \$ -               | \$ 30,179,916        |
| Cash equivalents  | 499,117                 | -                      | 233,960            | 733,077              | 832,904                 | -                      | 233,814            | 1,066,718            |
| Total   | <u>\$ 8,535,648</u>     | <u>\$ 23,216,709</u>   | <u>\$ 233,960</u>  | <u>\$ 31,986,317</u> | <u>\$ 8,008,718</u>     | <u>\$ 23,004,102</u>   | <u>\$ 233,814</u>  | <u>\$ 31,246,634</u> |
| Long-term investment classifications  |                         |                        |                    |                      |                         |                        |                    |                      |
| Permanently restricted  | \$ -                    | \$ 1,486,951           | \$ -               | \$ 1,486,951         | \$ -                    | \$ 1,544,635           | \$ -               | \$ 1,544,635         |
| Temporarily restricted  | 3,109,105               | 1,243,447              | 233,960            | 4,586,512            | 3,046,560               | 1,290,675              | 233,814            | 4,571,049            |
| Unrestricted  | 5,426,543               | 20,486,311             | -                  | 25,912,854           | 4,962,158               | 20,168,792             | -                  | 25,130,950           |
| Total   | <u>\$ 8,535,648</u>     | <u>\$ 23,216,709</u>   | <u>\$ 233,960</u>  | <u>\$ 31,986,317</u> | <u>\$ 8,008,718</u>     | <u>\$ 23,004,102</u>   | <u>\$ 233,814</u>  | <u>\$ 31,246,634</u> |

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

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**NOTE 3 – RECEIVABLES - CONTRIBUTIONS**

Contributions receivable at June 30, 2012 and 2011, include both unrestricted and temporarily restricted contributions, attributable to pledges, foundation grants, bequests, and charitable remainder unitrusts. Pledges receivable and bequests which are expected to be collected over a period of time in excess of one year are discounted using the rate at the date of the contribution. These receivables consist of the following:

|   | <b>2012</b>         |                               |                     |
|---|---------------------|-------------------------------|---------------------|
|   | <b>Unrestricted</b> | <b>Temporarily Restricted</b> | <b>Total</b>        |
| Foundation grants receivable                          | \$ 1,000,000        | \$ 3,002,476                  | \$ 4,002,476        |
| Pledges receivable                                    | 17,775              | 1,540,834                     | 1,558,609           |
| Beneficial interest in charitable remainder unitrusts | -                   | 310,709                       | 310,709             |
| Bequest receivables                                   | 3,208,441           | -                             | 3,208,441           |
|   | <u>\$ 4,226,216</u> | <u>\$ 4,854,019</u>           | <u>\$ 9,080,235</u> |
|   | <b>2011</b>         |                               |                     |
|   | <b>Unrestricted</b> | <b>Temporarily Restricted</b> | <b>Total</b>        |
| Foundation grants receivable                          | \$ -                | \$ 3,222,000                  | \$ 3,222,000        |
| Pledges receivable                                    | 17,775              | 789,878                       | 807,653             |
| Beneficial interest in charitable remainder unitrusts | -                   | 295,674                       | 295,674             |
| Bequest receivables                                   | 1,165,220           | 108,578                       | 1,273,798           |
|   | <u>\$ 1,182,995</u> | <u>\$ 4,416,130</u>           | <u>\$ 5,599,125</u> |

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

Approximately 77% and 56% of the bequests receivable are from two estates at June 30, 2012 and 2011, respectively. All bequests and foundation grants receivable are expected to be received within one year.

**NOTE 4 – PROPERTY AND EQUIPMENT**

The major classes of property and equipment at June 30, 2012 and 2011 are as follows:

|  | <b>2012</b>         | <b>2011</b>         |
|--|---------------------|---------------------|
| Land - Alaska office                           | \$ 153,880          | \$ 153,880          |
| Building - Alaska office                       | 135,174             | 135,174             |
| Land - Alaska (donated)                        | 79,000              | 79,000              |
| Computer equipment and software                | 1,811,570           | 1,737,713           |
| Furniture and equipment                        | 1,566,266           | 1,094,665           |
| Leasehold improvements                         | 1,443,820           | 1,890,694           |
| Library holdings                               | 593,424             | 702,772             |
|  | 5,783,134           | 5,793,898           |
| Less accumulated depreciation and amortization | 3,223,393           | 4,156,852           |
|  | <b>\$ 2,559,741</b> | <b>\$ 1,637,046</b> |

**NOTE 5 – LEASE COMMITMENTS**

Earthjustice has entered into various lease agreements having initial terms greater than one year for office space which expire through 2022. Rental expense under these leases totaled \$2,121,693 and \$2,154,351 for the years ended June 30, 2012 and 2011, respectively. Certain of these lease agreements provide for periodic adjustments based on fixed percentage increases in rent.

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

**Year Ending June 30.**

|            |                      |
|------------|----------------------|
| 2013       | \$ 1,833,816         |
| 2014       | 1,943,660            |
| 2015       | 1,606,095            |
| 2016       | 1,318,529            |
| 2017       | 1,280,678            |
| Thereafter | 5,140,234            |
|            | <b>\$ 13,123,012</b> |

**NOTE 6 – RETIREMENT ANNUITY PLAN**

Earthjustice has established a retirement annuity plan and a tax-deferred annuity plan for its employees under Section 403(b) of the Internal Revenue Code. The retirement annuity plan provides for an employer contribution to a defined contribution retirement plan of 9% of an employee's gross earnings, with an increase to 10% of gross earnings provided the employee contributes at least 3% to the tax-deferred annuity plan. In addition, the Board of Trustees has elected to contribute an additional 6.2% of an employee's compensation above the social security wage base to the retirement annuity plan subject to regulatory limits. Contributions to the retirement annuity plan of \$1,201,567 and \$1,124,283 have been expensed for the years ended June 30, 2012 and 2011, respectively.

**NOTE 7 – DEFERRED COMPENSATION PLAN**

On August 1, 2010, Earthjustice established an eligible deferred compensation plan for a select group of highly compensated (“top hat”) employees under Section 457(b) of the Internal Revenue Code. The plan allows for up to \$16,500 of pre-tax contributions per year through payroll deduction. Employees earning annual compensation of \$110,000 or over are eligible to participate. At June 30, 2012, four employees had elected to participate in the plan. The investments in this plan remain as assets of the organization until the employees retire.

## EARTHJUSTICE

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 8 – ALLOCATION OF JOINT COSTS

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

|                    | <u>2012</u>         | <u>2011</u>       |
|--------------------|---------------------|-------------------|
| Public information | \$ 384,840          | \$ 753,242        |
| Fundraising        | 695,648             | 200,229           |
|                    | <u>\$ 1,080,488</u> | <u>\$ 953,471</u> |

Earthjustice conducts limited lobbying activities in its efforts to provide increased public and policy-making awareness of environmental issues and the role of law in resolving them. Earthjustice incurred \$92,887 and \$188,709 in grassroots lobbying and an additional \$650,831 and \$417,999 in direct lobbying for total lobbying expenditures of \$743,718 and \$606,708 during the periods ended June 30, 2012 and 2011, respectively. All lobbying expenditures are included in the Public Information functional category.

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

#### NOTE 9 – SPLIT-INTEREST GIFT AGREEMENTS

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

**Pooled income fund** – Donors contributing to this category are assigned a specific number of units in the pool and receive a life interest in any income earned on those units. Upon the donor's death, the value of the units held by the donor within the fund becomes available to Earthjustice for its unrestricted use. At June 30, 2012 and 2011, the assets held in the pooled income fund have been valued at \$919,547 and \$914,918, respectively. The liabilities which totaled \$316,540 and \$352,058 at June 30, 2012 and 2011, respectively, have been estimated using published actuarial tables. The average rate of return on the fund for the years ended June 30, 2012 and 2011, was approximately 4.5% and 5%, respectively.

**Charitable remainder unitrusts** – Earthjustice held seven trusts at June 30, 2012 and 2011, whereby the donors have contributed assets to Earthjustice, in exchange for a life interest in the income from the trusts or a specified percentage of the fair value. Some of these trusts require Earthjustice to share the corpus upon maturity with another charity. During the year ended June 30, 2006, Earthjustice elected to gross up the assets held and the corresponding liabilities to include the amounts ultimately payable to the other charities. The liabilities associated with these trusts have been estimated using published actuarial tables.

At June 30, 2012 and 2011, assets held under such trust agreements totaled \$1,201,860 and \$1,298,413, respectively. Associated liabilities amounted to \$751,340 and \$794,410, respectively.

**Charitable gift annuities** – Donors contribute assets in exchange for a promise by Earthjustice to pay a fixed amount to designated beneficiaries until death of the last named beneficiary. At June 30, 2012 and 2011, the fair value of these assets totaled \$6,414,241 and \$5,795,387, respectively. Various states in which annuitants reside require that Earthjustice maintain statutory reserves. These statutory reserves typically require that Earthjustice segregate the associated assets from other assets to the extent of the reserve requirements. While Earthjustice elects to segregate all assets associated with the annuity contracts, assets in excess of required reserve requirements are essentially unrestricted. Earthjustice has computed the reserve requirements based upon the most restrictive computation, which exceeds the liability due to annuitants by \$987,697 and \$580,759 for June 30, 2012 and 2011, respectively. As a result, this amount constitutes temporarily restricted net assets. It is Earthjustice's practice not to liquidate the net asset value of annuity contracts until such time as the contracts mature.

Liabilities estimating the present value of the expected annuity payments have been reflected in the accompanying statements of financial position at \$4,044,199 and \$3,672,793 at June 30, 2012 and 2011, respectively.

**NOTE 10 – RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2012 and 2011, are restricted for the following purposes:

|  | <b>2012</b>   | <b>2011</b>   |
|--|---------------|---------------|
| Program activities   | \$ 10,688,779 | \$ 9,046,630  |
| Time restricted funds<br>and investments                         | 6,021,031     | 3,586,815     |
| Charitable remainder trusts and pooled income<br>fund agreements | 1,053,528     | 1,066,863     |
| Annuity agreements, segregation required<br>by state law         | 987,697       | 580,759       |
|  | \$ 18,751,035 | \$ 14,281,067 |

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

|                      | <b>2012</b>  | <b>2011</b>   |
|----------------------|--------------|---------------|
| Program restrictions | \$ 9,118,494 | \$ 11,025,739 |
| Split-interest gifts | 83,964       | 327,780       |
|                      | \$ 9,202,458 | \$ 11,353,519 |

**NOTE 11 – ENDOWMENTS**

**Interpretation of Relevant Law**

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

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

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

Earthjustice has adopted a policy of appropriating for distribution each year up to 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 CPMIFA, distributions are allowed from the endowment funds even if the funds are “underwater.”

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



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**NOTES TO FINANCIAL STATEMENTS**

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**Financial Statement Presentation**

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

**Aggregate Amount of Deficiencies for Donor-Restricted Endowments**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires Earthjustice to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. At June 30, 2012 and 2011, the amount of the deficiency was \$23,373 and \$4,940, respectively. This deficiency resulted from unfavorable market fluctuations and continued appropriations as allowed by Earthjustice’s spending policy.

The composition and changes in the endowment net assets as of June 30, 2012 and 2011 are as follows:

|                                      | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total Endowment<br/>Net Assets</u> |
|--------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------------------------|
| Endowment net assets, June 30, 2010  | \$ (82,230)         | \$ 2,036                          | \$ 1,447,833                      | \$ 1,367,639                          |
| Investment income                    | -                   | 49,578                            | -                                 | 49,578                                |
| Net appreciation                     | 151,582             | 50,128                            | -                                 | 201,710                               |
| Amounts appropriated for expenditure | <u>(74,292)</u>     | <u>-</u>                          | <u>-</u>                          | <u>(74,292)</u>                       |
| Endowment net assets, June 30, 2011  | (4,940)             | 101,742                           | 1,447,833                         | 1,544,635                             |
| Investment income                    | -                   | 37,631                            | -                                 | 37,631                                |
| Net appreciation (depreciation)      | 51,635              | (76,882)                          | -                                 | (25,247)                              |
| Amounts appropriated for expenditure | <u>(70,068)</u>     | <u>-</u>                          | <u>-</u>                          | <u>(70,068)</u>                       |
| Endowment net assets, June 30, 2012  | <u>\$ (23,373)</u>  | <u>\$ 62,491</u>                  | <u>\$ 1,447,833</u>               | <u>\$ 1,486,951</u>                   |

**NOTE 12 – FAIR VALUE MEASUREMENTS**

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

Three levels of inputs are used to measure fair value:

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

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

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

The following table presents the fair value measurements of assets recognized in the accompanying 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, 2012 and 2011:

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

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

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

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the period ended June 30, 2012 and 2011:

|   | Investments | Beneficial Interest<br>in Trusts | Total             |
|---|-------------|----------------------------------|-------------------|
| Balance, June 30, 2010  | \$ 929,972  | \$ 305,804                       | \$ 1,235,776      |
| Redemptions received from fund of fund investment                             | (929,972)   | -                                | (929,972)         |
| Unrealized gains on investments, included<br>in realized and unrealized gains | -           | (10,130)                         | (10,130)          |
| Balance, June 30, 2011  | -           | 295,674                          | 295,674           |
| Unrealized gain on investments, included<br>in realized and unrealized losses | -           | 15,035                           | 15,035            |
| Balance, June 30, 2012  | <u>\$ -</u> | <u>\$ 310,709</u>                | <u>\$ 310,709</u> |

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

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

|                               | <b>June 30, 2012</b>              |                                 |                                     |                               |
|-------------------------------|-----------------------------------|---------------------------------|-------------------------------------|-------------------------------|
|                               | <b>Fair Value<br/>at Year-End</b> | <b>Redemption<br/>Frequency</b> | <b>Redemption<br/>Notice Period</b> | <b>Other<br/>Restrictions</b> |
| Beneficial interest in trusts |                                   |                                 |                                     |                               |
| Residential real estate       | \$ 310,709                        | Not eligible                    | Not applicable                      | None                          |
|                               |                                   |                                 |                                     |                               |
|                               | <b>June 30, 2011</b>              |                                 |                                     |                               |
|                               | <b>Fair Value<br/>at Year-End</b> | <b>Redemption<br/>Frequency</b> | <b>Redemption<br/>Notice Period</b> | <b>Other<br/>Restrictions</b> |
| Beneficial interest in trusts |                                   |                                 |                                     |                               |
| Residential real estate       | \$ 295,674                        | Not eligible                    | Not applicable                      | None                          |

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

Fair value for the beneficial interest in trusts is based on appraisals and discounted cash flows. There was no change in valuation methods from June 30, 2011 to June 30, 2012.