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Accountants and Advisors

ENVIRONMENTAL DEFENSE FUND
Finding the ways that work

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

CONSOLIDATED AND CONSOLIDATING FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 and 2008

Eisner

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Environmental Defense Fund, Incorporated
New York, New York

We have audited the accompanying consolidated statements of financial position of the Environmental Defense Fund, Incorporated (the "Organization") as of September 30, 2009 and 2008, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. We have also audited the consolidating statement of financial position of the Organization as of September 30, 2009, and the related consolidating statement of activities for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated and consolidating financial statements enumerated above present fairly, in all material respects, the financial position of the Environmental Defense Fund, Incorporated as of September 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Eisner LLP

New York, New York
November 18, 2009

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statements of Financial Position

	September 30, 2009	September 30, 2008
ASSETS		
Cash and cash equivalents	**$ 6,493,187**	$ 3,391,060
Temporary investments for future periods	**13,979,386**	11,864,761
Prepaid expenses and other assets	**2,714,835**	2,027,376
Inventory	**120,627**	329,135
Pledges receivable	**114,553,438**	82,508,244
Property and equipment, net	**5,200,854**	6,130,453
California Fisheries Loans	**297,543**	
Donor Advised Fund Investments	**1,346,083**	31,614
Investments	**47,358,777**	44,258,704
	$ 192,064,730	$ 150,541,347
LIABILITIES		
Accounts payable and accrued expenses	**$ 6,785,137**	$ 6,683,158
Deferred revenue	**326,417**	209,487
Deferred rent payable	**330,894**	457,276
Annuities payable	**3,411,381**	2,782,424
Notes payable	**2,583,444**	3,250,850
California Fisheries Loan Fund	**4,550,000**	4,550,000
Other liabilities	**1,681,591**	1,394,785
	19,668,864	19,327,980
Commitment and contingency (Note L)		
NET ASSETS		
Unrestricted:		
Available for operations	**2,423,676**	3,112,191
Designated for long-term investment	**37,548,235**	35,104,745
Total unrestricted	**39,971,911**	38,216,936
Temporarily restricted	**128,687,457**	89,259,933
Permanently restricted	**3,736,498**	3,736,498
Total net assets	**172,395,866**	131,213,367
	$ 192,064,730	$ 150,541,347

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidating Statement of Financial Position
September 30, 2009
(with summarized financial information for 2008)

	EDF	EDAF	CFF	Eliminations	September 30, 2009	September 30, 2008
ASSETS						
Cash and cash equivalents	$ 3,918,565	$ 2,444,865	$ 129,757		$ 6,493,187	$ 3,391,060
Temporary investments for future periods	9,697,073		4,282,313		13,979,386	11,864,761
Prepaid expenses and other assets	2,450,392	264,443			2,714,835	2,027,376
Inventory	120,627				120,627	329,135
Pledges receivable	112,803,438	1,750,000			114,553,438	82,508,244
Property and equipment, net	5,200,854				5,200,854	6,130,453
California Fisheries Loans			297,543		297,543	
Donor Advised Fund Investments	1,346,083				1,346,083	31,614
Investments	47,358,777				47,358,777	44,258,704
Intercompany Receivable	16,292	6,404,630		$ (6,420,922)	0	
	$ 182,912,101	$ 10,863,938	$ 4,709,613	$ (6,420,922)	$ 192,064,730	$ 150,541,347
LIABILITIES						
Accounts payable and accrued expenses	$ 6,398,019	$ 357,217	$ 29,901		$ 6,785,137	$ 6,683,158
Deferred revenue	326,417				326,417	209,487
Deferred rent payable	330,894				330,894	457,276
Annuities payable	3,411,381				3,411,381	2,782,424
Notes payable	2,583,444				2,583,444	3,250,850
California Fisheries Loan Fund			4,550,000		4,550,000	4,550,000
Other liabilities	1,681,591				1,681,591	1,394,785
Intercompany Payable	6,404,630		16,292	$ (6,420,922)	0	
	21,136,376	357,217	4,596,193	(6,420,922)	19,668,864	19,327,980
NET ASSETS						
Unrestricted:						
Available for operations	2,298,108	74,648	50,920		2,423,676	3,112,191
Designated for long-term investment	37,548,235				37,548,235	35,104,745
Total unrestricted	39,846,343	74,648	50,920		39,971,911	38,216,936
Temporarily restricted	118,192,884	10,432,073	62,500		128,687,457	89,259,933
Permanently restricted	3,736,498				3,736,498	3,736,498
Total net assets	161,775,725	10,506,721	113,420		172,395,866	131,213,367
	$ 182,912,101	$ 10,863,938	$ 4,709,613	$ (6,420,922)	$ 192,064,730	$ 150,541,347

See notes to consolidated and consolidating financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Activities
Year Ended September 30, 2009
(with summarized financial information for 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Year Ended September 30, 2008
Operating support and revenue:					
Support:					
Membership and contributions	$ 10,399,276	$ 1,361,126		$ 11,760,402	$ 12,725,210
Major gifts	3,872,201	45,449,241		49,321,442	56,423,219
Foundations		76,783,935		76,783,935	56,045,966
Government and other grants	55,523	1,537,222		1,592,745	3,421,306
Bequests and other planned giving	4,124,174	1,589,769		5,713,943	3,613,443
Total support	18,451,174	126,721,293		145,172,467	132,229,144
Revenue:					
Investment income allocated for operations	1,556,952	29,628		1,586,580	1,772,456
Fees, royalties and other income	1,275,053	608		1,275,661	927,441
Total revenue	2,832,005	30,236		2,862,241	2,699,897
Net assets released from restrictions	86,202,644	(86,202,644)		0	0
Total operating support and revenue	107,485,823	40,548,885		148,034,708	134,929,041
Operating expenses:					
Program services:					
Scientific research, economic analysis, and policy development:					
Climate	43,809,784			43,809,784	41,550,351
Oceans	15,295,369			15,295,369	12,689,958
Ecosystems	13,885,771			13,885,771	14,900,955
Health	7,769,268			7,769,268	8,088,066
Education	4,500,024			4,500,024	4,815,378
Membership activities	663,362			663,362	546,026
Total program services	85,923,578			85,923,578	82,590,734
Supporting services:					
Management and general	6,714,804			6,714,804	6,810,239
New member acquisition	742,627			742,627	649,996
Fund-raising:					
Membership	2,710,239			2,710,239	2,597,017
Development	8,376,666			8,376,666	8,214,864
Total supporting services	18,544,336			18,544,336	18,272,116
Total operating expenses	104,467,914			104,467,914	100,862,850
Change in net assets from operations	3,017,909	40,548,885		43,566,794*	34,066,191
Change in net assets from non-operating activities:					
Transfer to California Fisheries Loan Fund					(4,550,000)
Other expenses, net of contributions and other income	(128,307)	(62,146)		(190,453)	(1,082,698)
Investment results, net of allocation to operations	(1,134,627)	(1,059,215)		(2,193,842)	(7,890,982)
Change in net assets	1,754,975	39,427,524		41,182,499	20,542,511
Net assets - beginning of year	38,216,936	89,259,933	$ 3,736,498	131,213,367	110,670,856
Net assets - end of year	$ 39,971,911	$128,687,457	$ 3,736,498	$ 172,395,866	$ 131,213,367

***** The change in net assets from operations of $43,566,794 includes substantial foundation grants, shown in the temporarily restricted column above, received in fiscal-year 2009, but intended to fund operations in future years.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Activities
Year Ended September 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating support and revenue:				
Support:				
Membership and contributions	$ 10,000,115	$ 2,725,095		$ 12,725,210
Major gifts	4,194,993	52,228,226		56,423,219
Foundations	28,310	56,017,656		56,045,966
Government and other grants	85,276	3,336,030		3,421,306
Bequests and other planned giving	3,527,751	85,692		3,613,443
Total support	17,836,445	114,392,699		132,229,144
Revenue:				
Investment income allocated for operations	1,733,805	38,651		1,772,456
Fees, royalties and other income	927,304	137		927,441
Total revenue	2,661,109	38,788		2,699,897
Net assets released from restrictions	86,577,986	(86,577,986)		0
Total operating support and revenue	107,075,540	27,853,501		134,929,041
Operating expenses:				
Program services:				
Scientific research, economic analysis, and policy development:				
Climate	41,550,351			41,550,351
Oceans	12,689,958			12,689,958
Ecosystems	14,900,955			14,900,955
Health	8,088,066			8,088,066
Education	4,815,378			4,815,378
Membership activities	546,026			546,026
Total program services	82,590,734			82,590,734
Supporting services:				
Management and general	6,810,239			6,810,239
New member acquisition	649,996			649,996
Fund-raising:				
Membership	2,597,017			2,597,017
Development	8,214,864			8,214,864
Total supporting services	18,272,116			18,272,116
Total operating expenses	100,862,850			100,862,850
Change in net assets from operations	6,212,690	27,853,501		34,066,191*
Change in net assets from non-operating activities:				
Transfer to California Fisheries Loan Fund	(4,550,000)			(4,550,000)
Other expenses, net of contributions and other income	(1,099,007)	16,309		(1,082,698)
Investment results, net of allocation to operations	(7,298,015)	(592,967)		(7,890,982)
Change in net assets	(6,734,332)	27,276,843		20,542,511
Net assets - beginning of year	44,951,268	61,983,090	$ 3,736,498	110,670,856
Net assets - end of year	$ 38,216,936	$ 89,259,933	$ 3,736,498	$ 131,213,367

* The change in net assets from operations of $34,066,191 includes substantial foundation grants, shown in the temporarily restricted column above, received in fiscal-year 2008, but intended to fund operations in future years.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidating Statement of Activities
Year Ended September 30, 2009
(with summarized financial information for 2008)

	EDF	EDAF	CFF	Eliminations	Year ended September 30, 2009	Year ended September 30, 2008
Operating support and revenue:						
Support:						
Membership and contributions	$ 10,399,276	$ 1,361,126			$ 11,760,402	$ 12,725,210
Major gifts	34,793,116	14,528,326			49,321,442	56,423,219
Foundations	73,783,935	3,650,000	$ 105,545	$ (755,545)	76,783,935	56,045,966
Government and other grants	1,440,383	75	152,287		1,592,745	3,421,306
Bequests	5,699,540	14,403			5,713,943	3,613,443
Total support	126,116,250	19,553,930	257,832	(755,545)	145,172,467	132,229,144
Revenue:						
Investment income allocated for operations	1,586,580				1,586,580	1,772,456
Fees, royalties and other income	1,163,670	608	111,383		1,275,661	927,441
Total revenue	2,750,250	608	111,383		2,862,241	2,699,897
Total operating support and revenue	128,866,500	19,554,538	369,215	(755,545)	148,034,708	134,929,041
Operating expenses:						
Salaries and wages	32,718,162	761,034	148,557		33,627,753	30,577,075
Benefits and other employment costs	9,472,543	240,622	40,242		9,753,407	8,705,684
Professional fees	15,505,036	6,098,523	98,215		21,701,774	17,754,879
Travel	3,877,742	28,253	13,368		3,919,363	4,063,032
Printing	421,956	3,784			425,740	612,176
Postage and delivery	206,422	34,637	47		241,106	555,957
Occupancy	4,479,332	20,701	13,320		4,513,353	3,952,404
Telecommunications	998,808	15,635	1,910		1,016,353	1,130,469
Data management	814,636	37,965			852,601	765,942
Office supplies	681,122	7,206	1,584		689,912	1,073,540
Meetings and events	859,261	26,591			885,852	1,440,224
Subscriptions and dues	452,886	33,483	150		486,519	582,472
Advertising and promotions	4,490,095	3,964,937	430		8,455,462	12,057,763
Grants to others	10,226,544	45,250		(755,545)	9,516,249	7,737,741
Direct marketing	5,184,396	796,288			5,980,684	5,551,601
Other	614,656	101,502	66,681		782,839	2,068,884
	91,003,597	12,216,411	384,504	(755,545)	102,848,967	98,629,843
Depreciation and amortization	1,618,947				1,618,947	2,233,007
Total operating expenses	92,622,544	12,216,411	384,504	(755,545)	104,467,914	100,862,850
Change in net assets from operations	36,243,956	7,338,127	(15,289)	0	43,566,794	34,066,191
Change in net assets from non-operating activities:						
Transfer to California Fisheries Loan Fund						(4,550,000)
Other expenses, net of contributions and other income	(196,029)	5,576			(190,453)	(1,082,698)
Investment results, net of allocation to operations	(2,193,842)				(2,193,842)	(7,890,982)
Change in net assets	33,854,085	7,343,703	(15,289)	0	41,182,499	20,542,511
Net assets - beginning of year	127,921,640	3,163,018	128,709	0	131,213,367	110,670,856
Net assets - end of year	$ 161,775,725	$ 10,506,721	$ 113,420	$ 0	$ 172,395,866	$ 131,213,367

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Functional Expenses
Year Ended September 30, 2009
(with summarized financial information for 2008)

	Climate	Oceans	Ecosystems	Health	Education	Membership Activities	Total Program Services	Management and General	New Member Acquisition	Fund-raising		Total Supporting Services	Total Program and Supporting Services	
										Membership	Development		2009	2008
Salaries and wages	$ 10,879,700	$ 5,483,597	$ 5,683,568	$ 2,747,401	$ 1,044,933	$ 214,830	$ 26,054,029	$ 2,067,340		$ 818,401	$ 4,687,983	$ 7,573,724	$ 33,627,753	$ 30,577,075
Benefits and other employment costs	2,966,254	1,641,873	1,551,633	803,134	296,253	54,383	7,313,530	647,405		274,467	1,518,005	2,439,877	9,753,407	8,705,684
Professional and consulting fees	11,977,676	4,081,545	3,051,419	1,345,498	207,530	18,794	20,682,462	409,505	$ 627	189,870	419,310	1,019,312	21,701,774	17,754,879
Travel	1,368,548	1,095,230	435,149	451,143	70,413	3,779	3,424,262	109,859	36	48,218	336,988	495,101	3,919,363	4,063,032
Printing	127,330	56,232	62,988	28,674	102,683	1,783	379,690	2,867		1,646	41,537	46,050	425,740	612,176
Postage and delivery	50,307	38,031	28,626	13,281	49,488	3,539	183,272	24,324	638	7,539	25,333	57,834	241,106	555,957
Occupancy	417,274	395,955	353,494	364,673	350,242		1,881,638	1,930,894		350,378	350,443	2,631,715	4,513,353	3,952,404
Telecommunications	180,517	123,367	119,514	57,470	46,174	40,397	567,439	216,578		93,974	138,362	448,914	1,016,353	1,130,469
Data management, list rental and fulfillment	234,054	90,160	92,711	20,121	63,085	7,585	507,716	160,781	27,207	82,840	74,057	344,885	852,601	765,942
Office supplies and equipment	72,560	62,097	64,533	40,955	47,240	2,046	289,431	234,634		74,073	91,774	400,481	689,912	1,073,540
Meetings and events	190,875	315,493	104,458	70,669	31,267	990	713,752	17,115		10,894	144,091	172,100	885,852	1,440,224
Subscriptions and dues	208,787	73,047	71,634	38,702	25,536	1,011	418,717	18,654	804	4,939	43,405	67,802	486,519	582,472
Advertising and promotions	8,006,467	140,455	110,138	127,754	48,710		8,433,524	644		20,167	1,127	21,938	8,455,462	12,057,763
Grants to others	4,674,199	1,514,577	1,700,540	1,553,571	1,959		9,444,846	26,574		22,022	22,807	71,403	9,516,249	7,737,741
Direct marketing	2,301,676	3,230	334,304	2,712	1,954,848	308,334	4,905,104	8,771	710,370	297,385	59,054	1,075,580	5,980,684	5,551,601
Other	53,224	92,701	26,039	20,022	71,884	5,891	269,761	201,402	2,945	152,136	156,595	513,078	782,839	2,068,884
	43,709,448	15,207,590	13,790,748	7,685,780	4,412,245	663,362	85,469,173	6,077,347	742,627	2,448,949	8,110,871	17,379,794	102,848,967	98,629,843
Depreciation and amortization	100,336	87,779	95,023	83,488	87,779		454,405	637,457		261,290	265,795	1,164,542	1,618,947	2,233,007
	$ 43,809,784	$ 15,295,369	$ 13,885,771	$ 7,769,268	$ 4,500,024	$ 663,362	$ 85,923,578	$ 6,714,804	$ 742,627	$ 2,710,239	$ 8,376,666	$ 18,544,336	$104,467,914	$100,862,850

See notes to consolidated and consolidating financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Functional Expenses
Year Ended September 30, 2008

	Climate	Oceans	Ecosystems	Health	Education	Membership Activities	Total Program Services	Management and General	New Member Acquisition	Fund-raising		Total Supporting Services	Total
										Membership	Development		
Salaries and wages	$ 9,460,977	$ 4,877,347	$ 5,371,419	$ 2,541,143	$ 970,172	$ 142,881	$ 23,363,939	$ 2,016,151		$ 793,445	$ 4,403,540	$ 7,213,136	$ 30,577,075
Benefits and other employment costs	2,708,452	1,323,023	1,452,908	683,198	331,214	39,952	6,538,747	594,535		217,209	1,355,193	2,166,937	8,705,684
Professional and consulting fees	8,324,551	3,602,997	3,053,570	1,299,001	264,290	13,750	16,558,159	438,566	$ 1,200	171,822	585,132	1,196,720	17,754,879
Travel	1,375,559	863,127	626,010	434,593	108,868	16,452	3,424,609	136,058	64	77,423	424,878	638,423	4,063,032
Printing	190,083	76,172	112,018	38,731	136,939		553,943	3,003		537	54,693	58,233	612,176
Postage and delivery	138,300	65,617	64,472	62,673	121,931	8,645	461,638	39,724	49	11,399	43,147	94,319	555,957
Occupancy	379,732	323,015	324,231	315,107	306,899		1,648,984	1,687,651		307,687	308,082	2,303,420	3,952,404
Telecommunications	312,157	101,159	111,448	53,207	52,208	41,270	671,449	228,797	155	98,320	131,748	459,020	1,130,469
Data management, list rental and fulfillment	258,698	51,098	71,879	21,039	57,463	1,829	462,006	135,562	63,328	53,071	51,975	303,936	765,942
Office supplies and equipment	137,591	81,114	97,846	73,923	62,289	2,222	454,985	369,597		108,575	140,383	618,555	1,073,540
Meetings and events	661,922	282,294	151,037	84,881	71,002	787	1,251,923	27,129		16,684	144,488	188,301	1,440,224
Subscriptions and dues	236,755	92,338	100,435	33,845	25,773	5,499	494,645	11,646		13,294	62,887	87,827	582,472
Advertising and promotions	10,891,404	172,915	159,810	646,331	153,966		12,024,426	1,430		22,501	9,406	33,337	12,057,763
Grants to others	3,700,903	262,297	2,429,688	1,299,803	2,500		7,695,191	17,600		12,175	12,775	42,550	7,737,741
Direct marketing	2,209,775	17,973	184,993	7,027	1,913,511	222,246	4,555,525	7,561	585,200	311,901	91,414	996,076	5,551,601
Other	392,939	347,167	433,200	353,522	92,823	50,493	1,670,144	186,924		99,654	112,162	398,740	2,068,884
	41,379,798	12,539,653	14,744,964	7,948,024	4,671,848	546,026	81,830,313	5,901,934	649,996	2,315,697	7,931,903	16,799,530	98,629,843
Depreciation and amortization	170,553	150,305	155,991	140,042	143,530		760,421	908,305		281,320	282,961	1,472,586	2,233,007
	$41,550,351	**$ 12,689,958**	**$14,900,955**	**$ 8,088,066**	**$4,815,378**	**$ 546,026**	**$ 82,590,734**	**$ 6,810,239**	**$ 649,996**	**$ 2,597,017**	**$ 8,214,864**	**$ 18,272,116**	**$100,862,850**

See notes to consolidated and consolidating financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statements of Cash Flows

	Year Ended September 30, 2009	Year Ended September 30, 2008
Cash flows from operating activities:		
Change in net assets	**$ 41,182,499**	$ 20,542,511
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated securities	**(1,302,546)**	(760,186)
Net realized and unrealized losses on investments	**1,225,293**	7,102,049
Depreciation and amortization	**1,618,947**	2,233,000
Changes in:		
Prepaid expenses and other assets	**(779,861)**	(386,813)
Inventory	**208,508**	(97,185)
Pledges receivable	**(32,045,194)**	(29,338,767)
Donor Advised Fund Investments	**(1,573,048)**	(31,614)
California Fisheries Loans	**(297,543)**	
Accounts payable and accrued expenses	**101,980**	(818,317)
Deferred revenue	**116,930**	130,769
Deferred rent payable	**(126,382)**	(268,474)
Annuities payable	**628,957**	1,361,166
California Fisheries Loan Fund\Payable		4,550,000
Other liabilities	**286,805**	(168,577)
Net cash provided by operating activities	**9,245,345**	4,049,562
Cash flows from investing activities:		
Purchases of property and equipment	**(689,348)**	(3,311,469)
Proceeds from sales of investments	**17,892,781**	23,526,476
Purchases of investments	**(22,836,503)**	(25,390,630)
Other investing activities, net	**153,871**	127,631
Net cash used in investing activities	**(5,479,199)**	(5,047,992)
Cash flows from financing activities:		
Net contributions and payments subject to split-interest agreements	**(89,015)**	(10,714)
Proceeds from borrowings		3,400,000
Repayments of notes	**(575,004)**	(1,025,655)
Net cash (used in) provided by financing activities	**(664,019)**	2,363,631
Net increase in cash and cash equivalents	**3,102,127**	1,365,201
Cash and cash equivalents at beginning of year	**3,391,060**	2,025,859
Cash and cash equivalents at end of year	**$ 6,493,187**	$ 3,391,060
Supplementary disclosure of cash flow information:		
Interest paid	**$ 182,684**	$ 103,863

See notes to consolidated and consolidating financial statements

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

The accompanying consolidated and consolidating financial statements present the financial position, changes in net assets, and cash flows of the Environmental Defense Fund, Incorporated ("EDF") and its wholly-controlled entities, the Environmental Defense Action Fund and the California Fisheries Fund, Inc. (together, the "Organization"), as of and for the fiscal years ended September 30, 2009 and 2008.

EDF was originally organized as the Environmental Defense Fund, Incorporated, under the laws of New York State in 1967. It changed its legal name to Environmental Defense, Incorporated in May 1999, and then back to Environmental Defense Fund, Incorporated in 2008. It is classified as a public charity and is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code, and from state and local taxes under comparable laws. It is dedicated to protecting the environmental rights of all people, including the right to clean air, clean water, healthy food and flourishing ecosystems. EDF employs scientists, economists, attorneys and other professionals in an effort both to educate the public, and to create practical solutions to environmental problems that win lasting political, economic and social support because they are nonpartisan and fair. It receives support from its membership and other contributors, as well as through foundation and government grants.

The Environmental Defense Action Fund ("Action Fund") was incorporated in Delaware in July 2002 to educate the public about sound environmental policy and to advocate for effective laws to protect the environmental rights of all people. It has been classified as exempt from federal income taxes under Section 501(c)(4) of the U.S. Internal Revenue Code. It receives support from individuals and other contributors (see Note K[1]).

The California Fisheries Fund, Inc. ("California Fisheries") was incorporated in California in August 2007 to promote the public good and to improve and reform the conservation and financial performance of California's marine fisheries through the provision of education, training, and financial services, including, without limitation, grants, loans, and technical tools to ensure improved scientific information, enhanced stewardship of fish stocks and habitats, better fishery jobs, improved profitability, and revitalized coastal communities. California Fisheries operates exclusively for charitable and educational purposes and is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. California Fisheries receives support from government entities, individuals and foundations (see Note K[2]).

In fiscal-year 2009, EDF established Environmental Defense Fund de Mexico, A.C. ("EDF Mexico"), a controlled foreign subsidiary the operations of which are located in La Paz, Mexico. EDF Mexico is consolidated as part of the Organization. EDF Mexico's assets and liabilities were immaterial at September 30, 2009 and are not shown separately in the accompanying financial statements.

The four organizations have some common officers and directors, and they share staff and other resources under a cost-sharing agreement. All intercompany accounts have been eliminated in consolidation.

[2] Financial reporting:

(a) Basis of accounting:

The accompanying consolidated and consolidating financial statements of the Organization have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Financial reporting: (continued)

(b) Functional allocation of expenses:

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying consolidated and consolidating statements of activities and consolidating statements of functional expenses.

Accordingly, certain expenses have been allocated among the programs and supporting services in reasonable ratios determined by management.

(c) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The Organization makes significant estimates regarding the value of split-interest agreements, pledges receivable and the useful lives of property and equipment. Actual results could differ from those estimates.

(d) Net assets:

The net assets of the Organization and changes therein are classified and reported as follows:

(i) Unrestricted:

Unrestricted net assets represent those resources for which there are no donor restrictions as to their use and which have been categorized by the Organization as follows:

<u>Available for operations</u>

Funds that are undesignated and for general purposes and are used for the ongoing activity and working capital needs of the Organization.

<u>Designated for long-term investment</u>

Funds set aside by the Board of Trustees to provide for growth over time and to support prudent fiscal management of the Organization's resources.

(ii) Temporarily restricted:

Temporarily restricted net assets represent those resources restricted by donors, the release of which results from either the satisfaction of the restricted purposes specified by the donors or from the passage of time.

(iii) Permanently restricted:

Permanently restricted net assets represent those resources restricted by donors from use by the Organization except to generate additional income, which may or may not be directed to specific use by the donor.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Financial reporting: (continued)

(e) Temporary investments for future year activities:

The cash equivalents reported in the accompanying consolidated and consolidating financial statements consist primarily of highly liquid investments that have been purchased with original maturities of three months or less.

(f) Measure of operations:

The Organization includes in its measure of operations:

- all revenues and expenses that are an integral part of its programs and supporting activities;
- net assets released from restrictions to support operating expenditures;
- an amount equal to 5% of the average value of endowment assets, restricted, and unrestricted assets designated for long-term investment at the end of the prior four fiscal quarters.

The Organization excludes from its measure of operations:

- contributions from and changes in the value of split-interest agreements, until the death of the donor, unless specified otherwise; and
- investment results net of amounts made available for operating purposes.

[3] Inventory:

Inventory, which consists of promotional materials and donor premiums, is stated at the lower of cost or market value. Cost is determined on a first-in, first-out basis.

[4] Property, equipment and depreciation:

Property and equipment are recorded at their original costs and are depreciated over their estimated useful lives, which range from 3 to 10 years, using the straight-line method. Leasehold improvements are amortized using the straight-line method over the terms of the underlying leases, which may be less than the estimated useful lives of the improvements.

[5] Investments:

The investments in the accompanying consolidated and consolidating financial statements consist of marketable debt and equity securities, money-market accounts, and certain limited partnerships/alternative investments. Debt, equity and money-market investments are reported at their fair values, which are based upon quoted market prices. The investments in investment partnership funds are carried at their original cost bases and are adjusted annually to fair values based upon the valuation of the underlying assets, as provided by the investment managers. Management routinely reviews and evaluates the values provided by the investment managers and believes the carrying amounts of these investments to be reasonable estimates of fair value. However, estimated fair values may differ significantly from the values that would have been reported had a ready market for these investments existed.

Net investment income is recorded as unrestricted unless specifically restricted by the donors. Unrealized appreciation or depreciation of investments is included in the accompanying consolidated and consolidating statements of activities.

It is the Organization's policy to sell donated equity securities upon receipt.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Valuation allowances:

Valuation allowances are offset against the asset categories to which they apply.

[7] Pledges receivable:

Pledges receivable are reported at their net realizable values.

[8] Derivative instruments and fair value of financial instruments:

Interest-rate hedges may be used to manage the interest rate risk associated with the Organization's debt obligations, at the discretion of management. All derivative instruments are recognized as either assets or liabilities at fair value in the accompanying consolidated and consolidating statements of financial position. The fair value of interest-rate swap agreements is the estimated amount that a company would receive or pay to terminate any swap agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The Organization reports the fair value of interest-rate swaps in either other assets or other liabilities, as appropriate, in the accompanying consolidated and consolidating statements of financial position and the corresponding changes in the fair value of these swaps are reported as unrealized gains or losses in the consolidated and consolidating statements of activities.

[9] Split-interest agreements:

A portion of the Organization's investments result from deferred-giving vehicles subject to split-interest agreements. Three different types of agreements are currently maintained: the charitable gift annuity, the charitable remainder unitrust, and the pooled income fund.

Charitable gift annuities are unrestricted irrevocable gifts under which the Organization agrees in turn to pay a life annuity to the donor or to a designated beneficiary. The contributed funds and the attendant liabilities immediately become part of the general assets and liabilities of the Organization, subject to the Organization's maintaining an actuarial reserve in accordance with New York State law. Charitable remainder unitrust gifts are time-restricted contributions not available to the Organization until after the death of the donor, who, while living, receives an annual payout from the trust, based on a fixed percentage of the market value of the invested funds on December 31 of each year. The pooled income fund is composed of donations that are combined in bond and equity mutual-fund investments. Contributors receive a pro rata share of the actual ordinary income of these funds until their deaths, at which point the investment asset-share of the donors becomes available to the Organization.

The Organization values deferred gifts of cash at their face values and investments at their fair values. Organization liabilities are calculated on the basis of industry-standard actuarial data. Published IRS discount rates and actuarial tables are employed to determine the net present value of both contributions and liabilities pertaining to these deferred-giving arrangements.

The net asset value of a split-interest agreement at the time of the donor's death is reported in the measure of operations unless specified otherwise by the donor.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[10] Accrued vacation:

Employees accrue vacation based on tenure and salary band, which results in up to five weeks of vacation per year. Employees are allowed to accumulate up to 1½ times their yearly allotment, at which time accumulation ceases until vacation time is taken. Unused vacation balances carry over to future years.

The Organization's obligation for accrued vacation is included as a liability in the accompanying consolidated and consolidating statements of financial position and represents the cost of unused employee vacation time payable in the event of employee terminations. At September 30, 2009 and 2008, accrued vacation obligations were approximately $1,527,000 and $1,716,000, respectively.

[11] Deferred rent payable:

The difference between rent expense incurred by the Organization on an accrual basis and the rent amounts paid in cash as well as the unamortized portion of rent concessions and landlord contributions to leasehold improvement projects is reported as deferred rent payable in the accompanying consolidated and consolidating statements of financial position.

[12] Contributions:

Contributions and grants, including unconditional promises to give to the Organization (pledges), are recognized as revenue in the period received. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are considered to be available for unrestricted use unless specifically restricted by the donors.

[13] Bequests:

Under a policy established by its Board of Trustees, at the recommendation of its Finance Committee, the Organization designates an amount up to 90% of total unrestricted bequests received for long-term investment, subject to its annual operating requirements. Accordingly, amounts of $3,712,000 and $2,127,000 were transferred from operations to long-term investment in fiscal-years 2009 and 2008, respectively.

[14] New accounting pronouncements:

The Financial Accounting Standards Board ("FASB") has released Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurement," which defines fair value, establishes a framework for the measurement of the fair value of an organization's assets and liabilities in various circumstances, and enhances disclosures about fair-value measurements. The Organization has adopted SFAS No. 157 for fiscal-year 2009. Accordingly, the Organization reports a fair-value measurement of all applicable assets and liabilities.

In August 2008, the FASB released a Staff Position document ("FSP"), FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds." The FSP requires expanded disclosures about the activities in an organization's endowment funds (both donor-restricted and board-designated) and has been adopted in fiscal-year 2009.

In fiscal-year 2010, the Organization will adopt FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of SFAS No. 109" ("FIN 48"). Due to the Organization's general tax-exempt status, FIN 48 is not expected to have a material effect on its consolidated and consolidating financial statements.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[15] Subsequent events:

The Organization considers the accounting treatment, and the related disclosures in the current fiscal-year's financial statements, that may be required as the result of all events or transactions that occur after the fiscal year-end through the date of the independent auditors' report.

[16] Financial reporting reclassifications:

Certain amounts have been reclassified from the prior year to conform to the current year's presentation.

NOTE B - PLEDGES RECEIVABLE

Unconditional amounts promised to the Organization, but not yet collected, have been recorded as pledges receivable. Pledges receivable are reported at net realizable value.

At each year-end, pledges receivable are estimated to be collected as follows:

	September 30,	
	2009	**2008**
In one year or less	**$ 52,648,371**	$ 43,989,070
Between one and two years	**23,057,444**	26,663,331
Between two and three years	**18,517,018**	12,558,088
Between three and four years	**12,195,884**	2,175,000
Four years and thereafter	**11,166,667**	975,000
Gross pledges receivable	**117,585,384**	86,360,489
Less: present value discount (calculated at rates ranging from 0.4% to 4%) and allowance for uncollectible pledges	**(3,031,946)**	(3,852,245)
Net pledges receivable	**$ 114,553,438**	$ 82,508,244

While the Organization has an excellent record of collecting pledges receivable, management has provided a valuation allowance of $946,968 and $1,000,000 for uncollectible pledges as of September 30, 2009 and 2008, respectively.

NOTE C - PROPERTY AND EQUIPMENT

At each year-end, property and equipment consisted of the following:

	September 30, 2009	September 30, 2008
Furniture and equipment	**$ 3,367,820**	$ 4,189,327
Computer equipment	**3,050,911**	10,535,624
Leasehold improvements	**11,306,985**	11,273,258
Building	**393,319**	393,319
Software development	**589,424**	480,575
	18,708,459	26,872,103
Less accumulated depreciation and amortization	**(13,563,380)**	(21,071,739)
	5,145,079	5,800,364
Construction-in-progress	**55,775**	330,089
	$ 5,200,854	$ 6,130,453

Depreciation and amortization expense was $1,618,947 and $2,233,000 for each of the fiscal-years 2009 and 2008, respectively.

During fiscal year 2009, the Organization wrote off $9,127,318 of fully depreciated equipment.

NOTE D - INVESTMENTS

At each fiscal year-end, the costs and fair values of investments were as follows:

	September 30,			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Debt securities			$ 3,304	$ 3,304
Equity securities			4,894,446	8,026,204
Alternative investments	**$ 11,262,801**	**$ 12,470,645**	11,182,801	12,792,987
Mutual and exchange traded funds	**20,185,273**	**20,333,882**	14,231,026	12,701,575
Money-market accounts	**8,187,167**	**8,187,168**	4,839,504	4,839,504
Other investments - subject to split interest agreements	**5,864,802**	**6,367,082**	5,649,962	5,895,130
	$ 45,500,043	**$ 47,358,777**	$ 40,801,043	$ 44,258,704

NOTE D - INVESTMENTS (CONTINUED)

The following schedule summarizes investment return by net-asset classification:

	September 30,					
	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Dividends and interest	**$ 181,046**	**$ 505,802**	**$ 686,848**	$ 1,034,795	$ 56,043	$ 1,090,838
Realized and unrealized gains (losses), net	**241,279**	**(1,466,572)**	**(1,225,293)**	(6,501,222)	(600,827)	(7,102,049)
Expenses and credits		**(68,817)**	**(68,817)**	(97,783)	(9,532)	(107,315)
Net return on investments	**422,325**	**(1,029,587)**	**(607,262)**	(5,564,210)	(554,316)	(6,118,526)
Investment return allocated for operations	**(1,556,952)**	**(29,628)**	**(1,586,580)**	(1,733,805)	(38,651)	(1,772,456)
Investment return in excess of amounts allocated for operations	**$ (1,134,627)**	**$ (1,059,215)**	**$ (2,193,842)**	$ (7,298,015)	$ (592,967)	$ (7,890,982)

NOTE E - DONOR-ADVISED FUND INVESTMENTS

In fiscal-year 2008, the Organization established a donor-advised fund ("DAF") administered by a third party and created for the purpose of managing charitable donations on behalf of individual donors. The donors have the privilege of providing advice with respect to the fund's distributions to various charities. The investments of the DAF remain as assets of the Organization until the charitable donations are made out of the fund.

Aggregate contributions to the DAF were $1,575,000 and $85,700 during fiscal-years ending 2009 and 2008, respectively. Fiscal-year 2009 contributions are primarily attributable to a donation of an interest in a limited partnership from two donors. Due to the restricted nature of this contribution, future grants will not be made from this contribution until such time as the limited partnership interest becomes marketable and can be liquidated. Aggregate grants made from the DAF were $2,662 and $47,600 during fiscal-years 2009 and 2008, respectively, of which $662 and $4,100 were made to the Organization. The aggregate value of investment assets held in the DAF was $1,346,083 and $31,614 at September 30, 2009 and 2008, respectively.

NOTE F - NOTES PAYABLE AND INTEREST RATE-SWAPS

At each fiscal year-end, notes payable were as follows:

	September 30, 2009	September 30, 2008
Promissory note from donor, payable on demand	**$ 100,000**	$ 100,000
Promissory note terminating 2012, at LIBOR + 1.5%	**581,250**	806,250
Promissory note terminating 2013, at LIBOR + 1.5%	**716,661**	916,665
Promissory note terminating 2018, at LIBOR + 1.5%	**1,287,500**	1,437,500
	2,685,411	3,260,415
Fair-value adjustment	**(101,967)**	(9,565)
	$ 2,583,444	$ 3,250,850

Notes Payable and Line of Credit

In fiscal-year 1998, a donor provided a $100,000 interest-free loan for the Organization's operations that is due on demand. The imputed interest on this loan is not material to the accompanying consolidated financial statements.

In fiscal-year 2008, the Organization entered into three separate loan agreements with a major bank. Two of the loans represented net new borrowings to fund capital costs of office renovations in California and New York, while the third loan refinanced existing indebtedness on a Washington, D.C. renovation loan.

> The first loan is a 4-year promissory note for the purpose of funding the renovations of its Washington D.C. office. The original principal balance of $900,000 is to be repaid in 48 equal monthly installments of $18,750, plus interest at one-month LIBOR plus 1.5%, beginning in fiscal-year 2008 and terminating in fiscal-year 2012.
>
> The second loan is a 5-year promissory note for the purpose of funding the renovations of its New York office. The original principal balance of $1,000,000 is to be repaid in 60 equal monthly installments of $16,667, plus interest at one-month LIBOR plus 1.5%, beginning in fiscal-year 2008 and terminating in fiscal-year 2013.
>
> The third loan is a 10-year promissory note for the purpose of funding the renovations of its California office. The original principal balance of $1,500,000 is to be repaid in 120 equal monthly installments of $12,500, plus interest at one-month LIBOR plus 1.5%, beginning in fiscal-year 2008 and terminating in fiscal-year 2018.

The Organization has an unsecured line of credit of $7,500,000 for ongoing operational requirements. There was no outstanding balance at either September 30, 2009 or 2008.

At September 30, 2009, the Organization is in compliance with all debt covenants.

NOTE F - NOTES PAYABLE AND INTEREST RATE-SWAPS (CONTINUED)

Interest-Rate-Swap Agreements and Fair Value of Financial Instruments

In fiscal-year 2008, the Organization entered into an interest-rate-swap agreement, having an initial notional value of $3,352,083 and a notional value of $2,585,411 and $3,160,415 at September 30, 2009 and 2008, respectively, to protect against the interest rate fluctuations on the bank promissory notes. The notional value of the swap declines monthly to coincide with the declining balance on the promissory notes as installment principal payments are made, and matures in 2018. Based on the interest-rate-swap agreement, the Organization pays interest at 5.49% and receives interest at a rate of one-month LIBOR plus 1.5% on the notional value of the swap. These terms effectively convert the interest rate on the promissory notes from a variable rate to a fixed rate of 5.49%. The estimated fair value of the interest rate swap was ($101,967) and ($9,565) at September 30, 2009 and 2008, respectively, which represents the cost that the Organization would have to pay to terminate the interest-rate-swap agreement, which is reported in other liabilities in the accompanying consolidated and consolidating statements of financial position.

The fair values of the promissory notes reflect an adjustment for the gain corresponding to the hedging relationship with the interest-rate-swap agreement. The Organization included the gain on the hedged promissory notes in the same line item as the offsetting loss on the related interest-rate-swap.

Pre-swap annual contractual maturities of notes payable outstanding at September 30, 2009, excluding the $100,000 note payable on demand, are as follows:

Year Ending September 30,	Amount
2010	$ 575,004
2011	575,004
2012	481,254
2013	266,649
2014	150,000
2015 and thereafter	537,500
Total	**$ 2,585,411**

Interest expense on debt borrowings, as well as interest-rate-swap agreements was $180,991 and $115,356 in fiscal-years 2009 and 2008, respectively.

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

At each fiscal year-end, temporarily restricted net assets were available for the following purposes and periods:

	September 30, 2009	September 30, 2008
Restricted by purpose:		
Climate	**$ 41,180,154**	$ 27,895,243
Oceans	**30,544,316**	25,253,579
Ecosystems	**20,162,672**	11,047,791
Health	**2,922,588**	2,771,326
Education	**5,649,794**	658,621
	100,459,524	67,626,560
Restricted by time	**28,227,933**	21,633,373
	$ 128,687,457	$ 89,259,933

During each fiscal year, net assets released from restrictions consisted of the following:

	Year Ended September 30, 2009	Year Ended September 30, 2008
Climate	**$ 46,426,252**	$ 40,860,447
Oceans	**16,666,621**	21,912,948
Ecosystems	**12,950,552**	14,920,509
Health	**7,842,446**	4,202,561
Education	**960,586**	1,336,323
	84,846,457	83,232,788
Time restrictions satisfied	**1,356,187**	3,345,198
	$ 86,202,644	$ 86,577,986

NOTE H - EMPLOYEE RETIREMENT PLANS

The Organization maintains a 403(b) tax-deferred retirement plan, which is funded by contributions from both the Organization and its employees. The Organization's contribution is based upon employees' years of service, ranges from 3% to 8% of eligible employees' salaries, and is recorded as an expense annually. The related expense for fiscal-years 2009 and 2008, respectively, was approximately $1,528,000 and $1,378,000.

In fiscal year 2004, the Organization established a 457(b) deferred compensation plan for certain key employees that is funded by both the Organization and the employees. As such, the investment allocations are directed by the employees, but the investments remain as assets of the Organization until the employees retire. At September 30, 2009 and 2008, respectively, the asset value of this plan was approximately $956,000 and $726,800.

In fiscal-year 2007, the Organization established a 457(f) deferred compensation plan for certain key employees. Awards under this plan are discretionary and are payable at future dates according to the terms of the plan. Benefits vest over a period ranging from 1 to 10 years and are amortized as compensation and benefits expense. The expense of the plan for fiscal-years 2009 and 2008, respectively, was $41,448 and $80,556, with a like

NOTE H - EMPLOYEE RETIREMENT PLANS (CONTINUED)

amount recorded as a liability. During fiscal-years 2009 and 2008, respectively, the Organization funded $100,000 and $357,000 to the plan and made payments of $42,100 in fiscal-year 2009. The Organization has fully funded the plan for awards-to-date. At September 30, 2009 and 2008, respectively, the asset value of the plan was approximately $419,800 and $344,000. The investment allocations of the plans are directed by the employees, but the investments remain as assets of the Organization until payment.

The fair value of plan assets and the present value of employee retirement plan liabilities are reported as other assets and other liabilities, respectively, in the accompanying consolidated and consolidating statements of financial position.

NOTE I - JOINT COSTS

For fiscal-years 2009 and 2008, the Organization has allocated joint costs (for informational materials and activities that include fund-raising appeals) among program and supporting services as follows:

	Year Ended September 30,	
	2009	**2008**
Climate	**$ 2,364,220**	$ 2,502,417
Ecosystems	**277,947**	292,241
Education	**2,358,254**	2,055,031
Membership activities	**665,205**	545,841
New member acquisition	**742,466**	649,996
Membership - fund-raising	**585,308**	376,926
	$ 6,993,400	$ 6,422,452

The portion of cost allocated to membership activities consists of that component of membership mailings that contain information about the Organization and the types of actions an individual may take with regard to a specific issue. New member acquisition reflects the cost of materials and information that requests individuals to join the Organization. Membership fund-raising is that component of joint costs associated with asking the Organization's current members for contributions. Additional fund-raising activities that included program information were not eligible for allocation under generally accepted accounting principles and were treated exclusively as membership fund-raising or new member acquisition expense.

NOTE J - CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash and cash equivalents in various bank accounts, the amounts of which may at times exceed federally insured limits. The Organization's investments are placed with high-credit-quality financial institutions. The Organization has not experienced any losses in such accounts, and management believes the Organization is not subject to a risk of loss beyond that related to market changes.

NOTE K - WHOLLY CONTROLLED ENTITY TRANSACTIONS

[1] Environmental Defense Action Fund:

The Action Fund reported support and revenue of $19,554,538 and $9,595,156 in fiscal-years 2009 and 2008, respectively, which included grants of $650,000 and $500,000, respectively, from EDF, representing the grassroots lobbying and the direct lobbying allowances permitted EDF as a 501(c)(3) organization.

NOTE K - WHOLLY CONTROLLED ENTITY TRANSACTIONS (CONTINUED)

[1] Environmental Defense Action Fund: (continued)

The Action Fund recorded expenses of $12,216,411 and $9,245,557 in fiscal years 2009 and 2008, respectively. Included in expenses were direct expenses related to grass-roots lobbying, direct lobbying and fund-raising, as well as allocated expenses for management by EDF. Changes to the Action Fund's net assets are included in temporarily restricted net assets in the accompanying consolidated financial statements.

The Action Fund includes among its assets an intercompany receivable in the amount of $6,404,630 due from EDF. This amount is invested by EDF on behalf of the Action Fund and interest accrues to the benefit of the Action Fund. The amount of the intercompany receivable is payable on demand.

[2] California Fisheries Fund, Inc.:

California Fisheries recorded revenue and support of $369,215 and $4,899,008 in fiscal-years 2009 and 2008, respectively. Grants of $5,000,000 were awarded in fiscal-year 2008 consisting of grants to EDF in support of California Fisheries mission. Consequently, EDF managed the grants as pass-through grants to California Fisheries. The proceeds from the grants were, in turn, provided to California Fisheries to fund its operations and to establish a revolving loan fund ("Loan Fund"). The Loan Fund has been established in the amount of $4,550,000 to provide loan capital for use in making loans intended to improve and reform the conservation and financial performance of California's marine fisheries.

In fiscal-year 2009, EDF awarded a grant of $105,545 to California Fisheries to cover administrative costs.

[3] Environmental Defense Fund de Mexico, A.C.:

Environmental Defense Fund de Mexico, A.C. commenced operations in August 2009. Activities were minimal during this start-up phase and expenditures of $2,983 are included in these consolidated financial statements.

NOTE L - COMMITMENT AND CONTINGENCY

[1] Operating leases:

The Organization leases premises at nine locations under operating leases that expire on various dates through March 31, 2018.

The following is a schedule by years of future minimum rental payments that have initial or remaining non-cancelable lease terms in excess of one year as of September 30, 2009:

Year Ending September 30,	Amount
2010	$ 3,944,561
2011	4,000,500
2012	3,311,261
2013	2,964,266
2014	1,297,653
Thereafter	3,629,584
	$ 19,147,825

NOTE L - COMMITMENT AND CONTINGENCY (CONTINUED)

[1] Operating leases: (continued)

Rent expense included in operations for fiscal-years 2009 and 2008 was $4,112,402 and $3,589,408, respectively. Certain leases provide for additional rental payments to cover increases in real estate taxes and expenses as yet undetermined.

[2] Governmental audits:

Government-funded activities are subject to audit by the applicable granting agencies. At September 30, 2009 and 2008, there were no material obligations outstanding as a result of such audits, and management believes that no material obligations will result from any future audits of such activities.

NOTE M - FAIR-VALUE MEASUREMENT

As discussed in Note A, the Organization adopted SFAS No. 157 in fiscal-year 2009 for certain financial assets and liabilities which, among other things, requires enhanced disclosures about assets and liabilities measured at fair value. Accordingly, SFAS No. 157:

- requires consideration of nonperformance risk when valuing assets;
- defines fair value 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 and establishes a framework for measuring fair values; and
- establishes a three-level hierarchy for fair-value measurement based upon the observance of inputs to the evaluation of an asset or liability as of the measurement date.

These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair value levels:

- Level 1 - quoted prices for *identical* instruments in active markets;
- Level 2 - quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations the significant inputs for which are *observable*; and
- Level 3 - instruments for which the significant inputs are *unobservable.*

NOTE M - FAIR-VALUE MEASUREMENT (CONTINUED)

The following table presents for each of these hierarchy levels, the Organization's financial assets that are measured at fair value on a recurring basis at September 30, 2009:

	Level 1	Level 2	Level 3	Total
Temporary investments for future periods	$ 13,979,386			$ 13,979,386
Investments:				
Alternative investments			$ 12,470,645	12,470,645
Mutual and exchange-traded funds	20,333,882			20,333,882
Money-market accounts	8,187,168			8,187,168
Other investments - subject to split interest agreements	1,750,348	$ 4,616,734		6,367,082
Total investments	44,250,784	4,616,734	12,470,645	61,338,163
Donor-advised fund investments	40,603		1,305,480	1,346,083
Total	$ 44,291,387	$ 4,616,734	$ 13,776,125	$ 62,684,246

	Fair-Value Measurements Using Level 3 Inputs	
	Alternative investments	Donor Advised Fund Assets
Balance - October 1, 2008:	$ 12,792,987	
Current year contributions	80,000	$ 1,566,576
Net investment losses	(402,342)	(261,096)
Balance - September 30, 2009	$ 12,470,645	$ 1,305,480

See Note F for fair value measurement disclosures relating to the Organization's debt and interest rate-swaps.

Note N - ENDOWMENT

[1] The endowment:

The Organization's endowment consists of nineteen individual funds established for a variety of purposes and consisting entirely of donor-restricted funds of $3,736,498 at September 30, 2009.

[2] Interpretation of relevant law:

The Board of Trustees has interpreted the New York State Uniform Management of Institutional Funds Act ("UMIFA") as requiring the preservation of the historic dollar value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets:

- the original value of gifts donated to the permanent endowment,
- the original fair value of subsequent gifts to the permanent endowment, and

Note N - ENDOWMENT (CONTINUED)

[2] Interpretation of relevant law: (continued)

- the fair value of each accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

[3] Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UMIFA requires the organization to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2009 and 2008.

[4] Return objectives and risk parameters:

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets and assuming a moderate level of investment risk.

[5] Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, the Organization relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization employs a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives, within prudent risk constraints.

[6] Spending policy and related objectives:

The Organization has a policy of annually appropriating 5% of its endowment fund's average fair value over the preceding four quarters. In establishing this policy, the Organization's management has considered the long-term expected return on its endowment. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.