Eisner

Eisner LLP
Accountants and Advisors

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 and 2007

Eisner

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Accountants and Advisors

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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, 2008 and 2007, and the related consolidated statements of activities, functional expenses and cash flows for the years 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 financial statements enumerated above present fairly, in all material respects, the financial position of the Environmental Defense Fund, Incorporated as of September 30, 2008 and 2007, 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 19, 2008

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statements of Financial Position

	September 30, 2008	September 30, 2007
ASSETS		
Cash and cash equivalents	**$ 3,391,060**	$ 2,025,859
Temporary investments for future periods	**11,864,761**	11,490,777
Prepaid expenses and other assets	**2,058,990**	1,650,128
Inventory	**329,135**	231,950
Pledges receivable	**82,508,244**	53,169,477
Property and equipment, net	**6,130,453**	5,051,984
Investments	**44,258,704**	49,227,314
	$ 150,541,347	$ 122,847,489
LIABILITIES		
Accounts payable and accrued expenses	**$ 6,683,158**	$ 7,501,475
Deferred revenue	**209,487**	78,718
Deferred rent payable	**457,276**	725,750
Annuities payable	**2,782,424**	1,421,258
Notes payable	**3,250,850**	886,070
California Fisheries Loan Fund	**4,550,000**	
Other liabilities	**1,394,785**	1,563,362
	19,327,980	12,176,633
Commitment and contingency (Note L)		
NET ASSETS		
Unrestricted:		
Available for operations	**3,112,191**	3,507,418
Designated for long-term investment	**35,104,745**	41,443,850
Total unrestricted	**38,216,936**	44,951,268
Temporarily restricted	**89,259,933**	61,983,090
Permanently restricted	**3,736,498**	3,736,498
	131,213,367	110,670,856
	$ 150,541,347	$ 122,847,489

See notes to consolidated financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Activities
Year Ended September 30, 2008
(with summarized financial information for 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Year Ended September 30, 2007
Operating support and revenue:					
Support:					
Membership and contributions	$ 10,000,115	$ 2,725,095		$ 12,725,210	$ 12,275,640
Major gifts	4,194,993	52,228,226		56,423,219	52,896,482
Foundations	28,310	56,017,656		56,045,966	19,847,892
Government and other grants	85,276	3,336,030		3,421,306	1,252,257
Bequests	3,527,751	85,692		3,613,443	5,344,726
Total support	17,836,445	114,392,699		132,229,144	91,616,997
Revenue:					
Investment income allocated for operations	1,733,805	38,651		1,772,456	1,710,237
Fees, royalties and other income	927,304	137		927,441	893,976
Total revenue	2,661,109	38,788		2,699,897	2,604,213
Net assets released from restrictions	86,577,986	(86,577,986)		0	0
Total operating support and revenue	107,075,540	27,853,501		134,929,041	94,221,210
Operating expenses:					
Program services:					
Scientific research, economic analysis, and policy development:					
Climate	41,550,351			41,550,351	25,693,716
Oceans	12,689,958			12,689,958	8,711,223
Ecosystems	14,900,955			14,900,955	13,375,149
Health	8,088,066			8,088,066	5,967,088
Education	4,815,378			4,815,378	4,611,599
Membership activities	546,026			546,026	920,798
Total program services	82,590,734			82,590,734	59,279,573
Supporting services:					
Management and general	6,810,239			6,810,239	4,552,301
New member acquisition	649,996			649,996	772,269
Fund-raising:					
Membership	2,597,017			2,597,017	2,320,048
Development	8,214,864			8,214,864	6,882,381
Total supporting services	18,272,116			18,272,116	14,526,999
Total operating expenses	100,862,850			100,862,850	73,806,572
Change in net assets from operations	6,212,690	27,853,501		34,066,191*	20,414,638
Change in net assets from non-operating activities:					
Transfer to California Fisheries Loan Fund	(4,550,000)			(4,550,000)	0
Other expenses, net of contributions and other income	(1,099,007)	16,309		(1,082,698)	618,001
Investment results, net of allocation to operations	(7,298,015)	(592,967)		(7,890,982)	4,048,963
Change in net assets	(6,734,332)	27,276,843		20,542,511	25,081,602
Net assets - beginning of year	44,951,268	61,983,090	$ 3,736,498	110,670,856	85,589,254
Net assets - end of year	$ 38,216,936	$ 89,259,933	$ 3,736,498	$ 131,213,367	$110,670,856

* 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

Consolidated Statement of Activities
Year Ended September 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating support and revenue:				
Support:				
Membership and contributions	$ 8,623,910	$ 3,651,730		$ 12,275,640
Major gifts	4,523,194	48,348,288	$ 25,000	52,896,482
Foundations		19,847,892		19,847,892
Government and other grants	59,375	1,192,882		1,252,257
Bequests	5,344,726			5,344,726
Total support	18,551,205	73,040,792	25,000	91,616,997
Revenue:				
Investment income allocated for operations	1,667,427	42,810		1,710,237
Fees, royalties and other income	893,976			893,976
Total revenue	2,561,403	42,810		2,604,213
Net assets released from restrictions	57,828,917	(57,828,917)		0
Total operating support and revenue	78,941,525	15,254,685	25,000	94,221,210
Operating expenses:				
Program services:				
Scientific research, economic analysis, and policy development:				
Climate	25,693,716			25,693,716
Oceans	8,711,223			8,711,223
Ecosystems	13,375,149			13,375,149
Health	5,967,088			5,967,088
Education	4,611,599			4,611,599
Membership activities	920,798			920,798
Total program services	59,279,573			59,279,573
Supporting services:				
Management and general	4,552,301			4,552,301
New member acquisition	772,269			772,269
Fund-raising:				
Membership	2,320,048			2,320,048
Development	6,882,381			6,882,381
Total supporting services	14,526,999			14,526,999
Total operating expenses	73,806,572			73,806,572
Change in net assets from operations	5,134,953	15,254,685	25,000	20,414,638
Change in net assets from non-operating activities:				
Contributions and other income, net	637,071	(19,070)		618,001
Investment income, net of allocation to operations	3,560,556	488,407		4,048,963
Change in net assets	9,332,580	15,724,022	25,000	25,081,602
Net assets - beginning of year	35,618,688	46,259,068	3,711,498	85,589,254
Net assets - end of year	$ 44,951,268	$ 61,983,090	$ 3,736,498	$ 110,670,856

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Functional Expenses
Year Ended September 30, 2008
(with summarized financial information for 2007)

	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		2008	2007
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	$ 25,624,569
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	7,649,392
Professional, consulting and intern 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	13,883,092
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	3,526,176
Printing	190,083	76,172	112,018	38,731	136,939		553,943	3,003		537	54,693	58,233	612,176	689,568
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	168,605
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	3,244,006
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	945,772
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	765,172
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	934,226
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	736,166
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	507,094
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	2,152,149
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	3,683,410
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	6,259,966
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	785,262
	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	71,554,625
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	2,251,947
	$ 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	$ 73,806,572

See notes to consolidated financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Functional Expenses
Year Ended September 30, 2007

	Climate	Oceans	Ecosystems	Health	Education	Membership Activities	Total Program Services	Management and General	New Member Acquisition	Fund-raising Membership	Fund-raising Development	Total Supporting Services	Total
Salaries and wages	$ 7,857,724	$ 3,178,112	$ 5,211,807	$ 2,403,242	$ 1,117,438	$ 176,879	$ 19,945,202	$ 1,392,097		$ 640,757	$ 3,646,513	$ 5,679,367	$ 25,624,569
Benefits and other employment costs	2,357,102	985,082	1,646,112	759,392	316,339	56,761	6,120,788	312,562		78,386	1,137,656	1,528,604	7,649,392
Professional, consulting and intern fees	6,706,269	2,422,332	2,425,399	1,089,181	358,570	111,363	13,113,114	245,253	$ 25,179	161,208	338,338	769,978	13,883,092
Travel	1,159,111	670,575	659,262	387,322	120,285	19,687	3,016,242	94,634	41	51,166	364,093	509,934	3,526,176
Printing	88,928	64,075	131,356	86,780	233,062	8,192	612,393	3,089		7,746	66,340	77,175	689,568
Postage and delivery	34,537	15,458	26,626	11,211	17,881	11,366	117,079	14,328	1,011	9,220	26,967	51,526	168,605
Occupancy	456,615	258,015	376,159	290,388	252,813		1,633,990	1,104,198		252,660	253,158	1,610,016	3,244,006
Telecommunications	255,246	55,373	130,502	49,052	51,447	33,215	574,835	146,844	69	99,010	125,014	370,937	945,772
Data management, list rental and fulfillment	228,079	50,840	104,447	52,213	47,107	1,051	483,737	112,252	25,695	74,235	69,253	281,435	765,172
Office supplies and equipment	165,811	77,281	126,382	77,097	62,598	2,697	511,866	231,052	78	81,453	109,777	422,360	934,226
Meetings and events	262,780	80,328	94,460	58,736	28,727	1,843	526,874	19,424		10,984	178,884	209,292	736,166
Subscriptions and dues	190,085	58,437	80,068	58,740	33,675	5,857	426,862	12,149		3,913	64,170	80,232	507,094
Advertising and promotions	1,333,230	131,807	215,577	247,959	203,479		2,132,052	1,230	800	921	17,146	20,097	2,152,149
Grants to others	1,924,002	434,857	1,135,809	120,832	4,148		3,619,648	26,590		17,761	19,411	63,762	3,683,410
Direct marketing	2,202,835	34,357	682,397	34,906	1,546,273	444,157	4,944,925	3,192	719,396	489,755	102,698	1,315,041	6,259,966
Other	169,733	48,089	96,112	72,037	71,890	47,287	505,148	132,948		66,291	80,875	280,114	785,262
	25,392,087	8,565,018	13,142,475	5,799,088	4,465,732	920,355	58,284,755	3,851,842	772,269	2,045,466	6,600,293	13,269,870	71,554,625
Depreciation and amortization	301,629	146,205	232,674	168,000	145,867	443	994,818	700,459		274,582	282,088	1,257,129	2,251,947
	$ 25,693,716	$ 8,711,223	$ 13,375,149	$ 5,967,088	$ 4,611,599	$ 920,798	$ 59,279,573	$ 4,552,301	$ 772,269	$ 2,320,048	$ 6,882,381	$ 14,526,999	$ 73,806,572

See notes to consolidated financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statements of Cash Flows

	Year Ended September 30, 2008	2007
Cash flows from operating activities:		
Change in net assets	**$ 20,542,511**	$ 25,081,602
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated securities	**(760,186)**	(970,119)
Net realized and unrealized losses (gains) on investments	**7,102,049**	(4,935,555)
Depreciation and amortization	**2,233,000**	2,251,947
Contributions restricted for permanent endowment		(25,000)
Changes in:		
Prepaid expenses and other assets	**(418,427)**	(511,563)
Inventory	**(97,185)**	(3,354)
Pledges receivable	**(29,338,767)**	(3,503,869)
Accounts payable and accrued expenses	**(818,317)**	2,070,703
Deferred revenue	**130,769**	4,760
Deferred rent payable	**(268,474)**	(209,109)
Annuities payable	**1,361,166**	278,232
California Fisheries Loan Fund	**4,550,000**	
Other liabilities	**(168,577)**	494,405
Net cash provided by operating activities	**4,049,562**	20,023,080
Cash flows from investing activities:		
Purchases of property and equipment	**(3,311,469)**	(1,196,101)
Proceeds from sales of investments	**23,526,476**	230,964
Purchases of investments	**(25,390,630)**	(18,932,719)
Other investing activities, net	**127,631**	
Net cash used in investing activities	**(5,047,992)**	(19,897,856)
Cash flows from financing activities:		
Proceeds from contributions restricted for investment in permanent endowment		25,000
Net contributions and payments subject to split-interest agreements	**(10,714)**	959,021
Proceeds from borrowings	**3,400,000**	
Repayments of notes	**(1,025,655)**	(330,264)
Net cash provided by financing activities	**2,363,631**	653,757
Net increase in cash and cash equivalents	**1,365,201**	778,981
Cash and cash equivalents at beginning of year	**2,025,859**	1,246,878
Cash and cash equivalents at end of year	**$ 3,391,060**	$ 2,025,859
Supplementary disclosure of cash flow information:		
Interest paid	**$ 103,863**	$ 58,818

See notes to consolidated financial statements

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

The accompanying consolidated 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, 2008 and 2007.

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).

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]).

The three 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 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.

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

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

[2] Financial reporting: (continued)

(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 amount 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:

Available for operations

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

Designated for long-term investment

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.

(e) Temporary investments for future year activities:

The cash equivalents reported in the accompanying consolidated 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; and

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

[2] Financial reporting: (continued)

(f) Measure of operations: (continued)

- 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 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 statements of activities.

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

[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.

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

[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 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 statements of financial position and corresponding changes in the fair value of these swaps are reported as unrealized gains or losses in the consolidated 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 donor 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.

[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 statements of financial position and represents the cost of unused employee vacation time payable in the event of employee terminations. At September 30, 2008 and 2007, accrued vacation obligations were approximately $1,716,000 and $1,350,000, respectively.

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

[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 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 for long-term investment, subject to its annual operating requirements. Accordingly, amounts of $2,127,000 and $3,176,146 were transferred from operations to long-term investment in fiscal-years 2008 and 2007, respectively.

[14] Financial reporting reclassifications:

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

[15] New accounting pronouncement:

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 is required to adopt SFAS No. 157 for fiscal-year 2009.

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 is effective for the Organization in fiscal-year 2009.

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, 2008	September 30, 2007
In one year or less	**$ 43,989,070**	$ 29,430,673
Between one and two years	**26,663,331**	14,705,411
Between two and three years	**12,558,088**	8,200,450
Between three and four years	**2,175,000**	2,215,000
Four years and thereafter	**975,000**	800,000
Gross pledges receivable	**86,360,489**	55,351,534
Less: present value discount (calculated at rates ranging from 1.2% - 4.0%) and allowance for uncollectible pledges	**(3,852,245)**	(2,182,057)
Net pledges receivable	**$ 82,508,244**	$ 53,169,477

While the Organization has an excellent record of collecting pledges receivable, management has provided a valuation allowance of $1,000,000 for uncollectible pledges.

NOTE C - PROPERTY AND EQUIPMENT

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

	September 30, 2008	September 30, 2007
Furniture and equipment	**$ 4,189,327**	$ 3,064,700
Computer equipment	**10,535,624**	10,211,259
Leasehold improvements	**11,273,258**	8,997,554
Building	**393,319**	393,319
Software development	**480,575**	480,575
	26,872,103	23,147,407
Less accumulated depreciation and amortization	**(21,071,739)**	(18,838,739)
	5,800,364	4,308,668
Construction-in-progress	**330,089**	743,316
	$ 6,130,453	$ 5,051,984

Depreciation and amortization expense was approximately $2,233,000 and $2,252,000 for each of the fiscal-years 2008 and 2007, respectively.

NOTE D - INVESTMENTS

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

	September 30,			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Debt securities	**$ 3,304**	**$ 3,304**	$ 6,248,600	$ 6,833,983
Equity securities	**4,894,446**	**8,026,204**	8,296,619	14,605,935
Alternative investments	**11,182,801**	**12,792,987**	5,996,447	8,659,515
Mutual and exchange traded funds	**14,231,026**	**12,701,575**	6,026,561	7,077,221
Money-market accounts	**4,839,504**	**4,839,504**	5,741,732	5,741,732
Other investments - subject to split interest agreements	**5,649,962**	**5,895,130**	5,528,497	6,308,928
	$ 40,801,043	**$ 44,258,704**	$ 37,838,456	$ 49,227,314

The fair values above include amounts serving as collateral for certain notes payable (see Note F).

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

	September 30,					
	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Dividends and interest	**$ 1,034,795**	**$ 56,043**	**$ 1,090,838**	$ 852,092	$ 67,838	$ 919,930
Realized and unrealized (losses) gains, net	**(6,501,222)**	**(600,827)**	**(7,102,049)**	4,463,162	472,393	4,935,555
Expenses and credits	**(97,783)**	**(9,532)**	**(107,315)**	(87,271)	(9,014)	(96,285)
Net return on investments	**(5,564,210)**	**(554,316)**	**(6,118,526)**	5,227,983	531,217	5,759,200
Investment return allocated for operations	**(1,733,805)**	**(38,651)**	**(1,772,456)**	(1,667,427)	(42,810)	(1,710,237)
Investment return in excess of amounts allocated for operations	**$ (7,298,015)**	**$ (592,967)**	**$ (7,890,982)**	$ 3,560,556	$ 488,407	$ 4,048,963

NOTE E - DONOR-ADVISED FUND

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 during the fiscal year ended September 30, 2008 were $85,700. Aggregate grants made from the DAF during the fiscal year ended September 30, 2008 were $47,600, of which $4,100 were made to the Organization. The aggregate value of investment assets held in the DAF at September 30, 2008 was $31,600.

NOTE F - NOTES PAYABLE AND INTEREST-RATE-SWAPS

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

	September 30, 2008	September 30, 2007
2007 Obligations		
Promissory note from donor, payable on demand	**$ 100,000**	$ 100,000
Promissory note paid in 2008, 5.98%		356,250
Promissory note paid in 2008, 6.05%		429,820
2008 Obligations		
Promissory note terminating 2012, at LIBOR + 1.5%	**806,250**	
Promissory note terminating 2013, at LIBOR + 1.5%	**916,665**	
Promissory note terminating 2018, at LIBOR + 1.5%	**1,437,500**	
	3,260,415	886,070
Fair value adjustment	**(9,565)**	
	$ 3,250,850	$ 886,070

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 1999, the Organization entered into an agreement with a major bank for a 10-year collateralized loan for the purpose of funding the renovation of its New York headquarters. The original principal balance of $2,250,000 had been repaid in equal monthly installments of $18,750, plus interest at a fixed annual rate of 5.98%, beginning in May 1999. This loan was paid in full in fiscal-year 2008.

In fiscal-year 2002, the Organization entered into a second loan agreement with the bank to provide a 9½-year collateralized loan for the purpose of funding the renovations to, and relocation of, its Washington, D.C. office. The original principal balance of $1,000,000 had been repaid in equal monthly installments of $8,772, plus interest at a fixed annual rate of 6.05%, beginning in March 2002. This loan was paid in full in fiscal-year 2008.

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 that was partially collateralized by investments.

> 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.

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

As part of the agreements described above, the Organization has an unsecured line of credit of $6,000,000 for ongoing operational requirements. There was no outstanding balance at either September 30, 2008 or 2007.

At September 30, 2008, the Organization is in compliance with all debt covenants.

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 $3,160,415 at September 30, 2008, to protect against the interest rate fluctuations on the promissory notes issued in 2008. 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 is ($9,565) at September 30, 2008, 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 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, 2008, excluding the $100,000 note payable on demand, are as follows:

Year Ending September 30,	Amount
2009	$ 575,004
2010	575,004
2011	575,004
2012	481,254
2013	266,649
2014 and thereafter	687,500
	$ 3,160,415

Interest expense on debt borrowings, as well as interest-rate-swap agreements in fiscal-year 2008, was $115,356 and $60,524 in fiscal-years 2008 and 2007, 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,	
	2008	**2007**
Restricted by purpose:		
Climate	**$ 27,895,243**	$ 20,336,176
Oceans	**25,253,579**	11,752,278
Ecosystems	**11,047,791**	5,287,157
Health	**2,771,326**	2,336,811
Education	**658,621**	412,269
	67,626,560	40,124,691
Restricted by time	**21,633,373**	21,858,399
	$ 89,259,933	$ 61,983,090

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

	Year Ended September 30,	
	2008	**2007**
Climate	**$ 40,860,447**	$ 22,957,405
Oceans	**21,912,948**	10,724,229
Ecosystems	**14,920,509**	9,686,627
Health	**4,202,561**	2,045,704
Education	**1,336,323**	453,476
	83,232,788	45,867,441
Time restrictions satisfied	**3,345,198**	11,961,476
	$ 86,577,986	$ 57,828,917

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 2008 and 2007 was approximately $1,378,000 and $1,253,000, respectively.

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, 2008 and September 30, 2007, the asset value of this plan was approximately $726,800 and $678,000, respectively.

NOTE H - EMPLOYEE RETIREMENT PLANS (CONTINUED)

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 2008 and 2007 was $80,556 and $135,531, respectively, with a like amount recorded as a liability. During fiscal-year 2008, the Organization funded $357,000 to the plan. At September 30, 2008, the asset value of the plan was approximately $344,200. The Organization expects to contribute $80,000 to the plan in fiscal-year 2009. 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 statements of financial position.

NOTE I - JOINT COSTS

For fiscal-years 2008 and 2007, 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,	
	2008	**2007**
Climate	**$ 2,502,417**	$ 2,461,445
Ecosystems	**292,241**	759,755
Education	**2,055,031**	1,967,467
Membership activities	**545,841**	920,798
New member acquisition	**649,996**	772,269
Membership - fund-raising	**376,926**	647,049
	$ 6,422,452	$ 7,528,783

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 by paying dues. 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 $9,595,156 and $8,657,449 in fiscal-years 2008 and 2007, respectively, which included grants of $500,000 and $250,000, respectively, from EDF, representing the grassroots lobbying and the direct lobbying allowances permitted EDF as a 501(c)(3) organization.

The Action Fund recorded expenses of $9,245,557 and $4,534,758 in fiscal years 2008 and 2007, 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.

In fiscal-year 2005, EDF lent $1,000,000 to the Action Fund to support expanded fund-raising activity, supported by a promissory note that expires in December 2010. In fiscal-year 2006, EDF provided an additional loan of $1,600,000, with a note expiring in December 2012, thus increasing the total loan outstanding to $2,600,000.

[2] California Fisheries Fund, Inc.:

California Fisheries recorded revenue and support of $4,899,008 in fiscal-year 2008, which was the first year of operations. Additional revenues of $100,992 for a total of $5,000,000, will be awarded in future years. This amount consisted of grants to EDF in support of the California Fisheries mission. Consequently, EDF managed the grants as pass-through grants to California Fisheries.

Certain grants in the amount of $5,000,000 were awarded to EDF for use in funding 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. The Loan Fund balance, which is reported as a liability in the accompanying consolidated statements of financial position, consists of $4,050,000 in pledge payments received, plus an additional amount of $500,000 reported in pledges receivable, with payment due in fiscal year 2009.

The Loan Fund balance would be reduced by $500,000 if that pledge payment is not realized, the initial Loan Fund balance of $4,550,000, plus net interest earned minus any loan losses, would be returned to the grantors if California Fisheries were to terminate operations. The remaining $450,000 grant balance made to California Fisheries ($5,000,000 less the $4,550,000 to establish the Loan Fund), plus interest earned on the Loan Fund, is intended to fund administrative expenses in fiscal-years 2008, 2009 and 2010.

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 noncancelable lease terms in excess of one year as of September 30, 2008:

Year Ending September 30,	Amount
2009	$ 3,864,318
2010	3,616,547
2011	3,620,153
2012	2,765,125
2013	2,635,948
Thereafter	3,749,998
	$ 20,252,089

Rent expense included in operations for fiscal-years 2008 and 2007 was approximately $3,594,000 and $2,840,000, 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, 2008 and 2007, 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.