



**ENVIRONMENTAL DEFENSE FUND,  
INCORPORATED**

**CONSOLIDATED AND CONSOLIDATING FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2012 and 2011**

## **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, 2012 and 2011, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. We have also audited the consolidating statements of financial position of the Organization as of September 30, 2012 and 2011, and the related consolidating statements of activities 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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, 2012 and 2011, 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.



New York, New York  
November 29, 2012

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

## Consolidated Statements of Financial Position

	September 30,	
	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,969,096	\$ 2,697,253
Temporary investments for future periods	14,968,479	5,959,140
Prepaid expenses and other assets	3,854,989	3,429,874
Inventory	123,876	100,703
Pledges receivable, net	92,940,326	89,038,481
Property and equipment, net	4,798,785	4,518,679
California Fisheries loans, net of allowances of \$120,791 and \$142,916, respectively	700,721	809,856
Donor-advised fund investments	730,511	1,251,209
Investments	<u>56,380,152</u>	<u>50,179,743</u>
	<u>\$ 177,466,935</u>	<u>\$ 157,984,938</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 6,406,335	\$ 4,560,738
Deferred revenue	23,132	30,397
Deferred rent payable	907,944	47,742
Annuities payable	4,665,099	4,384,880
Notes payable	3,060,318	1,489,853
California Fisheries grants payable	3,663,960	3,663,960
Other liabilities	<u>2,155,640</u>	<u>1,678,310</u>
	<u>20,882,428</u>	<u>15,855,880</u>
Commitments and contingency (Note L)		
<b>NET ASSETS</b>		
Unrestricted:		
Available for operations	3,067,055	2,521,646
Designated for long-term investment	<u>39,252,709</u>	<u>36,711,772</u>
Total unrestricted	42,319,764	39,233,418
Temporarily restricted	110,528,245	99,159,142
Permanently restricted	<u>3,736,498</u>	<u>3,736,498</u>
Total net assets	<u>156,584,507</u>	<u>142,129,058</u>
	<u>\$ 177,466,935</u>	<u>\$ 157,984,938</u>

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Consolidating Statement of Financial Position

September 30, 2012

(with summarized financial information for 2011)

	EDF	EDAF	CFF	Eliminations	September 30,	
					2012	2011
<b>ASSETS</b>						
Cash and cash equivalents	\$ 2,174,288	\$ 540,071	\$ 254,737		\$ 2,969,096	\$ 2,697,253
Temporary investments for future periods	12,199,244		2,769,235		14,968,479	5,959,140
Prepaid expenses and other assets	3,842,741	11,586	662		3,854,989	3,429,874
Inventory	123,876				123,876	100,703
Pledges receivable, net	92,800,326	140,000			92,940,326	89,038,481
Property and equipment, net	4,798,785				4,798,785	4,518,679
California Fisheries loans			700,721		700,721	809,856
Donor-advised fund investments	730,511				730,511	1,251,209
Investments	56,380,152				56,380,152	50,179,743
Intercompany receivable	89,384	4,287,724		\$ (4,377,108)	0	0
	<u>\$ 173,139,307</u>	<u>\$ 4,979,381</u>	<u>\$ 3,725,355</u>	<u>\$ (4,377,108)</u>	<u>\$ 177,466,935</u>	<u>\$ 157,984,938</u>
<b>LIABILITIES</b>						
Accounts payable and accrued expenses	\$ 6,170,214	\$ 214,922	\$ 21,199		\$ 6,406,335	\$ 4,560,738
Deferred revenue	23,132				23,132	30,397
Deferred rent payable	907,944				907,944	47,742
Annuities payable	4,665,099				4,665,099	4,384,880
Notes payable	3,060,318				3,060,318	1,489,853
California Fisheries grants payable			3,663,960		3,663,960	3,663,960
Other liabilities	2,155,640				2,155,640	1,678,310
Intercompany payable	4,287,724		89,384	\$ (4,377,108)	0	0
	<u>21,270,071</u>	<u>214,922</u>	<u>3,774,543</u>	<u>(4,377,108)</u>	<u>20,882,428</u>	<u>15,855,880</u>
<b>NET ASSETS</b>						
Unrestricted:						
Available for operations	2,870,579	245,664	(49,188)		3,067,055	2,521,646
Designated for long-term investment	39,252,709				39,252,709	36,711,772
Total unrestricted	42,123,288	245,664	(49,188)		42,319,764	39,233,418
Temporarily restricted	106,009,450	4,518,795			110,528,245	99,159,142
Permanently restricted	3,736,498				3,736,498	3,736,498
Total net assets	<u>151,869,236</u>	<u>4,764,459</u>	<u>(49,188)</u>		<u>156,584,507</u>	<u>142,129,058</u>
	<u>\$ 173,139,307</u>	<u>\$ 4,979,381</u>	<u>\$ 3,725,355</u>	<u>\$ (4,377,108)</u>	<u>\$ 177,466,935</u>	<u>\$ 157,984,938</u>

See notes to consolidated and consolidating financial statements

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Consolidating Statement of Financial Position September 30, 2011

	<u>EDF</u>	<u>EDAF</u>	<u>CFF</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,169,567	\$ 106,725	\$ 420,961		\$ 2,697,253
Temporary investments for future periods	3,535,914		2,423,226		5,959,140
Prepaid expenses and other assets	3,407,965	21,909			3,429,874
Inventory	100,703				100,703
Pledges receivable, net	88,753,481	285,000			89,038,481
Property and equipment, net	4,518,679				4,518,679
California Fisheries loans			809,856		809,856
Donor-advised fund investments	1,251,209				1,251,209
Investments	50,179,743				50,179,743
Intercompany receivable	<u>47,731</u>	<u>4,948,007</u>		<u>\$ (4,995,738)</u>	<u>0</u>
	<u>\$ 153,964,992</u>	<u>\$ 5,361,641</u>	<u>\$ 3,654,043</u>	<u>\$ (4,995,738)</u>	<u>\$ 157,984,938</u>
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 4,351,631	\$ 190,108	\$ 18,999		\$ 4,560,738
Deferred revenue	30,397				30,397
Deferred rent payable	47,742				47,742
Annuities payable	4,384,880				4,384,880
Notes payable	1,489,853				1,489,853
California Fisheries grants payable			3,663,960		3,663,960
Other liabilities	1,678,310				1,678,310
Intercompany payable	<u>4,948,007</u>		<u>47,731</u>	<u>\$ (4,995,738)</u>	<u>0</u>
	<u>16,930,820</u>	<u>190,108</u>	<u>3,730,690</u>	<u>(4,995,738)</u>	<u>15,855,880</u>
<b>NET ASSETS</b>					
Unrestricted:					
Available for operations	2,523,547	74,746	(76,647)		2,521,646
Designated for long-term investment	<u>36,711,772</u>				<u>36,711,772</u>
Total unrestricted	39,235,319	74,746	(76,647)		39,233,418
Temporarily restricted	94,062,355	5,096,787			99,159,142
Permanently restricted	<u>3,736,498</u>				<u>3,736,498</u>
Total net assets	<u>137,034,172</u>	<u>5,171,533</u>	<u>(76,647)</u>		<u>142,129,058</u>
	<u>\$ 153,964,992</u>	<u>\$ 5,361,641</u>	<u>\$ 3,654,043</u>	<u>\$ (4,995,738)</u>	<u>\$ 157,984,938</u>

See notes to consolidated and consolidating financial statements

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

**Consolidated Statement of Activities**  
**Year Ended September 30, 2012**  
(with summarized financial information for 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Year Ended September 30, 2011</u>
<b>Operating support and revenue:</b>					
Support:					
Contributions and membership	\$ 13,378,023	\$ 64,072,262		\$ 77,450,285	\$ 42,129,564
Foundations	150,000	29,956,813		30,106,813	48,877,392
Government and other grants	525,166	2,868,211		3,393,377	2,357,392
Bequests and other planned giving	<u>1,692,776</u>	<u>256,336</u>		<u>1,949,112</u>	<u>1,967,441</u>
Total support	<u>15,745,965</u>	<u>97,153,622</u>		<u>112,899,587</u>	<u>95,331,789</u>
Revenue:					
Investment income allocated for operations	2,197,771	28,847		2,226,618	1,916,546
Fees, royalties and other income	<u>1,348,596</u>	<u>3,045</u>		<u>1,351,641</u>	<u>834,471</u>
Total revenue	<u>3,546,367</u>	<u>31,892</u>		<u>3,578,259</u>	<u>2,751,017</u>
Net assets released from restrictions	<u>86,633,617</u>	<u>(86,633,617)</u>		<u>0</u>	<u>0</u>
Total operating support and revenue	<u>105,925,949</u>	<u>10,551,897</u>		<u>116,477,846</u>	<u>98,082,806</u>
<b>Operating expenses:</b>					
Program services:					
Scientific research, economic analysis, and policy development:					
Climate and Energy	37,215,577			37,215,577	32,085,664
Oceans	23,048,730			23,048,730	21,359,200
Ecosystems	16,276,788			16,276,788	12,496,084
Health	5,161,331			5,161,331	4,769,113
Education	3,825,033			3,825,033	3,502,874
Membership activities	<u>681,601</u>			<u>681,601</u>	<u>466,809</u>
Total program services	<u>86,209,060</u>			<u>86,209,060</u>	<u>74,679,744</u>
Supporting services:					
Management and general	7,244,031			7,244,031	7,031,124
New member acquisition	616,036			616,036	615,191
Fund-raising:					
Membership	2,396,403			2,396,403	2,644,636
Development	<u>8,935,928</u>			<u>8,935,928</u>	<u>8,149,267</u>
Total supporting services	<u>19,192,398</u>			<u>19,192,398</u>	<u>18,440,218</u>
Total operating expenses	<u>105,401,458</u>			<u>105,401,458</u>	<u>93,119,962</u>
Change in net assets from operations	524,491	10,551,897		11,076,388	4,962,844
<b>Change in net assets from non-operating activities:</b>					
Other expenses, net of contributions and other income	(552,388)	30,560		(521,828)	182,802
Investment results, net of allocation to operations	<u>3,114,243</u>	<u>786,646</u>		<u>3,900,889</u>	<u>(3,385,410)</u>
<b>Change in net assets</b>	<b>3,086,346</b>	<b>11,369,103</b>		<b>14,455,449</b>	<b>1,760,236</b>
Net assets - beginning of year	<u>39,233,418</u>	<u>99,159,142</u>	<u>\$ 3,736,498</u>	<u>142,129,058</u>	<u>140,368,822</u>
<b>Net assets - end of year</b>	<b><u>\$ 42,319,764</u></b>	<b><u>\$ 110,528,245</u></b>	<b><u>\$ 3,736,498</u></b>	<b><u>\$ 156,584,507</u></b>	<b><u>\$ 142,129,058</u></b>

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

## Consolidated Statement of Activities Year Ended September 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating support and revenue:</b>				
Support:				
Contributions and membership	\$ 16,149,224	\$ 25,980,340		\$ 42,129,564
Foundations		48,877,392		48,877,392
Government and other grants	67,287	2,290,105		2,357,392
Bequests and other planned giving	<u>1,518,172</u>	<u>449,269</u>		<u>1,967,441</u>
Total support	<u>17,734,683</u>	<u>77,597,106</u>		<u>95,331,789</u>
Revenue:				
Investment income allocated for operations	1,884,859	31,687		1,916,546
Fees, royalties and other income	<u>834,471</u>			<u>834,471</u>
Total revenue	<u>2,719,330</u>	<u>31,687</u>		<u>2,751,017</u>
Net assets released from restrictions	<u>72,966,607</u>	<u>(72,966,607)</u>		<u>0</u>
Total operating support and revenue	<u>93,420,620</u>	<u>4,662,186</u>		<u>98,082,806</u>
<b>Operating expenses:</b>				
Program services:				
Scientific research, economic analysis, and policy development:				
Climate and Energy	32,085,664			32,085,664
Oceans	21,359,200			21,359,200
Ecosystems	12,496,084			12,496,084
Health	4,769,113			4,769,113
Education	3,502,874			3,502,874
Membership activities	<u>466,809</u>			<u>466,809</u>
Total program services	<u>74,679,744</u>			<u>74,679,744</u>
Supporting services:				
Management and general	7,031,124			7,031,124
New member acquisition	615,191			615,191
Fund-raising:				
Membership	2,644,636			2,644,636
Development	<u>8,149,267</u>			<u>8,149,267</u>
Total supporting services	<u>18,440,218</u>			<u>18,440,218</u>
Total operating expenses	<u>93,119,962</u>			<u>93,119,962</u>
Change in net assets from operations	300,658	4,662,186		4,962,844
<b>Change in net assets from non-operating activities:</b>				
Other expenses, net of contributions and other income	(64,163)	246,965		182,802
Investment results, net of allocation to operations	<u>(2,167,098)</u>	<u>(1,218,312)</u>		<u>(3,385,410)</u>
<b>Change in net assets</b>	<b>(1,930,603)</b>	<b>3,690,839</b>		<b>1,760,236</b>
Net assets - beginning of year	<u>41,164,021</u>	<u>95,468,303</u>	<u>\$ 3,736,498</u>	<u>140,368,822</u>
<b>Net assets - end of year</b>	<b><u>\$ 39,233,418</u></b>	<b><u>\$ 99,159,142</u></b>	<b><u>\$ 3,736,498</u></b>	<b><u>\$ 142,129,058</u></b>

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

**Consolidating Statement of Activities**  
**Year Ended September 30, 2012**  
(with summarized financial information for 2011)

	EDF	EDAF	CFF	Eliminations	Total	Year Ended September 30, 2011
<b>Operating support and revenue:</b>						
Support:						
Contributions and membership	\$ 74,602,496	\$ 2,847,789			\$ 77,450,285	\$ 42,129,564
Foundations	30,106,813	622,000	\$ 160,000	\$ (782,000)	30,106,813	48,877,392
Government and other grants	3,393,352	25			3,393,377	2,357,392
Bequests and other planned giving	1,949,112				1,949,112	1,967,441
Total support	<u>110,051,773</u>	<u>3,469,814</u>	<u>160,000</u>	<u>(782,000)</u>	<u>112,899,587</u>	<u>95,331,789</u>
Revenue:						
Investment income allocated for operations	2,226,618				2,226,618	1,916,546
Fees, royalties and other income	1,229,974	3,045	118,622		1,351,641	834,471
Total revenue	<u>3,456,592</u>	<u>3,045</u>	<u>118,622</u>		<u>3,578,259</u>	<u>2,751,017</u>
Total operating support and revenue	<u>113,508,365</u>	<u>3,472,859</u>	<u>278,622</u>	<u>(782,000)</u>	<u>116,477,846</u>	<u>98,082,806</u>
<b>Operating expenses:</b>						
Salaries and wages	36,717,752	754,057	126,084		37,597,893	33,697,843
Benefits and other employment costs	9,526,395	208,439	33,334		9,768,168	8,394,428
Professional and consulting fees	22,253,845	1,586,359	70,257		23,910,461	17,688,702
Travel	4,383,105	4,605	5,342		4,393,052	4,135,533
Printing	437,041	1,646	122		438,809	473,866
Postage and delivery	227,611	1,229	4		228,844	309,848
Occupancy	5,627,203	71,611	14,634		5,713,448	4,796,650
Telecommunications	1,004,284	14,466	506		1,019,256	1,097,975
Data management	518,975	40,362			559,337	951,633
Office supplies and equipment	641,644	16,093	603		658,340	683,512
Meetings and events	2,518,372	92,799	100		2,611,271	1,822,414
Subscriptions and dues	818,693	50	177		818,920	420,181
Advertising and promotions	2,715,367	141,578			2,856,945	1,608,274
Grants to others	8,242,309	322,080		(782,000)	7,782,389	9,852,268
Direct marketing	4,664,046	385,676			5,049,722	4,937,705
Other	251,213	259,801			511,014	762,852
	<u>100,547,855</u>	<u>3,900,851</u>	<u>251,163</u>	<u>(782,000)</u>	<u>103,917,869</u>	<u>91,633,684</u>
Depreciation and amortization	1,483,589				1,483,589	1,486,278
Total operating expenses	<u>102,031,444</u>	<u>3,900,851</u>	<u>251,163</u>	<u>(782,000)</u>	<u>105,401,458</u>	<u>93,119,962</u>
Change in net assets from operations	11,476,921	(427,992)	27,459	0	11,076,388	4,962,844
<b>Change in net assets from non-operating activities:</b>						
Other expenses, net of contributions and other income	(521,828)				(521,828)	182,802
Investment results, net of allocation to operations	3,879,971	20,918			3,900,889	(3,385,410)
<b>Change in net assets</b>	<u>14,835,064</u>	<u>(407,074)</u>	<u>27,459</u>	<u>0</u>	<u>14,455,449</u>	<u>1,760,236</u>
Net assets - beginning of year	137,034,172	5,171,533	(76,647)	0	142,129,058	140,368,822
<b>Net assets - end of year</b>	<u>\$ 151,869,236</u>	<u>\$ 4,764,459</u>	<u>\$ (49,188)</u>	<u>\$ 0</u>	<u>\$ 156,584,507</u>	<u>\$ 142,129,058</u>

See notes to consolidated and consolidating financial statements



# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

## Consolidating Statement of Activities Year Ended September 30, 2011

	<u>EDF</u>	<u>EDAF</u>	<u>CFF</u>	<u>Eliminations</u>	<u>Total</u>
<b>Operating support and revenue:</b>					
Support:					
Contributions and membership	\$ 40,886,856	\$ 1,242,708			\$ 42,129,564
Foundations	48,877,392	600,000	\$ 50,000	\$ (650,000)	48,877,392
Government and other grants	2,357,192	200			2,357,392
Bequests and other planned giving	<u>1,955,238</u>	<u>12,203</u>			<u>1,967,441</u>
Total support	<u>94,076,678</u>	<u>1,855,111</u>	<u>50,000</u>	<u>(650,000)</u>	<u>95,331,789</u>
Revenue:					
Investment income allocated for operations	1,916,546				1,916,546
Fees, royalties and other income	<u>586,154</u>		<u>248,317</u>		<u>834,471</u>
Total revenue	<u>2,502,700</u>	<u>0</u>	<u>248,317</u>		<u>2,751,017</u>
Total operating support and revenue	<u>96,579,378</u>	<u>1,855,111</u>	<u>298,317</u>	<u>(650,000)</u>	<u>98,082,806</u>
<b>Operating expenses:</b>					
Salaries and wages	32,940,889	635,096	121,858		33,697,843
Benefits and other employment costs	8,187,212	175,096	32,120		8,394,428
Professional and consulting fees	16,455,481	1,111,064	122,157		17,688,702
Travel	4,101,481	27,521	6,531		4,135,533
Printing	472,776	1,090			473,866
Postage and delivery	305,327	4,521			309,848
Occupancy	4,723,408	59,276	13,966		4,796,650
Telecommunications	1,079,691	16,182	2,102		1,097,975
Data management	907,005	44,628			951,633
Office supplies and equipment	667,106	15,896	510		683,512
Meetings and events	1,674,233	148,181			1,822,414
Subscriptions and dues	419,857	40	284		420,181
Advertising and promotions	1,206,985	401,289			1,608,274
Grants to others	8,826,110	1,676,158		(650,000)	9,852,268
Direct marketing	4,721,858	215,847			4,937,705
Other	<u>364,658</u>	<u>291,808</u>	<u>106,386</u>		<u>762,852</u>
Depreciation and amortization	87,054,077	4,823,693	405,914	(650,000)	91,633,684
	<u>1,486,278</u>				<u>1,486,278</u>
Total operating expenses	<u>88,540,355</u>	<u>4,823,693</u>	<u>405,914</u>	<u>(650,000)</u>	<u>93,119,962</u>
Change in net assets from operations	8,039,023	(2,968,582)	(107,597)	0	4,962,844
<b>Change in net assets from non-operating activities:</b>					
Other expenses, net of contributions and other income	182,802				182,802
Investment results, net of allocation to operations	<u>(3,385,318)</u>	<u>(92)</u>			<u>(3,385,410)</u>
<b>Change in net assets</b>	4,836,507	(2,968,674)	(107,597)	0	1,760,236
Net assets - beginning of year	<u>132,197,665</u>	<u>8,140,207</u>	<u>30,950</u>	<u>0</u>	<u>140,368,822</u>
<b>Net assets - end of year</b>	<u>\$ 137,034,172</u>	<u>\$ 5,171,533</u>	<u>\$ (76,647)</u>	<u>\$ 0</u>	<u>\$ 142,129,058</u>

See notes to consolidated and consolidating financial statements

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Functional Expenses  
 Year Ended September 30, 2012  
 (with summarized financial information for 2011)

	Climate and Energy	Oceans	Ecosystems	Health	Education	Membership Activities	Total Program Services	Management and General	New Member Acquisition	Fund-raising		Total Supporting Membership	Total Program and Supporting Services	
										Membership	Development		2012	2011
Salaries and wages	\$ 13,030,349	\$ 6,780,756	\$ 6,325,414	\$ 2,315,153	\$ 991,657	\$ 258,095	\$ 29,701,424	\$ 2,459,086		\$ 741,860	\$ 4,695,523	\$ 7,896,469	\$ 37,597,893	\$ 33,697,843
Benefits and other							0							
employment costs	3,218,074	1,622,499	1,709,668	574,324	261,311	66,209	7,452,085	683,231		215,577	1,417,275	2,316,083	9,768,168	8,394,428
Professional and consulting fees	7,487,869	9,330,626	5,567,672	820,125	150,796	22,246	23,379,334	234,743	\$ 2,170	74,637	219,577	531,127	23,910,461	17,688,702
Travel	1,747,446	965,587	678,521	220,976	55,961	14,107	3,682,598	95,773		36,414	578,267	710,454	4,393,052	4,135,533
Printing	143,712	77,020	55,289	16,900	84,761	380	378,062	743		549	59,455	60,747	438,809	473,866
Postage and delivery	64,573	33,602	28,655	10,933	45,370	3,752	186,885	16,558	3	5,682	19,716	41,959	228,844	309,848
Occupancy	458,525	538,891	455,472	448,881	444,865		2,346,634	2,455,566		455,570	455,678	3,366,814	5,713,448	4,796,650
Telecommunications	196,517	153,412	116,495	45,697	38,159	31,649	581,929	222,482		94,753	120,092	437,327	1,019,256	1,097,975
Data management	246,295	33,125	49,632	35,817	93,757	8,563	467,189	29,655	29,236	19,215	14,042	92,148	559,337	951,633
Office supplies and equipment	75,472	62,872	49,003	32,547	34,814	1,472	256,180	212,676		81,090	108,394	402,160	658,340	683,512
Meetings and events	230,293	1,260,949	243,933	51,840	32,770	5,524	1,825,309	18,002		10,937	757,023	785,962	2,611,271	1,822,414
Subscriptions and dues	275,293	146,651	87,470	50,419	30,524	819	591,176	100,429	600	42,849	83,866	227,744	818,920	420,181
Advertising and promotions	2,407,276	130,449	53,161	231,407	33,110	500	2,855,903	583		227	232	1,042	2,856,945	1,608,274
Grants to others	5,245,249	1,759,801	504,289	234,219	36,338	151	7,780,047	1,610		240	492	2,342	7,782,389	9,852,268
Direct marketing	2,251,071	1,154	262,336	3,131	1,356,620	257,960	4,132,272	8,044	581,487	266,610	61,309	917,450	5,049,722	4,937,705
Other	54,800	79,127	7,394	2,124	62,011	10,174	215,630	114,878	2,540	91,965	86,001	295,384	511,014	762,852
	37,132,814	22,976,521	16,194,404	5,094,493	3,752,824	681,601	85,832,657	6,654,059	616,036	2,138,175	8,676,942	18,085,212	103,917,869	91,633,684
Depreciation and amortization	82,763	72,209	82,384	66,838	72,209		376,403	589,972	0	258,228	258,986	1,107,186	1,483,589	1,486,278
	<u>\$ 37,215,577</u>	<u>\$ 23,048,730</u>	<u>\$ 16,276,788</u>	<u>\$ 5,161,331</u>	<u>\$ 3,825,033</u>	<u>\$ 681,601</u>	<u>\$ 86,209,060</u>	<u>\$ 7,244,031</u>	<u>\$ 616,036</u>	<u>\$ 2,396,403</u>	<u>\$ 8,935,928</u>	<u>\$ 19,192,398</u>	<u>\$ 105,401,458</u>	<u>\$ 93,119,962</u>

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Functional Expenses  
Year Ended September 30, 2011

	Climate and Energy	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		
Salaries and wages	\$ 12,360,161	\$ 5,627,420	\$ 5,106,383	\$ 1,664,064	\$ 880,901	\$ 147,760	\$ 25,786,689	\$ 2,423,160		\$ 780,484	\$ 4,707,510	\$ 7,911,154	\$ 33,697,843
Benefits and other employment costs	2,955,901	1,335,442	1,251,326	408,653	226,112	48,597	6,226,031	633,523		220,987	1,313,887	2,168,397	8,394,428
Professional and consulting fees	5,046,848	7,532,838	3,737,389	527,639	322,287	14,763	17,181,764	247,611	\$ 5,811	85,077	168,439	506,938	17,688,702
Travel	1,600,604	1,046,840	572,953	179,528	65,992	9,468	3,475,385	99,368		46,034	514,746	660,148	4,135,533
Printing	170,888	91,098	55,121	21,427	92,359		430,893	799	37	111	42,026	42,973	473,866
Postage and delivery	80,590	50,349	30,959	15,203	55,168	3,995	236,264	31,003	1,378	15,650	25,553	73,584	309,848
Occupancy	386,910	452,235	379,804	377,656	375,500		1,972,105	2,066,348		378,385	379,812	2,824,545	4,796,650
Telecommunications	210,634	167,494	103,573	45,796	44,543	26,547	598,587	242,327		122,324	134,737	499,388	1,097,975
Data management	197,115	62,437	68,838	72,473	71,677	43,636	516,176	211,584	16,182	126,851	80,840	435,457	951,633
Office supplies and equipment	66,709	62,625	54,206	32,926	35,350	3,858	255,674	230,791		89,077	107,970	427,838	683,512
Meetings and events	237,735	1,019,279	169,963	76,044	46,632	1,707	1,551,360	26,717		14,415	229,922	271,054	1,822,414
Subscriptions and dues	167,788	60,955	60,446	38,745	16,642	714	345,290	17,830		5,685	51,376	74,891	420,181
Advertising and promotions	1,264,902	104,663	57,366	138,497	40,803		1,606,231	1,314		227	502	2,043	1,608,274
Grants to others	5,569,870	3,124,038	699,759	348,686	3,926	34	9,746,313	102,007		1,208	2,740	105,955	9,852,268
Direct marketing	1,476,648	400,763	31,692	696,629	1,097,862	146,986	3,850,580	647	589,245	433,961	63,272	1,087,125	4,937,705
Other	198,132	134,762	25,405	43,888	41,158	18,744	462,089	111,366	2,538	95,557	91,302	300,763	762,852
	31,991,435	21,273,238	12,405,183	4,687,854	3,416,912	466,809	74,241,431	6,446,395	615,191	2,416,033	7,914,634	17,392,253	91,633,684
Depreciation and amortization	94,229	85,962	90,901	81,259	85,962		438,313	584,729		228,603	234,633	1,047,965	1,486,278
	<u>\$ 32,085,664</u>	<u>\$ 21,359,200</u>	<u>\$ 12,496,084</u>	<u>\$ 4,769,113</u>	<u>\$ 3,502,874</u>	<u>\$ 466,809</u>	<u>\$ 74,679,744</u>	<u>\$ 7,031,124</u>	<u>\$ 615,191</u>	<u>\$ 2,644,636</u>	<u>\$ 8,149,267</u>	<u>\$ 18,440,218</u>	<u>\$ 93,119,962</u>

See notes to consolidated and consolidating financial statements

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

## Consolidated Statements of Cash Flows

	Year Ended September 30,	
	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 14,455,449	\$ 1,760,236
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Donated securities	(13,061,947)	(2,621,432)
Net realized and unrealized (gain) loss on investments	(4,987,555)	2,500,680
Depreciation and amortization	1,483,589	1,486,278
Changes in:		
Prepaid expenses and other assets	(376,184)	(422,711)
Inventory	(23,173)	25,883
Pledges receivable	(3,901,845)	(11,145,976)
Donor-advised fund investments	(101,430)	(236,143)
California Fisheries loans	109,135	(451,891)
Accounts payable and accrued expenses	1,845,597	(1,776,864)
Deferred revenue	(7,265)	(7,254)
Deferred rent payable	860,202	(128,841)
Annuities payable	280,219	843,623
California Fisheries grants payable		(150,794)
Other liabilities	<u>477,330</u>	<u>(243,575)</u>
Net cash used in operating activities	<u>(2,947,848)</u>	<u>(10,568,781)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(1,763,695)	(1,611,527)
Proceeds from sales of investments	29,213,211	29,208,448
Purchases of investments	(26,099,976)	(20,688,073)
Other investing activities, net	<u>58,455</u>	<u>122,052</u>
Net cash provided by investing activities	<u>1,407,995</u>	<u>7,030,900</u>
<b>Cash flows from financing activities:</b>		
Net contributions and payments subject to split-interest agreements	262,980	(729,063)
Proceeds from issuance of notes	2,100,000	
Repayment of notes	<u>(551,254)</u>	<u>(575,004)</u>
Net cash provided by (used in) financing activities	<u>1,811,726</u>	<u>(1,304,067)</u>
<b>Net change in cash and cash equivalents</b>	<b>271,843</b>	<b>(4,841,948)</b>
Cash and cash equivalents at beginning of year	<u>2,697,253</u>	<u>7,539,201</u>
<b>Cash and cash equivalents at end of year</b>	<b><u>\$ 2,969,096</u></b>	<b><u>\$ 2,697,253</u></b>
<b>Supplementary disclosure of cash flow information:</b>		
Interest paid	<u>\$ 122,169</u>	<u>\$ 117,518</u>

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

## Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011

### 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 Environmental Defense Fund, Incorporated ("EDF") and its wholly controlled entities, the Environmental Defense Action Fund ("EDAF") and the California Fisheries Fund, Inc. ("CFF") (together, the "Organization"), as of and for the fiscal years ended September 30, 2012 and 2011.

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 (the "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 the Environmental Defense Fund de Mexico, A.C. ("EDF Mexico"), a controlled foreign subsidiary the operations of which are located in La Paz, Mexico. The expenditures of EDF Mexico are included in these financial statements (see Note K[3]).

In fiscal-year 2010, the Action Fund established the Environmental Defense Action Fund Political Action Committee ("EDAF PAC") to facilitate political contributions by the Action Fund's members, officers and designated staff to help support candidate committees and other political committees that merit the support of the Action Fund and its members. Maintaining the Action Fund's reputation for objective, bipartisan advocacy, EDAF PAC was established to support equal numbers of, and raise comparable total amounts for, Republicans and Democrats through the 2010 elections and for the next election cycle through 2012. Since EDAF PAC is not a separate legal entity, its assets and liabilities, which were immaterial at September 30, 2012 and 2011, are included in these financial statements as part of the Action Fund (see Note K[4]).

The five entities that comprise the Organization, as described above, 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.

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011

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

##### [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.

(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 consolidated 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 the consolidated and consolidating financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The Organization makes reasonable 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 for general purposes to be used for the ongoing activity and working capital needs of the Organization.

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources that are subject to the requirements of New York Prudent Management Institution Fund Act ("NYPMIFA") and the use of which has been restricted by donors to specific purposes, the release of which results from either the satisfaction of the restricted purposes specified by the donors or from the passage of time, or, by appropriations by the Board of Trustees.

(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. Under the terms of NYPMIFA, those earnings will initially be classified as temporarily restricted in the accompanying consolidated and consolidating statements of activities, pending appropriation by the Board of Trustees.

## **ENVIRONMENTAL DEFENSE FUND, INCORPORATED**

### **Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011**

#### **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.

(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 annual amount appropriated for expenditure from donor-restricted endowment assets and assets designated for long-term investment.

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] Cash and cash equivalents:**

For financial reporting purposes, the Organization considers all highly liquid instruments purchased with an original maturity of three months or less to be cash and cash equivalents.

##### **[4] 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.

##### **[5] 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.

##### **[6] Fair-value measurement:**

In accordance with the provisions of the Financial Accounting Standards Codification ("ASC") Topic 820-10-05, the Organization reports a fair-value measurement of all applicable financial assets and liabilities, including investments, inventory, pledges, receivables, deferred revenue and short-term and long-term notes payable.

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011

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

##### [7] 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, and equity securities 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.

##### [8] Valuation allowances:

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

##### [9] Pledges receivable:

Pledges receivable are reported at their net realizable values.

##### [10] 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 an entity 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 accompanying consolidated and consolidating statements of activities.

##### [11] 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 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.



## **ENVIRONMENTAL DEFENSE FUND, INCORPORATED**

### **Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011**

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

##### **[12] Split-interest agreements: (continued)**

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.

##### **[13] 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, 2012 and 2011, accrued vacation obligations were approximately \$2,377,000 and \$1,973,000, respectively.

##### **[14] 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.

##### **[15] 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.

##### **[16] 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.

##### **[17] Income taxes:**

The Organization is subject to the provisions of ASC Topic 740-10-05, relating to accounting and reporting for uncertainty in income taxes. Because of the Organization's general tax-exempt status, ASC Topic 740-10-05 has not had, and is not expected to have, a material impact on the Organization's consolidated and consolidating financial statements.

##### **[18] Endowment funds:**

The Organization is subject to the provisions of ASC Topic 958, which provides guidance on the net asset classification of donor-restricted and board-designated endowment funds for a not-for-profit organization. ASC Topic 958 also requires additional disclosures about endowments for all not-for-profit organizations (see Note M).

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011

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

##### [19] Subsequent events:

The Organization considers the accounting treatment, and the related disclosures in the current fiscal year's consolidated and consolidating 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.

##### [20] Reclassifications:

Certain amounts in the accompanying consolidated and consolidating financial statements have been reclassified 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 fiscal year-end, pledges receivable are estimated to be collected as follows:

	<b>September 30,</b>	
	<b>2012</b>	<b>2011</b>
In one year or less	<b>\$ 53,784,762</b>	\$ 44,673,262
Between one and two years	<b>28,793,846</b>	25,235,020
Between two and three years	<b>8,190,132</b>	18,974,687
Between three and four years	<b>2,580,000</b>	647,850
Four years and thereafter	<b>133,046</b>	300,000
Gross pledges receivable	<b>93,481,786</b>	89,830,819
Less present value discount (calculated at rates ranging from 0.3% to 2.1%) and allowance for uncollectible pledges	<b>(541,460)</b>	(792,338)
Net pledges receivable	<b><u>\$ 92,940,326</u></b>	<b><u>\$ 89,038,481</u></b>

While the Organization has an excellent record of collecting pledges receivable, management has provided a valuation allowance of \$390,468 and \$606,162 for uncollectible pledges as of September 30, 2012 and 2011, respectively.

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011

#### NOTE C - PROPERTY AND EQUIPMENT

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

	September 30,	
	2012	2011
Furniture and equipment	\$ 4,031,618	\$ 3,303,280
Computer equipment	2,286,296	2,057,813
Leasehold improvements	5,819,206	4,635,269
Building	393,319	393,319
Software development	<u>1,160,612</u>	<u>1,136,144</u>
	13,691,051	11,525,825
Less accumulated depreciation and amortization	<u>(9,034,875)</u>	<u>(7,551,286)</u>
	4,656,176	3,974,539
Construction-in-progress	<u>142,609</u>	<u>544,140</u>
	<u>\$ 4,798,785</u>	<u>\$ 4,518,679</u>

Depreciation and amortization expense was \$1,483,589 and \$1,486,278 for the fiscal-years 2012 and 2011, respectively.

During fiscal-year 2011, the Organization wrote off \$8,897,348 of fully depreciated property and equipment.

#### NOTE D - INVESTMENTS

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

	September 30,			
	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Alternative investments	\$ 9,919,645	\$ 14,437,481	\$ 7,773,257	\$ 11,434,526
Mutual and exchange-traded funds	30,377,349	33,611,962	30,678,367	29,753,109
Money-market accounts	944,371	944,371	2,036,318	2,036,318
Other investments - subject to split-interest agreements	<u>6,606,120</u>	<u>7,386,338</u>	<u>6,769,657</u>	<u>6,955,790</u>
	<u>\$ 47,847,485</u>	<u>\$ 56,380,152</u>	<u>\$ 47,257,599</u>	<u>\$ 50,179,743</u>

As portrayed above, concentrations of the Organization's investments in excess of 10% of the fair values of its portfolio included approximately (i) 60% invested in mutual and exchange-traded funds, (ii) 26% invested in alternative investments, and (iii) 13% invested in assets subject to split-interest agreements.

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011

#### NOTE D - INVESTMENTS (CONTINUED)

The following tables summarize investment return by net-asset classification:

	September 30,					
	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Dividends and interest	\$ 959,174	\$ 180,778	\$ 1,139,952	\$ 945,753	\$ 86,063	\$ 1,031,816
Realized and unrealized gains (losses), net	<u>4,352,840</u>	<u>634,715</u>	<u>4,987,555</u>	<u>(1,227,992)</u>	<u>(1,272,688)</u>	<u>(2,500,680)</u>
Net return on investments	5,312,014	815,493	6,127,507	(282,239)	(1,186,625)	(1,468,864)
Investment return allocated for operations	<u>(2,197,771)</u>	<u>(28,847)</u>	<u>(2,226,618)</u>	<u>(1,884,859)</u>	<u>(31,687)</u>	<u>(1,916,546)</u>
Investment results, net of allocation to operations	<u>\$ 3,114,243</u>	<u>\$ 786,646</u>	<u>\$ 3,900,889</u>	<u>\$ (2,167,098)</u>	<u>\$ (1,218,312)</u>	<u>\$ (3,385,410)</u>

ASC Topic 820-10-05 also establishes a three-level valuation hierarchy for fair-value measurements. 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 inputs create the following fair-value hierarchy:

- Level 1 Valuations are based on observable inputs that reflect quoted market prices in active markets for identical assets and liabilities at the reporting date.
- Level 2 Valuations are based on (i) quoted prices for similar assets or liabilities in active markets, or (ii) quoted prices for identical or similar assets or liabilities in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date. Level 2 assets include those securities that are redeemable at or near the balance sheet date and for which a model was derived for valuation.
- Level 3 Fair value is determined based on pricing inputs that are unobservable and includes situations where there is little, if any, market activity for the asset or liability, or (ii) the underlying investments of which cannot be independently valued, or (iii) they cannot be immediately redeemed at or near the fiscal year-end.

Most investments classified in Level 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net-asset value reported by each fund is used as a practical expedient to estimate fair value of the Organization's interest therein, its classification in Level 3 is based on the Organization's ability to redeem its interest at or near September 30, 2012. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification of investments in the fair-value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011

#### NOTE D - INVESTMENTS (CONTINUED)

The following tables summarize the fair values of the Organization's assets at each fiscal year-end, in accordance with the ASC Topic 820-10-05 valuation levels:

	September 30, 2012			Total
	Level 1	Level 2	Level 3	
Temporary investments for future periods	\$ 14,968,479			\$ 14,968,479
Investments:				
Alternative investments			\$ 14,437,481	14,437,481
Mutual and exchange-traded funds	33,611,962			33,611,962
Money-market accounts	944,371			944,371
Other investments - subject to split-interest agreements	<u>1,310,360</u>	<u>\$ 6,075,978</u>		<u>7,386,338</u>
Total investments	50,835,172	6,075,978	14,437,481	71,348,631
Donor-advised fund investments	<u>346,869</u>		<u>383,642</u>	<u>730,511</u>
Total	<u>\$ 51,182,041</u>	<u>\$ 6,075,978</u>	<u>\$ 14,821,123</u>	<u>\$ 72,079,142</u>

	September 30, 2011			Total
	Level 1	Level 2	Level 3	
Temporary investments for future periods	\$ 5,959,140			\$ 5,959,140
Investments:				
Alternative investments			\$ 11,434,526	11,434,526
Mutual and exchange-traded funds	29,753,109			29,753,109
Money-market accounts	2,036,318			2,036,318
Other investments - subject to split-interest agreements	<u>1,526,484</u>	<u>\$ 5,429,306</u>		<u>6,955,790</u>
Total investments	39,275,051	5,429,306	11,434,526	56,138,883
Donor-advised fund investments	<u>250,341</u>		<u>1,000,868</u>	<u>1,251,209</u>
Total	<u>\$ 39,525,392</u>	<u>\$ 5,429,306</u>	<u>\$ 12,435,394</u>	<u>\$ 57,390,092</u>

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011

#### NOTE D - INVESTMENTS (CONTINUED)

The tables below summarize the changes in investments measured at fair value for which the Organization used Level 3 inputs to determine fair value during fiscal-years 2012 and 2011:

	<b>September 30, 2012</b>		
	<b>Fair-Value Measurements Using Level 3 Inputs</b>		
	<b>Alternative investments</b>	<b>Donor-Advised Fund Assets</b>	<b>Total</b>
Balance - October 1, 2011:	\$ 11,434,526	\$ 1,000,868	\$ 12,435,394
Current-year contributions	2,200,000	250	2,200,250
Current-year distributions	(53,612)	(500)	(54,112)
Net investment gains (losses)	<u>856,567</u>	<u>(616,976)</u>	<u>239,591</u>
Balance - September 30, 2012	<u>\$ 14,437,481</u>	<u>\$ 383,642</u>	<u>\$ 14,821,123</u>

	<b>September 30, 2011</b>		
	<b>Fair-Value Measurements Using Level 3 Inputs</b>		
	<b>Alternative investments</b>	<b>Donor-Advised Fund Assets</b>	<b>Total</b>
Balance - October 1, 2010:	\$ 14,383,742	\$ 2,393,380	\$ 16,777,122
Current-year contributions	240,000	500	240,500
Current-year distributions	(4,076,247)		(4,076,247)
Net investment gains (losses)	<u>887,031</u>	<u>(1,393,012)</u>	<u>(505,981)</u>
Balance - September 30, 2011	<u>\$ 11,434,526</u>	<u>\$ 1,000,868</u>	<u>\$ 12,435,394</u>

The following table lists investments in private investment companies by major category:

	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Private Equity Funds	\$ 43,469		Quarterly	90 days
Venture Capital Funds	653,813	\$ 370,000	N/A	N/A
Fund of Funds	4,058,941		Quarterly	90 days
Fund of Funds	214,183		Redeemed in current year	
Fund of Funds	9,467,075		Annually	90 days
Private Equity	<u>383,642</u>		N/A	N/A
	<u>\$ 14,821,123</u>			

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

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011

#### 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 \$256,336 and \$437,066 during fiscal-years ending 2012 and 2011, respectively. The balance in the DAF is primarily attributable to a donation of an interest in a limited partnership from two donors in fiscal-year 2009. 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 \$207,623 and \$203,005 during fiscal-years 2012 and 2011, respectively, of which \$85,000 and \$110,000 was made to the Organization in fiscal-year 2012 and 2011, respectively. The aggregate value of investment assets held in the DAF was \$730,511 and \$1,251,209 at September 30, 2012 and 2011, respectively.

#### NOTE F - NOTES PAYABLE AND INTEREST-RATE SWAPS

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

	<u>September 30,</u>	
	<u>2012</u>	<u>2011</u>
Promissory note from donor, payable on demand	\$ 100,000	\$ 100,000
Promissory note terminating 2012, at LIBOR + 1.5%		131,250
Promissory note terminating 2013, at LIBOR + 1.5%	116,649	316,653
Promissory note terminating 2018, at LIBOR + 1.5%	837,500	987,500
Promissory note terminating 2019, at 4.21%	<u>2,030,000</u>	<u>                    </u>
	3,084,149	1,535,403
Fair-value adjustment	<u>(23,831)</u>	<u>(45,550)</u>
	<u>\$ 3,060,318</u>	<u>\$ 1,489,853</u>

#### 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 and consolidating 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 was 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 was 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. In fiscal-year 2012, the Organization entered into a new \$2,100,000 loan agreement with the same bank to be repaid in monthly installments of \$17,500, plus interest at 4.21%, terminating in fiscal-year 2019.

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011

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

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.

At September 30, 2012, 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, 2012 or 2011 under this line of credit.

At September 30, 2012, 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 \$954,149 and \$1,435,403 at September 30, 2012 and 2011, 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 agreement was (\$23,831) and (\$45,550) at September 30, 2012 and 2011, respectively, which represents the cost that the Organization would have to pay to terminate the interest-rate swap agreement.

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, 2012, excluding the \$100,000 note payable on demand, are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2013	\$ 476,649
2014	360,000
2015	360,000
2016	360,000
2017	360,000
2018 and thereafter	<u>1,067,500</u>
Total	<u>\$ 2,984,149</u>

Interest expense on debt borrowings, as well as on interest-rate swap agreements, was \$122,651 and \$119,845 in fiscal-years 2012 and 2011, respectively.



## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011

#### NOTE G - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>September 30,</u>	
	<u>2012</u>	<u>2011</u>
Restricted by purpose:		
Climate and Energy	\$ 23,527,489	\$ 3,552,374
Oceans	25,894,280	37,161,417
Ecosystems	21,438,029	22,460,575
Health	6,978,420	3,072,752
Education	<u>4,171,183</u>	<u>5,235,921</u>
	82,009,401	71,483,039
Restricted by time	<u>28,518,844</u>	<u>27,676,103</u>
	<u>\$ 110,528,245</u>	<u>\$ 99,159,142</u>

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

	<u>Year Ended September 30,</u>	
	<u>2012</u>	<u>2011</u>
Climate and Energy	\$ 38,770,359	\$ 32,343,788
Oceans	23,943,477	21,957,860
Ecosystems	18,139,799	13,458,521
Health	4,807,603	3,765,072
Education	<u>473,877</u>	<u>617,729</u>
	86,135,115	72,142,970
Time restrictions satisfied	<u>498,502</u>	<u>823,637</u>
	<u>\$ 86,633,617</u>	<u>\$ 72,966,607</u>

#### 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 2012 and 2011, respectively, was approximately \$1,871,055 and \$1,603,000.

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, 2012 and 2011, respectively, the asset value of this plan was approximately \$1,801,000 and \$1,347,000.

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 2012 and 2011, respectively, was \$57,649 and \$66,740, with a like

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011

#### NOTE H - EMPLOYEE RETIREMENT PLANS (CONTINUED)

amount recorded as a liability. During fiscal-year 2012, the Organization contributed \$50,000 to the plan and made no payments out of the plan. During fiscal-year 2011, the Organization contributed \$25,270 to the plan and made payments of \$147,500. The Organization has fully funded the plan for awards to date. At September 30, 2012 and 2011, respectively, the asset value of the plan was approximately \$387,615 and \$303,100. 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 2012 and 2011, 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,	
	2012	2011
Climate and Energy	\$ 2,743,832	\$ 2,143,506
Oceans		66,515
Ecosystems	39,840	121,598
Health	4,427	53,544
Education	1,535,609	2,314,837
Membership activities	611,504	404,876
New member acquisition	616,036	589,866
Membership - fund-raising	795,889	1,182,335
	<u>\$ 6,347,137</u>	<u>\$ 6,877,077</u>

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 accounting principles generally accepted in the United States of America 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 both interest-bearing and noninterest-bearing accounts. There are currently no insurance limits on balances held in noninterest-bearing accounts. 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.

## **ENVIRONMENTAL DEFENSE FUND, INCORPORATED**

### **Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011**

#### **NOTE K - WHOLLY CONTROLLED ENTITY TRANSACTIONS**

##### **[1] Environmental Defense Action Fund:**

The Action Fund reported support and revenue of \$3,472,859 and \$1,855,111 in fiscal-years 2012 and 2011, respectively, which included grants of \$622,000 and \$600,000, respectively, from EDF, representing a portion of the grass-roots lobbying and the direct lobbying allowances permitted EDF as a 501(c)(3) organization.

The Action Fund recorded expenses of \$3,900,851 and \$4,823,693 in fiscal-years 2012 and 2011, 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 unrestricted and temporarily restricted net assets in the accompanying consolidated and consolidating financial statements.

The Action Fund includes among its assets an intercompany receivable in the amount of \$4,287,724 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.:**

Grants of \$5,000,000 were awarded in fiscal-year 2008 to EDF in support of California Fisheries' mission. Originally, EDF managed the grants as pass-through grants to California Fisheries, which were used to fund its operations and to establish a revolving loan fund ("Loan Fund"). The Loan Fund was established with an initial amount of \$4,550,000 to provide for loans intended to improve and reform the conservation and financial performance of California's marine fisheries. Loan principal of \$735,246 was returned to funders during fiscal-year 2010, resulting in a Loan Fund balance of \$3,814,754 as of September 30, 2010. An additional \$150,794 was utilized for programs in fiscal-year 2011, resulting in a Loan Fund balance of \$3,663,960 at both September 30, 2011 and 2012.

California Fisheries recorded revenue and support of \$278,622 and \$298,317 in fiscal-years 2012 and 2011, respectively. In addition, in fiscal-years 2012 and 2011, respectively, EDF awarded grants of \$160,000 and \$50,000 to California Fisheries to cover administrative costs.

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

EDF Mexico commenced operations in August 2009. Expenditures of \$1,402,604 and \$1,381,995 for fiscal-years 2012 and 2011, respectively, are included as part of EDF in the accompanying consolidated and consolidating financial statements.

##### **[4] Environmental Defense Action Fund Political Action Committee:**

EDAF PAC commenced operations in December 2009. Revenues of \$62,500 and \$2,055 and expenditures of \$12,202 and \$1,554 for fiscal-years 2012 and 2011, respectively, are included as part of the Action Fund in the accompanying consolidated and consolidating financial statements.

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011

#### NOTE L - COMMITMENTS AND CONTINGENCY

##### [1] Operating leases:

The Organization leases premises at 13 locations under operating leases that expire on various dates through September 2023.

The following is a schedule by year of future minimum rental payments that have initial or remaining non-cancelable lease terms in excess of one year as of September 30, 2012:

<u>Year Ending September 30,</u>	<u>Amount</u>
2013	\$ 4,991,617
2014	3,349,897
2015	3,246,498
2016	3,171,010
2017	2,803,233
Thereafter	<u>9,884,280</u>
	<u>\$ 27,446,535</u>

Rent expense included in operations for fiscal-years 2012 and 2011 was \$5,182,216 and \$4,468,284, 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, 2012 and 2011, 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.

##### [3] Litigation:

In the course of business, the Organization is from time to time subject to legal actions. As of September 30, 2012, the Organization was a defendant in a lawsuit for which an unfavorable outcome is remote and an estimate of loss cannot be determined. As such, no accrual for loss has been recorded. If, and when, an unfavorable outcome is probable and a reasonable estimate can be made, the Organization will include a loss in its consolidated and consolidating financial statements.

#### NOTE M - ENDOWMENT

##### [1] The endowment:

The Organization's permanent 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, 2012. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2012 and 2011

#### NOTE M - ENDOWMENT (CONTINUED)

##### [2] Interpretation of relevant law:

As discussed in Note A[2](d), NYPMIFA is applicable to the Organization's donor-restricted endowment funds.

Due to unfavorable market fluctuations, from time to time the fair value of assets associated with individual donor-restricted endowment funds may decline below the historical dollar value of the donor's original, permanently restricted contribution. Under the terms of NYPMIFA, the Organization has no responsibility to restore such decrease in value.

##### [3] 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. Under this policy, as approved by the Board of Trustees, the endowment assets are invested with a focus on earning market returns or better while assuming a moderate level of investment risk.

##### [4] Strategies employed for achieving objectives:

Assets comprising the endowment are invested in a single, diversified fund, such as an S&P 500 index fund, to achieve its long-term return objectives within prudent risk constraints.

##### [5] Spending policy and how the investment objectives relate to spending policy:

The Organization has a policy of annually appropriating for expenditure an amount of up to 5% of the average fair market value of the donor-restricted endowment, measured as of the last day of the calendar quarter for the twenty quarters immediately preceding the fiscal-year in which the appropriation for expenditure is approved. 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, as well as to provide additional real growth through new gifts and investment return.

##### [6] Endowment net-asset composition by type of fund:

	September 30, 2012		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 3,736,498	\$ 3,736,498
Accumulated earnings not yet appropriated for expenditure	\$ 1,854,278		1,854,278
Total funds	\$ 1,854,278	\$ 3,736,498	\$ 5,590,776

**ENVIRONMENTAL DEFENSE FUND, INCORPORATED**

**Notes to Consolidated and Consolidating Financial Statements  
September 30, 2012 and 2011**

**NOTE M - ENDOWMENT (CONTINUED)**

**[6] Endowment net asset composition by type of fund: (continued)**

	<b>September 30, 2011</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds		\$ 3,736,498	\$ 3,736,498
Accumulated earnings not yet appropriated for expenditure	\$ 755,557		755,557
Total funds	<u>\$ 755,557</u>	<u>\$ 3,736,498</u>	<u>\$ 4,492,055</u>

**[7] Changes in endowment net assets for the fiscal year:**

	<b>September 30, 2012</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net assets, beginning of year	\$ 755,557	\$ 3,736,498	\$ 4,492,055
Investment returns	1,350,821		1,350,821
Current-year appropriation for expenditure	<u>(252,100)</u>		<u>(252,100)</u>
Net assets, end of year	<u>\$ 1,854,278</u>	<u>\$ 3,736,498</u>	<u>\$ 5,590,776</u>

	<b>September 30, 2011</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net assets, beginning of year	\$ 796,604	\$ 3,736,498	\$ 4,533,102
Investment returns	212,740		212,740
Current-year appropriation for expenditure	<u>(253,787)</u>		<u>(253,787)</u>
Net assets, end of year	<u>\$ 755,557</u>	<u>\$ 3,736,498</u>	<u>\$ 4,492,055</u>