



**ENVIRONMENTAL DEFENSE FUND,
INCORPORATED**

CONSOLIDATED AND CONSOLIDATING FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 and 2012

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated and consolidating financial statements of the Environmental Defense Fund, Incorporated (the "Organization"), which comprise the consolidated and consolidating statements of financial position as of September 30, 2013 and 2012, and the related consolidated and consolidating statements of activities, consolidated statements of functional expenses, and consolidated statements of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

The Organization's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and consolidating financial statements referred to above present fairly, in all material respects, the financial position of the Environmental Defense Fund, Incorporated as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



New York, New York
December 2, 2013

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statements of Financial Position

	September 30,	
	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 3,705,221	\$ 2,969,096
Temporary investments for future periods	15,119,498	14,968,479
Prepaid expenses and other assets	3,570,328	3,854,989
Inventory	123,757	123,876
Pledges receivable, net	129,777,583	92,940,326
Property and equipment, net	4,963,273	4,798,785
California Fisheries loans, net of allowances of \$127,308 and \$120,791, respectively	721,411	700,721
Donor-advised fund investments	660,207	730,511
Investments	<u>54,353,555</u>	<u>56,380,152</u>
	<u>\$ 212,994,833</u>	<u>\$ 177,466,935</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 6,400,791	\$ 6,406,335
Deferred revenue and rent payable	1,274,933	931,076
Annuities payable	4,440,011	4,665,099
Notes payable	2,596,819	3,060,318
California Fisheries grants payable	3,613,960	3,663,960
Other liabilities	<u>2,536,521</u>	<u>2,155,640</u>
	<u>20,863,035</u>	<u>20,882,428</u>
Commitments and contingency (Note L)		
NET ASSETS		
Unrestricted:		
Available for operations	3,348,339	3,067,055
Designated for long-term investment	<u>41,122,013</u>	<u>39,252,709</u>
Total unrestricted	44,470,352	42,319,764
Temporarily restricted	143,924,948	110,528,245
Permanently restricted	<u>3,736,498</u>	<u>3,736,498</u>
Total net assets	<u>192,131,798</u>	<u>156,584,507</u>
	<u>\$ 212,994,833</u>	<u>\$ 177,466,935</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidating Statement of Financial Position September 30, 2013

(with summarized financial information for 2012)

	EDF	EDAF	CFF	Eliminations	September 30,	
					2013	2012
ASSETS						
Cash and cash equivalents	\$ 2,986,738	\$ 450,432	\$ 268,051		\$ 3,705,221	\$ 2,969,096
Temporary investments for future periods	12,381,508		2,737,990		15,119,498	14,968,479
Prepaid expenses and other assets	3,557,086	13,242			3,570,328	3,854,989
Inventory	123,757				123,757	123,876
Pledges receivable, net	129,662,583	115,000			129,777,583	92,940,326
Property and equipment, net	4,963,273				4,963,273	4,798,785
California Fisheries loans			721,411		721,411	700,721
Donor-advised fund investments	660,207				660,207	730,511
Investments	54,353,555				54,353,555	56,380,152
Intercompany receivable	62,500	5,133,491		\$ (5,195,991)	0	0
	<u>\$ 208,751,207</u>	<u>\$ 5,712,165</u>	<u>\$ 3,727,452</u>	<u>\$ (5,195,991)</u>	<u>\$ 212,994,833</u>	<u>\$ 177,466,935</u>
LIABILITIES						
Accounts payable and accrued expenses	\$ 6,068,093	\$ 313,199	\$ 19,499		\$ 6,400,791	\$ 6,406,335
Deferred revenue and rent payable	1,274,933				1,274,933	931,076
Annuities payable	4,440,011				4,440,011	4,665,099
Notes payable	2,596,819				2,596,819	3,060,318
California Fisheries grants payable			3,613,960		3,613,960	3,663,960
Other liabilities	2,536,521				2,536,521	2,155,640
Intercompany payable	5,133,491		62,500	\$ (5,195,991)	0	0
	<u>22,049,868</u>	<u>313,199</u>	<u>3,695,959</u>	<u>(5,195,991)</u>	<u>20,863,035</u>	<u>20,882,428</u>
NET ASSETS						
Unrestricted:						
Available for operations	3,071,246	245,600	31,493		3,348,339	3,067,055
Designated for long-term investment	41,122,013				41,122,013	39,252,709
Total unrestricted	44,193,259	245,600	31,493		44,470,352	42,319,764
Temporarily restricted	138,771,582	5,153,366			143,924,948	110,528,245
Permanently restricted	3,736,498				3,736,498	3,736,498
Total net assets	<u>186,701,339</u>	<u>5,398,966</u>	<u>31,493</u>		<u>192,131,798</u>	<u>156,584,507</u>
	<u>\$ 208,751,207</u>	<u>\$ 5,712,165</u>	<u>\$ 3,727,452</u>	<u>\$ (5,195,991)</u>	<u>\$ 212,994,833</u>	<u>\$ 177,466,935</u>

See notes to consolidated and consolidating financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidating Statement of Financial Position September 30, 2012

	<u>EDF</u>	<u>EDAF</u>	<u>CFF</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 2,174,288	\$ 540,071	\$ 254,737		\$ 2,969,096
Temporary investments for future periods	12,199,244		2,769,235		14,968,479
Prepaid expenses and other assets	3,842,741	11,586	662		3,854,989
Inventory	123,876				123,876
Pledges receivable, net	92,800,326	140,000			92,940,326
Property and equipment, net	4,798,785				4,798,785
California Fisheries loans			700,721		700,721
Donor-advised fund investments	730,511				730,511
Investments	56,380,152				56,380,152
Intercompany receivable	<u>89,384</u>	<u>4,287,724</u>		<u>\$ (4,377,108)</u>	<u>0</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>
LIABILITIES					
Accounts payable and accrued expenses	\$ 6,170,214	\$ 214,922	\$ 21,199		\$ 6,406,335
Deferred revenue rent payable	931,076				931,076
Annuities payable	4,665,099				4,665,099
Notes payable	3,060,318				3,060,318
California Fisheries grants payable			3,663,960		3,663,960
Other liabilities	2,155,640				2,155,640
Intercompany payable	<u>4,287,724</u>		<u>89,384</u>	<u>\$ (4,377,108)</u>	<u>0</u>
	<u>21,270,071</u>	<u>214,922</u>	<u>3,774,543</u>	<u>(4,377,108)</u>	<u>20,882,428</u>
NET ASSETS					
Unrestricted:					
Available for operations	2,870,579	245,664	(49,188)		3,067,055
Designated for long-term investment	<u>39,252,709</u>				<u>39,252,709</u>
Total unrestricted	42,123,288	245,664	(49,188)		42,319,764
Temporarily restricted	106,009,450	4,518,795			110,528,245
Permanently restricted	<u>3,736,498</u>				<u>3,736,498</u>
Total net assets	<u>151,869,236</u>	<u>4,764,459</u>	<u>(49,188)</u>		<u>156,584,507</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>

See notes to consolidated and consolidating financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Activities
Year Ended September 30, 2013
(with summarized financial information for 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Year Ended September 30, 2012</u>
Operating support and revenue:					
Support:					
Contributions and membership	\$ 13,600,433	\$ 39,650,932		\$ 53,251,365	\$ 77,450,285
Foundations	241,150	89,876,952		90,118,102	30,106,813
Government and other grants	1,293,446	2,641,093		3,934,539	3,393,377
Bequests and other planned giving	<u>3,051,424</u>	<u>174,968</u>		<u>3,226,392</u>	<u>1,949,112</u>
Total support	<u>18,186,453</u>	<u>132,343,945</u>		<u>150,530,398</u>	<u>112,899,587</u>
Revenue:					
Investment income allocated for operations	2,035,900	247,494		2,283,394	2,226,618
Fees, royalties and other income	<u>736,037</u>	<u>0</u>		<u>736,037</u>	<u>1,351,641</u>
Total revenue	<u>2,771,937</u>	<u>247,494</u>		<u>3,019,431</u>	<u>3,578,259</u>
Net assets released from restrictions	<u>99,820,590</u>	<u>(99,820,590)</u>		<u>0</u>	<u>0</u>
Total operating support and revenue	<u>120,778,980</u>	<u>32,770,849</u>		<u>153,549,829</u>	<u>116,477,846</u>
Operating expenses:					
Program services:					
Scientific research, economic analysis, and policy development:					
Climate and Energy	47,094,107			47,094,107	37,215,577
Oceans	21,070,263			21,070,263	23,048,730
Ecosystems	18,981,854			18,981,854	16,276,788
Health	7,266,384			7,266,384	5,161,331
Education	4,880,117			4,880,117	3,825,033
Membership activities	<u>1,935,892</u>			<u>1,935,892</u>	<u>681,601</u>
Total program services	<u>101,228,617</u>			<u>101,228,617</u>	<u>86,209,060</u>
Supporting services:					
Management and general	7,419,937			7,419,937	7,244,031
New member acquisition	375,856			375,856	616,036
Fund-raising:					
Membership	2,670,468			2,670,468	2,396,403
Development	<u>8,802,754</u>			<u>8,802,754</u>	<u>8,935,928</u>
Total supporting services	<u>19,269,015</u>			<u>19,269,015</u>	<u>19,192,398</u>
Total operating expenses	<u>120,497,632</u>			<u>120,497,632</u>	<u>105,401,458</u>
Change in net assets from operations	281,348	32,770,849		33,052,197	11,076,388
Change in net assets from non-operating activities:					
Other expenses, net of contributions and other income	70,892	21,609		92,501	(521,828)
Investment results, net of allocation to operations	<u>1,798,348</u>	<u>604,245</u>		<u>2,402,593</u>	<u>3,900,889</u>
Change in net assets	2,150,588	33,396,703		35,547,291	14,455,449
Net assets - beginning of year	<u>42,319,764</u>	<u>110,528,245</u>	<u>\$ 3,736,498</u>	<u>156,584,507</u>	<u>142,129,058</u>
Net assets - end of year	\$ 44,470,352	\$ 143,924,948	\$ 3,736,498	\$ 192,131,798	\$ 156,584,507

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Activities Year Ended September 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating support and revenue:				
Support:				
Contributions and membership	\$ 13,378,023	\$ 64,072,262		\$ 77,450,285
Foundations	150,000	29,956,813		30,106,813
Government and other grants	525,166	2,868,211		3,393,377
Bequests and other planned giving	<u>1,692,776</u>	<u>256,336</u>		<u>1,949,112</u>
Total support	<u>15,745,965</u>	<u>97,153,622</u>		<u>112,899,587</u>
Revenue:				
Investment income allocated for operations	2,197,771	28,847		2,226,618
Fees, royalties and other income	<u>1,348,596</u>	<u>3,045</u>		<u>1,351,641</u>
Total revenue	<u>3,546,367</u>	<u>31,892</u>		<u>3,578,259</u>
Net assets released from restrictions	<u>86,633,617</u>	<u>(86,633,617)</u>		<u>0</u>
Total operating support and revenue	<u>105,925,949</u>	<u>10,551,897</u>		<u>116,477,846</u>
Operating expenses:				
Program services:				
Scientific research, economic analysis, and policy development:				
Climate and Energy	37,215,577			37,215,577
Oceans	23,048,730			23,048,730
Ecosystems	16,276,788			16,276,788
Health	5,161,331			5,161,331
Education	3,825,033			3,825,033
Membership activities	<u>681,601</u>			<u>681,601</u>
Total program services	<u>86,209,060</u>			<u>86,209,060</u>
Supporting services:				
Management and general	7,244,031			7,244,031
New member acquisition	616,036			616,036
Fund-raising:				
Membership	2,396,403			2,396,403
Development	<u>8,935,928</u>			<u>8,935,928</u>
Total supporting services	<u>19,192,398</u>			<u>19,192,398</u>
Total operating expenses	<u>105,401,458</u>			<u>105,401,458</u>
Change in net assets from operations	524,491	10,551,897		11,076,388
Change in net assets from non-operating activities:				
Other expenses, net of contributions and other income	(552,388)	30,560		(521,828)
Investment results, net of allocation to operations	<u>3,114,243</u>	<u>786,646</u>		<u>3,900,889</u>
Change in net assets	3,086,346	11,369,103		14,455,449
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>
Net assets - end of year	<u>\$ 42,319,764</u>	<u>\$ 110,528,245</u>	<u>\$ 3,736,498</u>	<u>\$ 156,584,507</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidating Statement of Activities
Year Ended September 30, 2013
(with summarized financial information for 2012)

	<u>EDF</u>	<u>EDAF</u>	<u>CFF</u>	<u>Eliminations</u>	<u>Total</u>	<u>Year Ended September 30, 2012</u>
Operating support and revenue:						
Support:						
Contributions and membership	\$ 47,677,324	\$ 5,574,041			\$ 53,251,365	\$ 77,450,285
Foundations	90,108,102	960,000	\$ 200,000	\$ (1,150,000)	90,118,102	30,106,813
Government and other grants	3,934,389	150			3,934,539	3,393,377
Bequests and other planned giving	<u>3,225,392</u>	<u>1,000</u>			<u>3,226,392</u>	<u>1,949,112</u>
Total support	<u>144,945,207</u>	<u>6,535,191</u>	<u>200,000</u>	<u>(1,150,000)</u>	<u>150,530,398</u>	<u>112,899,587</u>
Revenue:						
Investment income allocated for operations	2,283,394				2,283,394	2,226,618
Fees, royalties and other income	<u>640,315</u>		<u>95,722</u>		<u>736,037</u>	<u>1,351,641</u>
Total revenue	<u>2,923,709</u>		<u>95,722</u>		<u>3,019,431</u>	<u>3,578,259</u>
Total operating support and revenue	<u>147,868,916</u>	<u>6,535,191</u>	<u>295,722</u>	<u>(1,150,000)</u>	<u>153,549,829</u>	<u>116,477,846</u>
Operating expenses:						
Salaries and wages	42,260,961	808,452	112,004		43,181,417	37,597,893
Benefits and other employment costs	10,414,652	223,683	29,793		10,668,128	9,768,168
Professional and consulting fees	22,060,904	2,363,505	54,217		24,478,626	23,910,461
Travel	5,304,388	23,206	4,389		5,331,983	4,393,052
Printing	603,399	33,292	221		636,912	438,809
Postage and delivery	184,568	2,977	24		187,569	228,844
Occupancy	6,204,879	76,334	3,847		6,285,060	5,713,448
Telecommunications	1,114,970	22,159	875		1,138,004	1,019,256
Data management	507,597	114,817			622,414	559,337
Office supplies and equipment	800,650	20,974	2,101		823,725	658,340
Meetings and events	2,765,389	94,703	241		2,860,333	2,611,271
Subscriptions and dues	821,305	19,080	42		840,427	818,920
Advertising and promotions	2,735,038	752,825			3,487,863	2,856,945
Grants to others	13,482,633	695,979		(1,150,000)	13,028,612	7,782,389
Direct marketing	4,194,223	609,802			4,804,025	5,049,722
Other	<u>616,007</u>	<u>38,832</u>	<u>7,287</u>		<u>662,126</u>	<u>511,014</u>
	114,071,563	5,900,620	215,041	(1,150,000)	119,037,224	103,917,869
Depreciation and amortization	<u>1,460,408</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,460,408</u>	<u>1,483,589</u>
Total operating expenses	<u>115,531,971</u>	<u>5,900,620</u>	<u>215,041</u>	<u>(1,150,000)</u>	<u>120,497,632</u>	<u>105,401,458</u>
Change in net assets from operations	32,336,945	634,571	80,681	0	33,052,197	11,076,388
Change in net assets from non-operating activities:						
Other expenses, net of contributions and other income	92,501				92,501	(521,828)
Investment results, net of allocation to operations	<u>2,402,657</u>	<u>(64)</u>			<u>2,402,593</u>	<u>3,900,889</u>
Change in net assets	34,832,103	634,507	80,681	0	35,547,291	14,455,449
Net assets - beginning of year	<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>
Net assets - end of year	\$ 186,701,339	\$ 5,398,966	\$ 31,493	\$ 0	\$ 192,131,798	\$ 156,584,507

See notes to consolidated and consolidating financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidating Statement of Activities Year Ended September 30, 2012

	<u>EDF</u>	<u>EDAF</u>	<u>CFF</u>	<u>Eliminations</u>	<u>Total</u>
Operating support and revenue:					
Support:					
Contributions and membership	\$ 74,602,496	\$ 2,847,789			\$ 77,450,285
Foundations	30,106,813	622,000	\$ 160,000	\$ (782,000)	30,106,813
Government and other grants	3,393,352	25			3,393,377
Bequests and other planned giving	<u>1,949,112</u>				<u>1,949,112</u>
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>
Revenue:					
Investment income allocated for operations	2,226,618				2,226,618
Fees, royalties and other income	<u>1,229,974</u>	<u>3,045</u>	<u>118,622</u>		<u>1,351,641</u>
Total revenue	<u>3,456,592</u>	<u>3,045</u>	<u>118,622</u>		<u>3,578,259</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>
Operating expenses:					
Salaries and wages	36,717,752	754,057	126,084		37,597,893
Benefits and other employment costs	9,526,395	208,439	33,334		9,768,168
Professional and consulting fees	22,253,845	1,586,359	70,257		23,910,461
Travel	4,383,105	4,605	5,342		4,393,052
Printing	437,041	1,646	122		438,809
Postage and delivery	227,611	1,229	4		228,844
Occupancy	5,627,203	71,611	14,634		5,713,448
Telecommunications	1,004,284	14,466	506		1,019,256
Data management	518,975	40,362			559,337
Office supplies and equipment	641,644	16,093	603		658,340
Meetings and events	2,518,372	92,799	100		2,611,271
Subscriptions and dues	818,693	50	177		818,920
Advertising and promotions	2,715,367	141,578			2,856,945
Grants to others	8,242,309	322,080		(782,000)	7,782,389
Direct marketing	4,664,046	385,676			5,049,722
Other	<u>251,213</u>	<u>259,801</u>			<u>511,014</u>
Depreciation and amortization	100,547,855	3,900,851	251,163	(782,000)	103,917,869
	<u>1,483,589</u>				<u>1,483,589</u>
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>
Change in net assets from operations	11,476,921	(427,992)	27,459	0	11,076,388
Change in net assets from non-operating activities:					
Other expenses, net of contributions and other income	(521,828)				(521,828)
Investment results, net of allocation to operations	<u>3,879,971</u>	<u>20,918</u>			<u>3,900,889</u>
Change in net assets	14,835,064	(407,074)	27,459	0	14,455,449
Net assets - beginning of year	<u>137,034,172</u>	<u>5,171,533</u>	<u>(76,647)</u>	<u>0</u>	<u>142,129,058</u>
Net assets - end of year	<u>\$ 151,869,236</u>	<u>\$ 4,764,459</u>	<u>\$ (49,188)</u>	<u>\$ 0</u>	<u>\$ 156,584,507</u>

See notes to consolidated and consolidating financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Functional Expenses
 Year Ended September 30, 2013
 (with summarized financial information for 2012)

	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		2013	2012
Salaries and wages	\$ 16,436,846	\$ 7,371,627	\$ 6,970,079	\$2,525,035	\$ 1,044,751	\$ 579,208	\$ 34,927,546	\$ 2,189,867		\$ 896,414	\$ 5,167,590	\$ 8,253,871	\$ 43,181,417	\$ 37,597,893
Benefits and other employment costs	3,939,740	1,688,898	1,844,613	589,699	280,039	150,561	8,493,550	611,964		253,789	1,308,825	2,174,578	10,668,128	9,768,168
Professional and consulting fees	8,180,159	6,993,548	6,658,047	1,603,461	181,444	243,377	23,860,036	281,442	\$ 211	85,303	251,634	618,590	24,478,626	23,910,461
Travel	2,325,197	1,106,844	924,692	283,262	98,966	21,192	4,760,153	131,692		48,740	391,398	571,830	5,331,983	4,393,052
Printing	151,168	132,210	60,285	23,880	100,562	1	468,106	2,866		445	165,495	168,806	636,912	438,809
Postage and delivery	43,613	25,667	21,464	19,970	31,274	6,575	148,563	22,142		5,164	11,700	39,006	187,569	228,844
Occupancy	504,820	619,828	500,327	492,840	489,017	0	2,606,832	2,693,016		492,561	492,651	3,678,228	6,285,060	5,713,448
Telecommunications	247,619	179,100	144,410	50,223	38,844	21,406	681,602	238,340		93,948	124,114	456,402	1,138,004	1,019,256
Data management	165,347	20,515	19,298	43,266	150,468	163,393	562,287	23,084	16,577	15,254	5,212	60,127	622,414	559,337
Office supplies and equipment	60,609	86,356	164,516	31,183	31,063	473	374,200	233,635		98,963	116,927	449,525	823,725	658,340
Meetings and events	624,977	1,154,358	353,064	212,749	120,954	2,942	2,469,044	135,264		36,212	219,813	391,289	2,860,333	2,611,271
Subscriptions and dues	293,614	78,479	88,202	43,826	34,040	48,824	586,985	96,662	3,167	42,874	110,739	253,442	840,427	818,920
Advertising and promotions	1,765,323	48,397	30,561	1,218,216	64,845	348,974	3,476,316	611	6,858	3,834	244	11,547	3,487,863	2,856,945
Grants to others	10,447,550	1,386,856	1,106,437	46,280	2,091	0	12,989,214	36,318	0	1,122	1,958	39,398	13,028,612	7,782,389
Direct marketing	1,787,184	8,196	2,530	6,809	2,086,967	341,791	4,233,477	987	347,166	189,993	32,402	570,548	4,804,025	5,049,722
Other	46,456	106,789	19,805	18,826	62,197	7,175	261,248	151,906	1,877	125,809	121,286	400,878	662,126	511,014
	47,020,222	21,007,668	18,908,330	7,209,525	4,817,522	1,935,892	100,899,159	6,849,796	375,856	2,390,425	8,521,988	18,138,065	119,037,224	103,917,869
Depreciation and amortization	73,885	62,595	73,524	56,859	62,595		329,458	570,141		280,043	280,766	1,130,950	1,460,408	1,483,589
	<u>\$ 47,094,107</u>	<u>\$ 21,070,263</u>	<u>\$ 18,981,854</u>	<u>\$ 7,266,384</u>	<u>\$ 4,880,117</u>	<u>\$ 1,935,892</u>	<u>\$ 101,228,617</u>	<u>\$ 7,419,937</u>	<u>\$ 375,856</u>	<u>\$ 2,670,468</u>	<u>\$ 8,802,754</u>	<u>\$ 19,269,015</u>	<u>\$ 120,497,632</u>	<u>\$ 105,401,458</u>

See notes to consolidated and consolidating financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Functional Expenses
Year Ended September 30, 2012

	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	\$ 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
Benefits and other 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
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
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
Printing	143,712	77,020	55,289	16,900	84,761	380	378,062	743		549	59,455	60,747	438,809
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
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
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
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
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
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
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
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
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
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
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
	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
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
	<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>

See notes to consolidated and consolidating financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statements of Cash Flows

	Year Ended September 30,	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 35,547,291	\$ 14,455,449
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Donated securities	(3,158,493)	(13,061,947)
Net realized and unrealized gains on investments	(3,631,202)	(4,987,555)
Depreciation and amortization	1,460,408	1,483,589
Changes in:		
Prepaid expenses and other assets	304,031	(376,184)
Inventory	119	(23,173)
Pledges receivable	(36,837,257)	(3,901,845)
Donor-advised fund investments	(141,626)	(101,430)
California Fisheries loans	(20,690)	109,135
Accounts payable and accrued expenses	(5,544)	1,845,597
Deferred revenue	(6,870)	(7,265)
Deferred rent payable	350,727	860,202
Annuities payable	(225,088)	280,219
California Fisheries grants payable	(50,000)	0
Other liabilities	<u>380,880</u>	<u>477,330</u>
Net cash used in operating activities	<u>(6,033,314)</u>	<u>(2,947,878)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,624,896)	(1,763,695)
Proceeds from sales of investments	35,699,523	29,213,211
Purchases of investments	(27,077,268)	(26,099,976)
Other investing activities, net	<u>94,261</u>	<u>58,455</u>
Net cash provided by investing activities	<u>7,091,620</u>	<u>1,407,995</u>
Cash flows from financing activities:		
Net contributions and payments subject to split-interest agreements	154,468	262,980
Proceeds from issuance of notes	0	2,100,000
Repayment of notes	<u>(476,649)</u>	<u>(551,254)</u>
Net cash (used in) provided by financing activities	<u>(322,181)</u>	<u>1,811,726</u>
Net increase in cash and cash equivalents	736,125	271,843
Cash and cash equivalents at beginning of year	<u>2,969,096</u>	<u>2,697,253</u>
Cash and cash equivalents at end of year	<u>\$ 3,705,221</u>	<u>\$ 2,969,096</u>
Supplementary disclosure of cash flow information:		
Interest paid	<u>\$ 153,510</u>	<u>\$ 122,169</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

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"), the California Fisheries Fund, Inc. ("CFF"), Environmental Defense Fund de Mexico, A.C., ("EDF Mexico") and the Environmental Defense Action Fund Political Action Committee ("EDAF PAC") (together, the "Organization"), as of and for the fiscal years ended September 30, 2013 and 2012.

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. Since EDAF PAC is not a separate legal entity, its assets and liabilities, which were immaterial at September 30, 2013 and 2012, 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, 2013 and 2012

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

[2] 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.

[3] 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.

[4] 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.

[5] Net assets:

The Organization's net assets and its revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, 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, 2013 and 2012

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

[6] Temporary investments for future-year activities:

The cash equivalents reported in the accompanying consolidated and consolidating financial statements as temporary investments consist primarily of highly liquid investments.

[7] Measure of operations:

The Organization includes in its measure of operations:

- (i)* all revenues and expenses that are an integral part of its programs and supporting activities;
- (ii)* net assets released from restrictions to support operating expenditures;
- (iii)* 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:

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

[8] 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.

[9] 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.

[10] 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.

[11] Fair-value measurement:

As further described in Note D, the Organization reports a fair-value measurement of all applicable financial assets and liabilities, including investments, inventory, pledges receivable, deferred revenue and short-term and long-term notes payable.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

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

[12] 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.

Investment expenses include the services of bank trustees, investment managers and custodians. The balances of investment management fees charged by the Organization's various investment managers in each fiscal year; however, they do not include those fees that are embedded in various other investment accounts and transactions.

[13] Donor-Advised Fund Investments:

Donor-advised funds are identified by reference to contributions of a donor or donors, which are owned and controlled by the Organization for which the donors give advice with respect to the fund's distribution to various charities. The contributions by the donors remain invested until distributed.

[14] Valuation allowances:

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

[15] 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 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.

[16] 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.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

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

[16] Split-interest agreements: (continued)

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.

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 unrestricted operations unless specified otherwise by the donor.

[17] 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, 2013 and 2012, accrued vacation obligations were approximately \$2,815,000 and \$2,377,000, respectively.

[18] 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.

[19] 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.

[20] 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.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

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

[21] Income taxes:

The Organization is subject to the provisions of the Financial Accounting Standards Board's (the "FASB") 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.

[22] 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).

[23] 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.

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:

	September 30,	
	2013	2012
In one year or less	\$ 53,966,329	\$ 53,784,762
Between one and two years	26,474,357	28,793,846
Between two and three years	18,550,000	8,190,132
Between three and four years	16,050,734	2,580,000
Four years and thereafter	<u>16,149,086</u>	<u>133,046</u>
Gross pledges receivable	131,190,506	93,481,786
Less present value discount (Calculated at rates ranging from 0.1% to 2.01%) and allowance for uncollectible pledges	<u>(1,412,923)</u>	<u>(541,460)</u>
Net pledges receivable	<u>\$ 129,777,583</u>	<u>\$ 92,940,326</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

NOTE B - PLEDGES RECEIVABLE (CONTINUED)

While the Organization has an excellent record of collecting pledges receivable, management has provided a valuation allowance of \$149,086 and \$390,468 for uncollectible pledges as of September 30, 2013 and 2012, respectively.

In fiscal-year 2013, the Organization recorded a multi-year foundation pledge receivable from a long-time donor with a history of paying timely and in full. The Foundation pledges receivable from this donor now accounts for sixty-six percent of the Organization's outstanding pledge balance. Based on historical collections experience, management's knowledge of and relationship with the donor and the age of the pledge, the receivable has been recorded at net realizable value consistent with the Organization's accounting policy for recording pledges receivable.

NOTE C - PROPERTY AND EQUIPMENT

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

	September 30,	
	2013	2012
Furniture and equipment	\$ 4,501,185	\$ 4,031,618
Computer equipment	2,655,283	2,286,296
Leasehold improvements	6,675,674	5,961,815
Building	393,319	393,319
Software development	<u>1,233,095</u>	<u>1,160,612</u>
	15,458,556	13,833,660
Less accumulated depreciation and amortization	<u>(10,495,283)</u>	<u>(9,034,875)</u>
	<u>\$ 4,963,273</u>	<u>\$ 4,798,785</u>

Depreciation and amortization expense was \$1,460,408 and \$1,483,589 for the fiscal-years 2013 and 2012, respectively.

NOTE D - INVESTMENTS

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

	September 30,			
	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Alternative investments	\$ 7,644,051	\$ 12,119,285	\$ 9,919,645	\$ 14,437,481
Mutual and exchange-traded funds	26,571,634	30,589,039	30,377,349	33,611,962
Money-market accounts	3,931,525	3,931,525	944,371	944,371
Other investments - subject to split-interest agreements	<u>6,793,979</u>	<u>7,713,706</u>	<u>6,606,120</u>	<u>7,386,338</u>
	<u>\$ 44,941,189</u>	<u>\$ 54,353,555</u>	<u>\$ 47,847,485</u>	<u>\$ 56,380,152</u>

As portrayed above, concentrations of the Organization's investments in excess of 10% of the fair values of its portfolio included approximately (i) 56% invested in mutual and exchange-traded funds, (ii) 22% invested in alternative investments, and (iii) 14% invested in assets subject to split-interest agreements.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

NOTE D - INVESTMENTS (CONTINUED)

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

	September 30,					
	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Dividends and interest	\$ 912,568	\$ 142,217	\$ 1,054,785	\$ 959,174	\$ 180,778	\$ 1,139,952
Realized and unrealized gains	<u>2,921,680</u>	<u>709,522</u>	<u>3,631,202</u>	<u>4,352,840</u>	<u>634,715</u>	<u>4,987,555</u>
Net return on investments	3,834,248	851,739	4,685,987	5,312,014	815,493	6,127,507
Investment return allocated for operations	<u>(2,035,900)</u>	<u>(247,494)</u>	<u>(2,283,394)</u>	<u>(2,197,771)</u>	<u>(28,847)</u>	<u>(2,226,618)</u>
Investment results, net of allocation to operations	<u>\$ 1,798,348</u>	<u>\$ 604,245</u>	<u>\$ 2,402,593</u>	<u>\$ 3,114,243</u>	<u>\$ 786,646</u>	<u>\$ 3,900,889</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 those investments, or similar investments, at the reporting date.
- Level 2 Valuations are based on (i) quoted prices those investments, or similar investments, in active markets, or (ii) quoted prices those investments, or similar investments, 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 investments or similar investments that are redeemable at or near the balance sheet date and for which a model was derived for valuation.
- Level 3 Valuations are based on pricing inputs that are unobservable and include situations where (i) there is little, if any, market activity for the investments, or (ii) the investments cannot be independently valued, or (iii) the investments cannot be immediately redeemed at or near the fiscal year-end.

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, 2013			
	Level 1	Level 2	Level 3	Total
Temporary investments for future periods	\$ 15,119,498			\$ 15,119,498
Investments:				
Alternative investments			\$ 12,119,285	12,119,285
Mutual and exchange-traded funds	30,589,039			30,589,039
Money-market accounts	3,931,525			3,931,525
Other investments - subject to split-interest agreements	<u>608,857</u>	<u>\$ 7,104,849</u>		<u>7,713,706</u>
Total investments	50,248,919	7,104,849	12,119,285	69,473,053
Donor-advised fund investments	<u>522,953</u>		<u>137,254</u>	<u>660,207</u>
Total	<u>\$ 50,771,872</u>	<u>\$ 7,104,849</u>	<u>\$ 12,256,539</u>	<u>\$ 70,133,260</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

NOTE D - INVESTMENTS (CONTINUED)

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
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 - (including) 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>

The following tables summarize the changes in fair value of the Organization's Level 3 investments at each fiscal-year end:

	September 30, 2013		
	Alternative investments	Donor-Advised Fund Assets	Total
Balance - October 1, 2012:	\$ 14,437,481	\$ 383,642	\$ 14,821,123
Current-year contributions	110,000		110,000
Current-year distributions	(3,044,304)	(2,000)	(3,046,304)
Net investment gains (losses)	<u>616,108</u>	<u>(244,388)</u>	<u>371,720</u>
Balance - September 30, 2013	<u>\$ 12,119,285</u>	<u>\$ 137,254</u>	<u>\$ 12,256,539</u>

	September 30, 2012		
	Alternative investments	Donor-Advised Fund Assets	Total
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>

FASB provides accounting guidance on measuring the fair value of certain investments such as funds of funds and hedge funds, to offer investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value ("NAV"). Under the practical expedient, entities are permitted to use NAV without adjustment for certain investments that qualify under the guidance. The Organization's investments in funds fitting this description, classified within Level 3 of the fair-value hierarchy, are carried at fair value based on NAV. Investments in these types of funds are subject to withdrawal restrictions and for these Level 3 investments the Organization does not have the ability to withdraw at reported NAV at the fiscal year-end, or within a reasonable period of time.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

NOTE D - INVESTMENTS (CONTINUED)

The Organization's investments in limited partnerships are valued based on the valuation policies and procedures of the general partner. The general partner performs oversight of the underlying managers' material positions both on an investment level and from a risk perspective. The general partner is responsible for performing the investments are valued according to the policies and procedures adopted by the partnership. The Organization places reliance upon those procedures and records these investments at fair value and determined by the general partner.

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

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private Equity Funds	\$ 28,351		Quarterly	90 days
Venture Capital Funds	727,645	\$ 260,000	N/A	N/A
			Redemption notice given in current year	90 days
Fund of Funds	11,363,289		N/A	N/A
Private Equity	<u>137,254</u>			
	<u>\$ 12,256,539</u>			

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

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 \$173,969 and \$256,336 during fiscal-years ending 2013 and 2012, respectively. A portion of the balance in the DAF is 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 \$42,000 and \$207,623 during fiscal-years 2013 and 2012, respectively, of which \$11,000 and \$85,000 was made to the Organization in fiscal-year 2013 and 2012, respectively. The aggregate value of investment assets held in the DAF was \$660,207 and \$730,511 at September 30, 2013 and 2012, respectively.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

NOTE F - NOTES PAYABLE AND INTEREST-RATE SWAPS

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

	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
Promissory note from donor, payable on demand	\$ 100,000	\$ 100,000
Promissory note terminating 2013, at LIBOR + 1.5%	0	116,649
Promissory note terminating 2018, at LIBOR + 1.5%	687,500	837,500
Promissory note terminating 2019, at 4.21%	<u>1,820,000</u>	<u>2,030,000</u>
	2,607,500	3,084,149
Fair-value adjustment	<u>(10,681)</u>	<u>(23,831)</u>
	<u>\$ 2,596,819</u>	<u>\$ 3,060,318</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 the 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.

The second loan is a 5-year promissory note for the purpose of funding the renovations of the 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 the 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, 2013, 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, 2013 or 2012 under this line of credit.

At September 30, 2013, the Organization is in compliance with all debt covenants.

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 \$687,500 and \$954,149 at September 30, 2013 and 2012, 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%.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

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

Notes Payable and Line of Credit: (continued)

The estimated fair value of the interest-rate swap agreement was (\$10,681) and (\$23,831) at September 30, 2013 and 2012, 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, 2013, excluding the \$100,000 note payable on demand, are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2014	\$ 360,000
2015	360,000
2016	360,000
2017	360,000
2018	297,500
2019 and thereafter	<u>770,000</u>
Total	<u>\$ 2,507,500</u>

Interest expense on debt borrowings, as well as on interest-rate swap agreements, was \$151,548 and \$122,651 in fiscal-years 2013 and 2012, respectively.

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

At each fiscal year-end, temporarily restricted net assets (including allocation of investment gains and losses) were categorized as follows:

	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
Restricted by purpose:		
Climate and Energy	\$ 35,163,827	\$ 23,527,489
Oceans	22,914,611	25,894,280
Ecosystems	29,400,586	21,438,029
Health	9,944,529	6,978,420
Education	<u>9,019,980</u>	<u>4,171,183</u>
	106,443,533	82,009,401
Restricted by time	<u>37,481,415</u>	<u>28,518,844</u>
	<u>\$ 143,924,948</u>	<u>\$ 110,528,245</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

NOTE G - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

During each fiscal-year, net assets released from restrictions were for the following:

	Year Ended September 30,	
	2013	2012
Climate and Energy	\$ 51,646,696	\$ 38,770,359
Oceans	21,003,242	23,943,477
Ecosystems	21,184,437	18,139,799
Health	5,015,443	4,807,603
Education	473,189	473,877
	<u>99,323,007</u>	86,135,115
Time restrictions satisfied	<u>497,583</u>	<u>498,502</u>
	<u>\$ 99,820,590</u>	<u>\$ 86,633,617</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 2013 and 2012, respectively, was approximately \$2,120,210 and \$1,871,055.

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, 2013 and 2012, respectively, the asset value of this plan was approximately \$2,176,000 and \$1,801,000.

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 2013 and 2012, respectively, was \$25,831 and \$57,649, with a like amount recorded as a liability. During fiscal-year 2013, the Organization made no contributions to the plan and made payments of approximately \$232,000 out of the plan. During fiscal-year 2012, the Organization contributed \$50,000 to the plan and made no payments out of the plan. The Organization has fully funded the plan for awards to date. At September 30, 2013 and 2012, the asset value of the plan was approximately \$171,000 and \$388,000, respectively. 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.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

NOTE I - JOINT COSTS

For fiscal-years 2013 and 2012, the Organization has allocated joint costs (for informational materials and activities that include fund-raising appeals) among program and supporting services as follows:

	<u>Year Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>
Climate and Energy	\$ 2,763,342	\$ 2,743,832
Oceans	2,520	0
Ecosystems	47,513	39,840
Health	49,719	4,427
Education	1,335,233	1,535,609
Membership activities	677,158	611,504
New member acquisition	613,314	616,036
Membership - fund-raising	<u>836,566</u>	<u>795,889</u>
	<u>\$ 6,325,365</u>	<u>\$ 6,347,137</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 which, at times, may 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 \$6,535,191 and \$3,472,859 in fiscal-years 2013 and 2012, respectively, which included grants of \$950,000 and \$622,000, 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 \$5,900,620 and \$3,900,851 in fiscal-years 2013 and 2012, 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 \$5,133,491 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.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

NOTE K - WHOLLY CONTROLLED ENTITY TRANSACTIONS (CONTINUED)

[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, 2012 and 2011 and \$50,000 was utilized for programs in fiscal-year 2013 resulting in a Loan Fund balance of \$3,613,960 at September 30, 2013.

California Fisheries recorded revenue and support of \$295,722 and \$278,622 in fiscal-years 2013 and 2012, respectively. In addition, in fiscal-years 2013 and 2012, EDF awarded grants of \$200,000 and \$160,000, respectively, to California Fisheries to cover administrative costs.

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

EDF Mexico commenced operations in August 2009. Expenditures of \$1,590,528 and \$1,402,604 for fiscal-years 2013 and 2012, 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 \$50,000 and \$62,500 and expenditures of \$22,036 and \$12,202 for fiscal-years 2013 and 2012, respectively, are included as part of the Action Fund in the accompanying consolidated and consolidating financial statements.

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, 2013:

<u>Year Ending September 30,</u>	<u>Amount</u>
2014	\$ 6,139,937
2015	6,169,610
2016	6,070,869
2017	5,703,092
2018	4,978,527
Thereafter	<u>22,456,852</u>
	<u>\$ 51,518,887</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

NOTE L - COMMITMENTS AND CONTINGENCY (CONTINUED)

[1] Operating leases: (continued)

Rent expense included in operations for fiscal-years 2013 and 2012 was \$5,246,703 and \$5,182,216, 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, 2013 and 2012, 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, 2013, 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, 2013. 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.

[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.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

NOTE M - ENDOWMENT (CONTINUED)

[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, 2013		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 3,736,498	\$ 3,736,498
Accumulated earnings not yet appropriated for expenditure	<u>\$ 2,665,346</u>	_____	<u>2,665,346</u>
Total funds	<u>\$ 2,665,346</u>	<u>\$ 3,736,498</u>	<u>\$ 6,401,844</u>

	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	<u>\$ 1,854,278</u>	_____	<u>1,854,278</u>
Total funds	<u>\$ 1,854,278</u>	<u>\$ 3,736,498</u>	<u>\$ 5,590,776</u>

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

	September 30, 2013		
	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	\$ 1,854,278	\$ 3,736,498	\$ 5,590,776
Investment returns	1,058,562		1,058,562
Current-year appropriation for expenditure	<u>(247,494)</u>	_____	<u>(247,494)</u>
Net assets, end of year	<u>\$ 2,665,346</u>	<u>\$ 3,736,498</u>	<u>\$ 6,401,844</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2013 and 2012

NOTE M - ENDOWMENT (CONTINUED)

[7] Changes in endowment net assets for the fiscal year: (continued)

	September 30, 2012		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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> </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>