



**ENVIRONMENTAL DEFENSE FUND,  
INCORPORATED**

**CONSOLIDATED AND CONSOLIDATING FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011 and 2010**

## 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, 2011 and 2010, 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, 2011 and 2010, 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, and 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, 2011 and 2010, 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 23, 2011

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

## Consolidated Statements of Financial Position

|  | September 30,         |                       |
|--|-----------------------|-----------------------|
|  | <u>2011</u>           | <u>2010</u>           |
| <b>ASSETS</b>                            |                       |                       |
| Cash and cash equivalents                | \$ 2,697,253          | \$ 7,539,201          |
| Temporary investments for future periods | 5,959,140             | 12,896,208            |
| Prepaid expenses and other assets        | 3,429,874             | 2,965,804             |
| Inventory                                | 100,703               | 126,586               |
| Pledges receivable                       | 89,038,481            | 77,892,505            |
| Property and equipment, net              | 4,518,679             | 4,456,102             |
| California Fisheries loans               | 809,856               | 357,965               |
| Donor advised fund investments           | 1,251,209             | 2,422,671             |
| Investments                              | <u>50,179,743</u>     | <u>49,565,359</u>     |
|  | <u>\$ 157,984,938</u> | <u>\$ 158,222,401</u> |
| <b>LIABILITIES</b>                       |                       |                       |
| Accounts payable and accrued expenses    | \$ 4,560,738          | \$ 6,337,602          |
| Deferred revenue                         | 30,397                | 37,651                |
| Deferred rent payable                    | 47,742                | 176,583               |
| Annuities payable                        | 4,384,880             | 3,541,257             |
| Notes payable                            | 1,489,853             | 2,023,847             |
| California Fisheries grants payable      | 3,663,960             | 3,814,754             |
| Other liabilities                        | <u>1,678,310</u>      | <u>1,921,885</u>      |
|  | <u>15,855,880</u>     | <u>17,853,579</u>     |
| Commitment and contingency (Note L)      |                       |                       |
| <b>NET ASSETS</b>                        |                       |                       |
| Unrestricted:                            |                       |                       |
| Available for operations                 | 2,521,646             | 2,221,080             |
| Designated for long-term investment      | <u>36,711,772</u>     | <u>38,942,941</u>     |
| Total unrestricted                       | 39,233,418            | 41,164,021            |
| Temporarily restricted                   | 99,159,142            | 95,468,303            |
| Permanently restricted                   | <u>3,736,498</u>      | <u>3,736,498</u>      |
| Total net assets                         | <u>142,129,058</u>    | <u>140,368,822</u>    |
|  | <u>\$ 157,984,938</u> | <u>\$ 158,222,401</u> |

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

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

(with summarized financial information for 2010)

|  | EDF                   | EDAF                | CFF                 | Eliminations          | September 30,         |                       |
|--|-----------------------|---------------------|---------------------|-----------------------|-----------------------|-----------------------|
|  |                       |                     |                     |                       | 2011                  | 2010                  |
| <b>ASSETS</b>                            |                       |                     |                     |                       |                       |                       |
| Cash and cash equivalents                | \$ 2,169,567          | \$ 106,725          | \$ 420,961          |                       | \$ 2,697,253          | \$ 7,539,201          |
| Temporary investments for future periods | 3,535,914             |                     | 2,423,226           |                       | 5,959,140             | 12,896,208            |
| Prepaid expenses and other assets        | 3,407,965             | 21,909              |                     |                       | 3,429,874             | 2,965,804             |
| Inventory                                | 100,703               |                     |                     |                       | 100,703               | 126,586               |
| Pledges receivable                       | 88,753,481            | 285,000             |                     |                       | 89,038,481            | 77,892,505            |
| Property and equipment, net              | 4,518,679             |                     |                     |                       | 4,518,679             | 4,456,102             |
| California Fisheries loans               |                       |                     | 809,856             |                       | 809,856               | 357,965               |
| Donor-advised fund investments           | 1,251,209             |                     |                     |                       | 1,251,209             | 2,422,671             |
| Investments                              | 50,179,743            |                     |                     |                       | 50,179,743            | 49,565,359            |
| Intercompany receivable                  | 47,731                | 4,948,007           |                     | \$ (4,995,738)        | 0                     | 0                     |
|  | <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> | <u>\$ 158,222,401</u> |
| <b>LIABILITIES</b>                       |                       |                     |                     |                       |                       |                       |
| Accounts payable and accrued expenses    | \$ 4,351,631          | \$ 190,108          | \$ 18,999           |                       | \$ 4,560,738          | \$ 6,337,602          |
| Deferred revenue                         | 30,397                |                     |                     |                       | 30,397                | 37,651                |
| Deferred rent payable                    | 47,742                |                     |                     |                       | 47,742                | 176,583               |
| Annuities payable                        | 4,384,880             |                     |                     |                       | 4,384,880             | 3,541,257             |
| Notes payable                            | 1,489,853             |                     |                     |                       | 1,489,853             | 2,023,847             |
| California Fisheries grants payable      |                       |                     | 3,663,960           |                       | 3,663,960             | 3,814,754             |
| Other liabilities                        | 1,678,310             |                     |                     |                       | 1,678,310             | 1,921,885             |
| Intercompany payable                     | 4,948,007             |                     | 47,731              | \$ (4,995,738)        | 0                     | 0                     |
|  | <u>16,930,820</u>     | <u>190,108</u>      | <u>3,730,690</u>    | <u>(4,995,738)</u>    | <u>15,855,880</u>     | <u>17,853,579</u>     |
| <b>NET ASSETS</b>                        |                       |                     |                     |                       |                       |                       |
| Unrestricted:                            |                       |                     |                     |                       |                       |                       |
| Available for operations                 | 2,523,547             | 74,746              | (76,647)            |                       | 2,521,646             | 2,221,080             |
| Designated for long-term investment      | 36,711,772            |                     |                     |                       | 36,711,772            | 38,942,941            |
| Total unrestricted                       | 39,235,319            | 74,746              | (76,647)            |                       | 39,233,418            | 41,164,021            |
| Temporarily restricted                   | 94,062,355            | 5,096,787           |                     |                       | 99,159,142            | 95,468,303            |
| Permanently restricted                   | 3,736,498             |                     |                     |                       | 3,736,498             | 3,736,498             |
| Total net assets                         | <u>137,034,172</u>    | <u>5,171,533</u>    | <u>(76,647)</u>     |                       | <u>142,129,058</u>    | <u>140,368,822</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> | <u>\$ 158,222,401</u> |

See notes to consolidated and consolidating financial statements

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Consolidating Statement of Financial Position September 30, 2010

|  | <u>EDF</u>            | <u>EDAF</u>         | <u>CFF</u>          | <u>Eliminations</u>   | <u>Total</u>          |
|--|-----------------------|---------------------|---------------------|-----------------------|-----------------------|
| <b>ASSETS</b>                            |                       |                     |                     |                       |                       |
| Cash and cash equivalents                | \$ 4,692,041          | \$ 2,333,725        | \$ 513,435          |                       | \$ 7,539,201          |
| Temporary investments for future periods | 9,673,228             |                     | 3,222,980           |                       | 12,896,208            |
| Prepaid expenses and other assets        | 2,881,776             | 84,028              |                     |                       | 2,965,804             |
| Inventory                                | 126,586               |                     |                     |                       | 126,586               |
| Pledges receivable                       | 77,812,505            | 80,000              |                     |                       | 77,892,505            |
| Property and equipment, net              | 4,456,102             |                     |                     |                       | 4,456,102             |
| California Fisheries loans               |                       |                     | 357,965             |                       | 357,965               |
| Donor-advised fund investments           | 2,422,671             |                     |                     |                       | 2,422,671             |
| Investments                              | 49,565,359            |                     |                     |                       | 49,565,359            |
| Intercompany receivable                  | <u>228,475</u>        | <u>6,685,963</u>    |                     | <u>\$ (6,914,438)</u> | <u>0</u>              |
|  | <u>\$ 151,858,743</u> | <u>\$ 9,183,716</u> | <u>\$ 4,094,380</u> | <u>\$ (6,914,438)</u> | <u>\$ 158,222,401</u> |
| <b>LIABILITIES</b>                       |                       |                     |                     |                       |                       |
| Accounts payable and accrued expenses    | \$ 5,273,892          | \$ 1,043,509        | \$ 20,201           |                       | \$ 6,337,602          |
| Deferred revenue                         | 37,651                |                     |                     |                       | 37,651                |
| Deferred rent payable                    | 176,583               |                     |                     |                       | 176,583               |
| Annuities payable                        | 3,541,257             |                     |                     |                       | 3,541,257             |
| Notes payable                            | 2,023,847             |                     |                     |                       | 2,023,847             |
| California Fisheries grants payable      |                       |                     | 3,814,754           |                       | 3,814,754             |
| Other liabilities                        | 1,921,885             |                     |                     |                       | 1,921,885             |
| Intercompany payable                     | <u>6,685,963</u>      |                     | <u>228,475</u>      | <u>\$ (6,914,438)</u> | <u>0</u>              |
|  | <u>19,661,078</u>     | <u>1,043,509</u>    | <u>4,063,430</u>    | <u>(6,914,438)</u>    | <u>17,853,579</u>     |
| <b>NET ASSETS</b>                        |                       |                     |                     |                       |                       |
| Unrestricted:                            |                       |                     |                     |                       |                       |
| Available for operations                 | 2,127,792             | 74,838              | 18,450              |                       | 2,221,080             |
| Designated for long-term investment      | <u>38,942,941</u>     |                     |                     |                       | <u>38,942,941</u>     |
| Total unrestricted                       | 41,070,733            | 74,838              | 18,450              |                       | 41,164,021            |
| Temporarily restricted                   | 87,390,434            | 8,065,369           | 12,500              |                       | 95,468,303            |
| Permanently restricted                   | <u>3,736,498</u>      |                     |                     |                       | <u>3,736,498</u>      |
| Total net assets                         | <u>132,197,665</u>    | <u>8,140,207</u>    | <u>30,950</u>       | <u>\$ (6,914,438)</u> | <u>140,368,822</u>    |
|  | <u>\$ 151,858,743</u> | <u>\$ 9,183,716</u> | <u>\$ 4,094,380</u> | <u>\$ (6,914,438)</u> | <u>\$ 158,222,401</u> |

See notes to consolidated and consolidating financial statements

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Activities  
 Year Ended September 30, 2011  
 (with summarized financial information for 2010)

|  | Unrestricted         | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 | Year Ended<br>September 30,<br>2010 |
|--|----------------------|---------------------------|---------------------------|-----------------------|-------------------------------------|
| <b>Operating support and revenue:</b>                              |                      |                           |                           |                       |                                     |
| Support:   |                      |                           |                           |                       |                                     |
| Membership and contributions                                       | \$ 11,610,021        | \$ 387,783                |                           | \$ 11,997,804         | \$ 11,297,351                       |
| Major gifts  | 4,539,203            | 25,592,557                |                           | 30,131,760            | 27,436,413                          |
| Foundations  |                      | 48,877,392                |                           | 48,877,392            | 18,262,376                          |
| Government and other grants  | 67,287               | 2,290,105                 |                           | 2,357,392             | 2,756,786                           |
| Bequests and other planned giving                                  | <u>1,518,172</u>     | <u>449,269</u>            |                           | <u>1,967,441</u>      | <u>2,363,748</u>                    |
| Total support  | <u>17,734,683</u>    | <u>77,597,106</u>         |                           | <u>95,331,789</u>     | 62,116,674                          |
| Revenue:   |                      |                           |                           |                       |                                     |
| Investment income allocated for operations                         | 1,884,859            | 31,687                    |                           | 1,916,546             | 1,765,273                           |
| Fees, royalties and other income                                   | <u>834,471</u>       |                           |                           | <u>834,471</u>        | <u>872,742</u>                      |
| Total revenue  | <u>2,719,330</u>     | <u>31,687</u>             |                           | <u>2,751,017</u>      | 2,638,015                           |
| Net assets released from restrictions                              | <u>72,966,607</u>    | <u>(72,966,607)</u>       |                           | <u>0</u>              | <u>0</u>                            |
| Total operating support and revenue                                | <u>93,420,620</u>    | <u>4,662,186</u>          |                           | <u>98,082,806</u>     | 64,754,689                          |
| <b>Operating expenses:</b>   |                      |                           |                           |                       |                                     |
| Program services:  |                      |                           |                           |                       |                                     |
| Scientific research, economic analysis,<br>and policy development: |                      |                           |                           |                       |                                     |
| Climate  | 32,085,664           |                           |                           | 32,085,664            | 44,650,876                          |
| Oceans   | 21,359,200           |                           |                           | 21,359,200            | 16,848,491                          |
| Ecosystems   | 12,496,084           |                           |                           | 12,496,084            | 12,888,679                          |
| Health   | 4,769,113            |                           |                           | 4,769,113             | 4,888,388                           |
| Education  | 3,502,874            |                           |                           | 3,502,874             | 3,744,196                           |
| Membership activities  | <u>466,809</u>       |                           |                           | <u>466,809</u>        | <u>482,834</u>                      |
| Total program services   | <u>74,679,744</u>    |                           |                           | <u>74,679,744</u>     | 83,503,464                          |
| Supporting services:   |                      |                           |                           |                       |                                     |
| Management and general   | 7,031,124            |                           |                           | 7,031,124             | 5,775,030                           |
| New member acquisition   | 615,191              |                           |                           | 615,191               | 898,424                             |
| Fund-raising:  |                      |                           |                           |                       |                                     |
| Membership   | 2,644,636            |                           |                           | 2,644,636             | 2,642,950                           |
| Development  | <u>8,149,267</u>     |                           |                           | <u>8,149,267</u>      | <u>7,531,957</u>                    |
| Total supporting services  | <u>18,440,218</u>    |                           |                           | <u>18,440,218</u>     | 16,848,361                          |
| Total operating expenses   | <u>93,119,962</u>    |                           |                           | <u>93,119,962</u>     | 100,351,825                         |
| Change in net assets from operations                               | 300,658              | 4,662,186                 |                           | 4,962,844             | (35,597,136)                        |
| <b>Change in net assets from non-operating activities:</b>         |                      |                           |                           |                       |                                     |
| Other expenses, net of contributions<br>and other income           | (64,163)             | 246,965                   |                           | 182,802               | (544,154)                           |
| Investment results, net of allocation to<br>operations             | <u>(2,167,098)</u>   | <u>(1,218,312)</u>        |                           | <u>(3,385,410)</u>    | <u>4,114,246</u>                    |
| <b>Change in net assets</b>  | (1,930,603)          | 3,690,839                 |                           | 1,760,236             | (32,027,044)                        |
| Net assets - beginning of year                                     | <u>41,164,021</u>    | <u>95,468,303</u>         | \$ 3,736,498              | <u>140,368,822</u>    | 172,395,866                         |
| <b>Net assets - end of year</b>                                    | <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>               |

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

## Consolidated Statement of Activities Year Ended September 30, 2010

|  | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>          |
|--|----------------------|-----------------------------------|-----------------------------------|-----------------------|
| <b>Operating support and revenue:</b>                              |                      |                                   |                                   |                       |
| Support:   |                      |                                   |                                   |                       |
| Membership and contributions                                       | \$ 10,166,632        | \$ 1,130,719                      |                                   | \$ 11,297,351         |
| Major gifts  | 3,816,072            | 23,620,341                        |                                   | 27,436,413            |
| Foundations  |                      | 18,262,376                        |                                   | 18,262,376            |
| Government and other grants  | 34,185               | 2,722,601                         |                                   | 2,756,786             |
| Bequests and other planned giving                                  | <u>2,348,590</u>     | <u>15,158</u>                     |                                   | <u>2,363,748</u>      |
| Total support  | <u>16,365,479</u>    | <u>45,751,195</u>                 |                                   | <u>62,116,674</u>     |
| Revenue:   |                      |                                   |                                   |                       |
| Investment income allocated for operations                         | 1,735,144            | 30,129                            |                                   | 1,765,273             |
| Fees, royalties and other income                                   | <u>872,206</u>       | <u>536</u>                        |                                   | <u>872,742</u>        |
| Total revenue  | <u>2,607,350</u>     | <u>30,665</u>                     |                                   | <u>2,638,015</u>      |
| Net assets released from restrictions                              | <u>82,450,211</u>    | <u>(82,450,211)</u>               |                                   | <u>0</u>              |
| Total operating support and revenue                                | <u>101,423,040</u>   | <u>(36,668,351)</u>               |                                   | <u>64,754,689</u>     |
| <b>Operating expenses:</b>   |                      |                                   |                                   |                       |
| Program services:  |                      |                                   |                                   |                       |
| Scientific research, economic analysis,<br>and policy development: |                      |                                   |                                   |                       |
| Climate  | 44,650,876           |                                   |                                   | 44,650,876            |
| Oceans   | 16,848,491           |                                   |                                   | 16,848,491            |
| Ecosystems   | 12,888,679           |                                   |                                   | 12,888,679            |
| Health   | 4,888,388            |                                   |                                   | 4,888,388             |
| Education  | 3,744,196            |                                   |                                   | 3,744,196             |
| Membership activities  | <u>482,834</u>       |                                   |                                   | <u>482,834</u>        |
| Total program services   | <u>83,503,464</u>    |                                   |                                   | <u>83,503,464</u>     |
| Supporting services:   |                      |                                   |                                   |                       |
| Management and general   | 5,775,030            |                                   |                                   | 5,775,030             |
| New member acquisition   | 898,424              |                                   |                                   | 898,424               |
| Fund-raising:  |                      |                                   |                                   |                       |
| Membership   | 2,642,950            |                                   |                                   | 2,642,950             |
| Development  | <u>7,531,957</u>     |                                   |                                   | <u>7,531,957</u>      |
| Total supporting services  | <u>16,848,361</u>    |                                   |                                   | <u>16,848,361</u>     |
| Total operating expenses   | <u>100,351,825</u>   |                                   |                                   | <u>100,351,825</u>    |
| Change in net assets from operations                               | 1,071,215            | (36,668,351)                      |                                   | (35,597,136)          |
| <b>Change in net assets from non-operating activities:</b>         |                      |                                   |                                   |                       |
| Other expenses, net of contributions<br>and other income           | (521,802)            | (22,352)                          |                                   | (544,154)             |
| Investment results, net of allocation to<br>operations             | <u>642,697</u>       | <u>3,471,549</u>                  |                                   | <u>4,114,246</u>      |
| <b>Change in net assets</b>  | 1,192,110            | (33,219,154)                      |                                   | (32,027,044)          |
| Net assets - beginning of year                                     | <u>39,971,911</u>    | <u>128,687,457</u>                | <u>\$ 3,736,498</u>               | <u>172,395,866</u>    |
| <b>Net assets - end of year</b>                                    | <u>\$ 41,164,021</u> | <u>\$ 95,468,303</u>              | <u>\$ 3,736,498</u>               | <u>\$ 140,368,822</u> |

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

**Consolidating Statement of Activities**  
**Year Ended September 30, 2011**  
(with summarized financial information for 2010)

|  | <u>EDF</u>            | <u>EDAF</u>         | <u>CFF</u>         | <u>Eliminations</u> | <u>Total</u>          | <u>Year Ended<br/>September 30,<br/>2010</u> |
|--|-----------------------|---------------------|--------------------|---------------------|-----------------------|--|
| <b>Operating support and revenue:</b>                      |                       |                     |                    |                     |                       |  |
| Support:   |                       |                     |                    |                     |                       |  |
| Membership and contributions                               | \$ 11,610,021         | \$ 387,783          |                    |                     | \$ 11,997,804         | \$ 11,297,351                                |
| Major gifts  | 29,276,835            | 854,925             |                    |                     | 30,131,760            | 27,436,413                                   |
| Foundations  | 48,877,392            | 600,000             | \$ 50,000          | \$ (650,000)        | 48,877,392            | 18,262,376                                   |
| Government and other grants                                | 2,357,192             | 200                 |                    |                     | 2,357,392             | 2,756,786                                    |
| Bequests and other planned giving                          | <u>1,955,238</u>      | <u>12,203</u>       |                    |                     | <u>1,967,441</u>      | <u>2,363,748</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>     | <u>62,116,674</u>                            |
| Revenue:   |                       |                     |                    |                     |                       |  |
| Investment income allocated for operations                 | 1,916,546             |                     |                    |                     | 1,916,546             | 1,765,273                                    |
| Fees, royalties and other income                           | <u>586,154</u>        |                     | <u>248,317</u>     |                     | <u>834,471</u>        | <u>872,742</u>                               |
| Total revenue  | <u>2,502,700</u>      | <u>0</u>            | <u>248,317</u>     |                     | <u>2,751,017</u>      | <u>2,638,015</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>     | <u>64,754,689</u>                            |
| <b>Operating expenses:</b>                                 |                       |                     |                    |                     |                       |  |
| Salaries and wages   | 32,940,889            | 635,096             | 121,858            |                     | 33,697,843            | 31,761,713                                   |
| Benefits and other employment costs                        | 8,187,212             | 175,096             | 32,120             |                     | 8,394,428             | 8,190,796                                    |
| Professional and consulting fees                           | 16,455,481            | 1,111,064           | 122,157            |                     | 17,688,702            | 20,046,926                                   |
| Travel   | 4,101,481             | 27,521              | 6,531              |                     | 4,135,533             | 4,272,052                                    |
| Printing   | 472,776               | 1,090               |                    |                     | 473,866               | 587,741                                      |
| Postage and delivery                                       | 305,327               | 4,521               |                    |                     | 309,848               | 211,743                                      |
| Occupancy  | 4,723,408             | 59,276              | 13,966             |                     | 4,796,650             | 4,488,381                                    |
| Telecommunications   | 1,079,691             | 16,182              | 2,102              |                     | 1,097,975             | 920,759                                      |
| Data management  | 907,005               | 44,628              |                    |                     | 951,633               | 772,539                                      |
| Office supplies and equipment                              | 667,106               | 15,896              | 510                |                     | 683,512               | 1,333,655                                    |
| Meetings and events  | 1,674,233             | 148,181             |                    |                     | 1,822,414             | 1,549,663                                    |
| Subscriptions and dues                                     | 419,857               | 40                  | 284                |                     | 420,181               | 539,638                                      |
| Advertising and promotions                                 | 1,206,985             | 401,289             |                    |                     | 1,608,274             | 7,729,703                                    |
| Grants to others   | 8,826,110             | 1,676,158           |                    | (650,000)           | 9,852,268             | 10,819,178                                   |
| Direct marketing   | 4,721,858             | 215,847             |                    |                     | 4,937,705             | 4,734,918                                    |
| Other  | <u>364,658</u>        | <u>291,808</u>      | <u>106,386</u>     |                     | <u>762,852</u>        | <u>993,444</u>                               |
| Total operating expenses                                   | <u>87,054,077</u>     | <u>4,823,693</u>    | <u>405,914</u>     | <u>(650,000)</u>    | <u>91,633,684</u>     | <u>98,952,849</u>                            |
| Depreciation and amortization                              | <u>1,486,278</u>      |                     |                    |                     | <u>1,486,278</u>      | <u>1,398,976</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>     | <u>100,351,825</u>                           |
| Change in net assets from operations                       | 8,039,023             | (2,968,582)         | (107,597)          | 0                   | 4,962,844             | (35,597,136)                                 |
| <b>Change in net assets from non-operating activities:</b> |                       |                     |                    |                     |                       |  |
| Other expenses, net of contributions and other income      | 182,802               |                     |                    |                     | 182,802               | (544,154)                                    |
| Investment results, net of allocation to operations        | <u>(3,385,318)</u>    | <u>(92)</u>         |                    |                     | <u>(3,385,410)</u>    | <u>4,114,246</u>                             |
| <b>Change in net assets</b>                                | 4,836,507             | (2,968,674)         | (107,597)          | 0                   | 1,760,236             | (32,027,044)                                 |
| 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>    | <u>172,395,866</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> | <u>\$ 140,368,822</u>                        |

See notes to consolidated and consolidating financial statements



## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Consolidating Statement of Activities Year Ended September 30, 2010

|  | <u>EDF</u>            | <u>EDAF</u>         | <u>CFF</u>       | <u>Eliminations</u> | <u>Total</u>          |
|--|-----------------------|---------------------|------------------|---------------------|-----------------------|
| <b>Operating support and revenue:</b>                      |                       |                     |                  |                     |                       |
| Support:   |                       |                     |                  |                     |                       |
| Membership and contributions                               | \$ 10,166,632         | \$ 1,130,719        |                  |                     | \$ 11,297,351         |
| Major gifts  | 22,081,195            | 5,355,218           |                  |                     | 27,436,413            |
| Foundations  | 15,112,376            | 3,600,000           | \$ 50,000        | \$ (500,000)        | 18,262,376            |
| Government and other grants                                | 2,756,786             |                     |                  |                     | 2,756,786             |
| Bequests and other planned giving                          | <u>2,363,748</u>      |                     |                  |                     | <u>2,363,748</u>      |
| Total support  | <u>52,480,737</u>     | <u>10,085,937</u>   | <u>50,000</u>    | <u>(500,000)</u>    | <u>62,116,674</u>     |
| Revenue:   |                       |                     |                  |                     |                       |
| Investment income allocated for operations                 | 1,765,273             |                     |                  |                     | 1,765,273             |
| Fees, royalties and other income                           | <u>693,483</u>        | <u>536</u>          | <u>178,723</u>   |                     | <u>872,742</u>        |
| Total revenue  | <u>2,458,756</u>      | <u>536</u>          | <u>178,723</u>   |                     | <u>2,638,015</u>      |
| Total operating support and revenue                        | <u>54,939,493</u>     | <u>10,086,473</u>   | <u>228,723</u>   | <u>(500,000)</u>    | <u>64,754,689</u>     |
| <b>Operating expenses:</b>                                 |                       |                     |                  |                     |                       |
| Salaries and wages   | 30,791,170            | 859,478             | 111,065          |                     | 31,761,713            |
| Benefits and other employment costs                        | 7,904,664             | 256,870             | 29,262           |                     | 8,190,796             |
| Professional and consulting fees                           | 15,269,670            | 4,668,232           | 109,024          |                     | 20,046,926            |
| Travel   | 4,237,908             | 22,997              | 11,147           |                     | 4,272,052             |
| Printing   | 562,322               | 25,085              | 334              |                     | 587,741               |
| Postage and delivery                                       | 183,516               | 28,227              |                  |                     | 211,743               |
| Occupancy  | 4,419,832             | 55,365              | 13,184           |                     | 4,488,381             |
| Telecommunications   | 901,721               | 17,022              | 2,016            |                     | 920,759               |
| Data management  | 677,570               | 94,969              |                  |                     | 772,539               |
| Office supplies and equipment                              | 1,300,745             | 32,360              | 550              |                     | 1,333,655             |
| Meetings and events  | 1,456,293             | 93,101              | 269              |                     | 1,549,663             |
| Subscriptions and dues                                     | 536,644               | 2,844               | 150              |                     | 539,638               |
| Advertising and promotions                                 | 4,103,848             | 3,625,855           |                  |                     | 7,729,703             |
| Grants to others   | 9,061,178             | 2,258,000           |                  | (500,000)           | 10,819,178            |
| Direct marketing   | 4,410,485             | 324,433             |                  |                     | 4,734,918             |
| Other  | <u>870,913</u>        | <u>88,339</u>       | <u>34,192</u>    |                     | <u>993,444</u>        |
| Depreciation and amortization                              | 86,688,479            | 12,453,177          | 311,193          | (500,000)           | 98,952,849            |
|  | <u>1,398,976</u>      |                     |                  |                     | <u>1,398,976</u>      |
| Total operating expenses                                   | <u>88,087,455</u>     | <u>12,453,177</u>   | <u>311,193</u>   | <u>(500,000)</u>    | <u>100,351,825</u>    |
| Change in net assets from operations                       | (33,147,962)          | (2,366,704)         | (82,470)         | 0                   | (35,597,136)          |
| <b>Change in net assets from non-operating activities:</b> |                       |                     |                  |                     |                       |
| Other expenses, net of contributions and other income      | (544,154)             |                     |                  |                     | (544,154)             |
| Investment results, net of allocation to operations        | <u>4,114,056</u>      | <u>190</u>          |                  |                     | <u>4,114,246</u>      |
| <b>Change in net assets</b>                                | (29,578,060)          | (2,366,514)         | (82,470)         | 0                   | (32,027,044)          |
| Net assets - beginning of year                             | <u>161,775,725</u>    | <u>10,506,721</u>   | <u>113,420</u>   | <u>0</u>            | <u>172,395,866</u>    |
| <b>Net assets - end of year</b>                            | <u>\$ 132,197,665</u> | <u>\$ 8,140,207</u> | <u>\$ 30,950</u> | <u>\$ 0</u>         | <u>\$ 140,368,822</u> |

See notes to consolidated and consolidating financial statements

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Functional Expenses  
 Year Ended September 30, 2011  
 (with summarized financial information for 2010)

|                                     | Climate              | Oceans               | Ecosystems           | Health              | Education           | Membership Activities | Total Program Services | Management and General | New Member Acquisition | Fund-raising        |                     | Total Supporting Services | Total Program and Supporting Services |                       |
|-------------------------------------|----------------------|----------------------|----------------------|---------------------|---------------------|-----------------------|------------------------|------------------------|------------------------|---------------------|---------------------|---------------------------|---------------------------------------|-----------------------|
|                                     |                      |                      |                      |                     |                     |                       |                        |                        |                        | Membership          | Development         |                           | 2011                                  | 2010                  |
| 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                         | \$ 31,761,713         |
| 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                             | 8,190,796             |
| 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                            | 20,046,926            |
| 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                             | 4,272,052             |
| Printing                            | 170,888              | 91,098               | 55,121               | 21,427              | 92,359              |                       | 430,893                | 799                    | 37                     | 111                 | 42,026              | 42,973                    | 473,866                               | 587,741               |
| 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                               | 211,743               |
| 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                             | 4,488,381             |
| 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                             | 920,759               |
| 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                               | 772,539               |
| 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                               | 1,333,655             |
| 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                             | 1,549,663             |
| 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                               | 539,638               |
| 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                             | 7,729,703             |
| 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                             | 10,819,178            |
| 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                             | 4,734,918             |
| 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                               | 993,444               |
|                                     | 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                            | 98,952,849            |
| 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                             | 1,398,976             |
|                                     | <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>                  | <u>\$ 100,351,825</u> |

See notes to consolidated and consolidating financial statements

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Functional Expenses  
Year Ended September 30, 2010

|  | Climate              | Oceans               | Ecosystems           | Health              | Education           | Membership<br>Activities | Total<br>Program<br>Services | Management<br>and<br>General | New<br>Member<br>Acquisition | Fund-raising        |                     | Total<br>Supporting<br>Services | Total<br>Program and<br>Supporting<br>Services |
|--|----------------------|----------------------|----------------------|---------------------|---------------------|--------------------------|------------------------------|------------------------------|------------------------------|---------------------|---------------------|---------------------------------|--|
|  |                      |                      |                      |                     |                     |                          |                              |                              |                              | Membership          | Development         |                                 |  |
| Salaries and wages                     | \$ 12,093,223        | \$ 5,335,127         | \$ 4,925,709         | \$ 1,681,552        | \$ 970,901          | \$ 138,806               | \$ 25,145,318                | \$ 1,582,698                 |                              | \$ 700,910          | \$ 4,332,787        | \$ 6,616,395                    | \$ 31,761,713                                  |
| Benefits and other<br>employment costs | 3,123,178            | 1,403,894            | 1,169,193            | 421,525             | 249,962             | 33,920                   | 6,401,672                    | 419,147                      |                              | 183,864             | 1,186,113           | 1,789,124                       | 8,190,796                                      |
| Professional and<br>consulting fees    | 9,184,950            | 5,835,811            | 3,412,598            | 882,984             | 128,143             | 31,491                   | 19,475,977                   | 252,550                      | \$ 96                        | 114,502             | 203,801             | 570,949                         | 20,046,926                                     |
| Travel                                 | 1,805,594            | 1,035,205            | 574,131              | 192,569             | 95,252              | 2,798                    | 3,705,549                    | 124,932                      |                              | 51,369              | 390,202             | 566,503                         | 4,272,052                                      |
| Printing                               | 157,280              | 96,423               | 76,690               | 25,966              | 160,411             | 1,122                    | 517,892                      | 148                          |                              | 332                 | 69,369              | 69,849                          | 587,741  |
| Postage and delivery                   | 46,164               | 30,509               | 23,820               | 10,180              | 44,345              | 2,253                    | 157,271                      | 18,931                       | 1,037                        | 5,940               | 28,564              | 54,472                          | 211,743  |
| Occupancy                              | 375,434              | 391,737              | 356,189              | 355,953             | 352,620             |                          | 1,831,933                    | 1,944,660                    |                              | 355,343             | 356,445             | 2,656,448                       | 4,488,381                                      |
| Telecommunications                     | 204,431              | 131,142              | 100,145              | 33,921              | 38,632              | 26,250                   | 534,521                      | 192,264                      | 4                            | 81,067              | 112,903             | 386,238                         | 920,759  |
| Data management                        | 186,729              | 65,688               | 85,726               | 20,749              | 58,892              | 43,966                   | 461,750                      | 152,387                      | 20,366                       | 76,241              | 61,795              | 310,789                         | 772,539  |
| Office supplies and<br>equipment       | 100,520              | 61,821               | 584,051              | 35,631              | 38,302              | 1,051                    | 821,376                      | 268,820                      |                              | 112,069             | 131,390             | 512,279                         | 1,333,655                                      |
| Meetings and events                    | 363,542              | 594,103              | 158,382              | 87,041              | 67,220              | 370                      | 1,270,658                    | 40,824                       |                              | 19,837              | 218,344             | 279,005                         | 1,549,663                                      |
| Subscriptions and<br>dues              | 260,343              | 73,903               | 72,511               | 22,574              | 24,375              | 3,733                    | 457,439                      | 23,326                       | 1,459                        | 6,822               | 50,592              | 82,199                          | 539,638  |
| Advertising and<br>promotions          | 6,790,146            | 147,678              | 122,120              | 602,860             | 39,881              | 5,000                    | 7,707,685                    | 6,309                        | 192                          | 13,014              | 2,503               | 22,018                          | 7,729,703                                      |
| Grants to others                       | 8,300,462            | 1,382,958            | 714,260              | 372,671             | 3,553               |                          | 10,773,904                   | 39,021                       |                              | 2,516               | 3,737               | 45,274                          | 10,819,178                                     |
| Direct marketing                       | 1,445,399            | 6,409                | 232,229              | 8,746               | 1,333,322           | 184,511                  | 3,210,616                    | 11,161                       | 872,661                      | 590,738             | 49,742              | 1,524,302                       | 4,734,918                                      |
| Other                                  | 124,314              | 177,842              | 198,268              | 59,256              | 60,144              | 7,563                    | 627,387                      | 148,363                      | 2,609                        | 107,330             | 107,755             | 366,057                         | 993,444  |
|  | 44,561,709           | 16,770,250           | 12,806,022           | 4,814,178           | 3,665,955           | 482,834                  | 83,100,948                   | 5,225,541                    | 898,424                      | 2,421,894           | 7,306,042           | 15,851,901                      | 98,952,849                                     |
| Depreciation and<br>amortization       | 89,167               | 78,241               | 82,657               | 74,210              | 78,241              |                          | 402,516                      | 549,489                      |                              | 221,056             | 225,915             | 996,460                         | 1,398,976                                      |
|  | <u>\$ 44,650,876</u> | <u>\$ 16,848,491</u> | <u>\$ 12,888,679</u> | <u>\$ 4,888,388</u> | <u>\$ 3,744,196</u> | <u>\$ 482,834</u>        | <u>\$ 83,503,464</u>         | <u>\$ 5,775,030</u>          | <u>\$ 898,424</u>            | <u>\$ 2,642,950</u> | <u>\$ 7,531,957</u> | <u>\$ 16,848,361</u>            | <u>\$ 100,351,825</u>                          |

See notes to consolidated and consolidating financial statements

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

## Consolidated Statements of Cash Flows

|   | <u>Year Ended September 30,</u> |                     |
|---|---------------------------------|---------------------|
|   | <u>2011</u>                     | <u>2010</u>         |
| <b>Cash flows from operating activities:</b>  |                                 |                     |
| Change in net assets  | \$ 1,760,236                    | \$ (32,027,044)     |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |                                 |                     |
| Donated securities  | (2,621,432)                     | (1,891,825)         |
| Net realized and unrealized losses (gains) on investments                               | 2,500,680                       | (5,136,662)         |
| Depreciation and amortization   | 1,486,278                       | 1,398,976           |
| Changes in:   |                                 |                     |
| Prepaid expenses and other assets   | (422,711)                       | (201,272)           |
| Inventory   | 25,883                          | (5,959)             |
| Pledges receivable  | (11,145,976)                    | 36,660,933          |
| Donor-advised fund investments  | (236,143)                       | 13,545              |
| California Fisheries loans  | (451,891)                       | (60,422)            |
| Accounts payable and accrued expenses   | (1,776,864)                     | (447,535)           |
| Deferred revenue  | (7,254)                         | (288,766)           |
| Deferred rent payable   | (128,841)                       | (154,311)           |
| Annuities payable   | 843,623                         | 129,876             |
| California Fisheries grants payable   | (150,794)                       | (735,246)           |
| Other liabilities   | (243,575)                       | 240,294             |
|   | <u>(10,568,781)</u>             | <u>(2,505,418)</u>  |
| <b>Net cash used in operating activities</b>  |                                 |                     |
| <b>Cash flows from investing activities:</b>  |                                 |                     |
| Purchases of property and equipment   | (1,611,527)                     | (654,224)           |
| Proceeds from sales of investments  | 29,208,448                      | 32,618,199          |
| Purchases of investments  | (20,688,073)                    | (28,351,293)        |
| Other investing activities, net   | 122,052                         | 126,710             |
|   | <u>7,030,900</u>                | <u>3,739,392</u>    |
| <b>Net cash provided by investing activities</b>  |                                 |                     |
| <b>Cash flows from financing activities:</b>  |                                 |                     |
| Net contributions and payments subject to split-interest agreements                     | (729,063)                       | 387,044             |
| Repayments of notes   | (575,004)                       | (575,004)           |
|   | <u>(1,304,067)</u>              | <u>(187,960)</u>    |
| <b>Net cash used in financing activities</b>  |                                 |                     |
| <b>Net change in cash and cash equivalents</b>  | <u>(4,841,948)</u>              | 1,046,014           |
| Cash and cash equivalents at beginning of year  | <u>7,539,201</u>                | <u>6,493,187</u>    |
| <b>Cash and cash equivalents at end of year</b>   | <u>\$ 2,697,253</u>             | <u>\$ 7,539,201</u> |
| <b>Supplementary disclosure of cash flow information:</b>                               |                                 |                     |
| Interest paid   | <u>\$ 117,518</u>               | <u>\$ 153,123</u>   |

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

## Notes to Consolidated and Consolidating Financial Statements September 30, 2011 and 2010

### 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 and the California Fisheries Fund, Inc. (together, the "Organization"), as of and for the fiscal years-ended September 30, 2011 and 2010.

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, 2011 and 2010, 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, 2011 and 2010

#### 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 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) Applicability of NYPMIFA:

In September 2010, New York State enacted the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), the terms of which are applicable to the Organization. NYPMIFA principally addresses (i) the management and investment of all of a not-for-profit entity's "institutional funds" (which are mainly the financial assets of the entity and which exclude programmatic assets such as buildings or operating facilities), and (ii) the appropriations by the governing board of earnings derived from donor-restricted endowment funds. In essence, NYPMIFA requires all of the financial resources of the entity to be used in a "prudent" fashion, with the express approval and action of the governing board.

(e) 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 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.

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2011 and 2010

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

##### [2] Financial reporting: (continued)

###### (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.

###### (f) Temporary investments for future year activities:

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

###### (g) 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] Inventory:

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

##### [4] Property, equipment and depreciation:

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

##### [5] Fair-value measurement:

In fiscal-year 2009, the Organization adopted Accounting Standards Codification ("ASC") 820-10-05 relating to fair-value measurement. Accordingly, the Organization reports a fair-value measurement of all applicable financial assets and liabilities including investments, contributions, inventory, other receivable deferred revenue and short and long term notes payable. In May 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-04, "Fair Value Measurement Amendments to Achieve Common Fair-Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS" as an update to ASC 820 and is effective for interim periods beginning after December 15, 2011. ASU No. 2011-04 is not expected to have a material impact on the Organization's consolidated and consolidating financial statements.

## **ENVIRONMENTAL DEFENSE FUND, INCORPORATED**

### **Notes to Consolidated and Consolidating Financial Statements September 30, 2011 and 2010**

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

##### **[6] Investments:**

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

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

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

##### **[7] Valuation allowances:**

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

##### **[8] Pledges receivable:**

Pledges receivable are reported at their net realizable values.

##### **[9] 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 consolidated and consolidating statements of activities.

##### **[10] 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



## **ENVIRONMENTAL DEFENSE FUND, INCORPORATED**

### **Notes to Consolidated and Consolidating Financial Statements September 30, 2011 and 2010**

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

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

share of the actual ordinary income of these funds until their deaths, at which point the investment asset-share of the donors becomes available to the Organization.

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

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

##### **[11] 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, 2011 and 2010, accrued vacation obligations were approximately \$1,973,000 and \$1,797,000, respectively.

##### **[12] 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.

##### **[13] 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.

##### **[14] 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.

##### **[15] Income taxes:**

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

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2011 and 2010

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

##### [16] Endowment funds:

The Organization reports all applicable disclosures to its funds treated as endowment (see Note M).

##### [17] 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:

|  | <u>September 30,</u> |                      |
|--|----------------------|----------------------|
|  | <u>2011</u>          | <u>2010</u>          |
| In one year or less  | \$ 44,673,262        | \$ 33,377,843        |
| Between one and two years  | 25,235,020           | 22,105,763           |
| Between two and three years  | 18,974,687           | 12,417,293           |
| Between three and four years   | 647,850              | 11,112,500           |
| Four years and thereafter  | <u>300,000</u>       | <u>450,000</u>       |
| Gross pledges receivable   | 89,830,819           | 79,463,399           |
| Less: present value discount<br>(calculated at rates ranging from 0.3% to 2.3%)<br>and allowance for uncollectible pledges | <u>(792,338)</u>     | <u>(1,570,894)</u>   |
| Net pledges receivable   | <u>\$ 89,038,481</u> | <u>\$ 77,892,505</u> |

While the Organization has an excellent record of collecting pledges receivable, management has provided a valuation allowance of \$606,162 and \$1,085,399 for uncollectible pledges as of September 30, 2011 and 2010, respectively.

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2011 and 2010

#### NOTE C - PROPERTY AND EQUIPMENT

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

|  | September 30,       |                     |
|--|---------------------|---------------------|
|  | 2011                | 2010                |
| Furniture and equipment                        | \$ 3,303,280        | \$ 3,406,014        |
| Computer equipment                             | 2,057,813           | 3,237,629           |
| Leasehold improvements                         | 4,635,269           | 11,381,983          |
| Building                                       | 393,319             | 393,319             |
| Software development                           | <u>1,136,144</u>    | <u>692,163</u>      |
|  | 11,525,825          | 19,111,108          |
| Less accumulated depreciation and amortization | <u>(7,551,286)</u>  | <u>(14,962,356)</u> |
|  | 3,974,539           | 4,148,752           |
| Construction-in-progress                       | <u>544,140</u>      | <u>307,350</u>      |
|  | <u>\$ 4,518,679</u> | <u>\$ 4,456,102</u> |

Depreciation and amortization expense was \$1,486,278 and \$1,398,976 for each of the fiscal-years 2011 and 2010, 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,        |                      |                      |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | 2011                 |                      | 2010                 |                      |
|   | Cost                 | Fair Value           | Cost                 | Fair Value           |
| Alternative investments                                     | \$ 7,773,257         | \$ 11,434,526        | \$ 12,325,840        | \$ 14,383,742        |
| Mutual and exchange traded funds                            | 30,678,367           | 29,753,109           | 26,682,925           | 27,495,681           |
| Money-market accounts                                       | 2,036,318            | 2,036,318            | 1,450,629            | 1,450,629            |
| Other investments - subject<br>to split-interest agreements | <u>6,769,657</u>     | <u>6,955,790</u>     | <u>5,572,733</u>     | <u>6,235,307</u>     |
|   | <u>\$ 47,257,599</u> | <u>\$ 50,179,743</u> | <u>\$ 46,032,127</u> | <u>\$ 49,565,359</u> |

As portrayed above, concentrations of the Organization's investments in excess of 10% of the fair values of its portfolio included approximately (i) 59% invested in mutual and exchange traded funds and (ii) 23% invested in alternative investments and (iii) 14% in assets subject to split-interest agreements.

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2011 and 2010

#### NOTE D - INVESTMENTS (CONTINUED)

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

|   | September 30,         |                        |                       |                   |                        |                     |
|---|-----------------------|------------------------|-----------------------|-------------------|------------------------|---------------------|
|   | 2011                  |                        |                       | 2010              |                        |                     |
|   | Unrestricted          | Temporarily Restricted | Total                 | Unrestricted      | Temporarily Restricted | Total               |
| Dividends and interest  | \$ 945,753            | \$ 86,063              | \$ 1,031,816          | \$ 161,504        | \$ 582,603             | \$ 744,107          |
| Realized and unrealized (losses) gains, net                                 | (1,227,992)           | (1,272,688)            | (2,500,680)           | 2,216,337         | 2,920,325              | 5,136,662           |
| Expenses and credits  |                       |                        |                       |                   | (1,250)                | (1,250)             |
| Net return on investments   | (282,239)             | (1,186,625)            | (1,468,864)           | 2,377,841         | 3,501,678              | 5,879,519           |
| Investment return allocated for operations                                  | (1,884,859)           | (31,687)               | (1,916,546)           | (1,735,144)       | (30,129)               | (1,765,273)         |
| Investment return (in excess of) less than amounts allocated for operations | <u>\$ (2,167,098)</u> | <u>\$ (1,218,312)</u>  | <u>\$ (3,385,410)</u> | <u>\$ 642,697</u> | <u>\$ 3,471,549</u>    | <u>\$ 4,114,246</u> |

ASC 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. The types of investments and other assets included in Level 1 consist of exchange-traded equity and debt securities, short-term money-market funds, and actively traded obligations issued by the U.S. government and government agencies.
- 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 other U.S. government and agency securities and corporate debt 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. Level 3 assets include securities in privately held companies, secured notes, private corporate bonds, and limited partnerships, the underlying investments of which could not be independently valued, or could not 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, 2011. 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, 2011 and 2010

#### 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 820-10-05 valuation levels:

|  | 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  | <u>39,275,051</u>    | <u>5,429,306</u>    | <u>11,434,526</u>    | <u>56,138,883</u>    |
| 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> |

|  | September 30, 2010   |                     |                      | Total                |
|--|----------------------|---------------------|----------------------|----------------------|
|  | Level 1              | Level 2             | Level 3              |                      |
| Temporary investments for future periods                 | \$ 12,896,208        |                     |                      | \$ 12,896,208        |
| Investments:   |                      |                     |                      |                      |
| Alternative investments                                  |                      |                     | \$ 14,383,742        | 14,383,742           |
| Mutual and exchange-traded funds                         | 27,495,681           |                     |                      | 27,495,681           |
| Money-market accounts                                    | 1,450,629            |                     |                      | 1,450,629            |
| Other investments - subject to split-interest agreements | <u>1,208,645</u>     | <u>\$ 5,026,662</u> |                      | <u>6,235,307</u>     |
| Total investments  | <u>43,051,163</u>    | <u>5,026,662</u>    | <u>14,383,742</u>    | <u>62,461,567</u>    |
| Donor-advised fund investments                           | <u>29,291</u>        |                     | <u>2,393,380</u>     | <u>2,422,671</u>     |
| Total  | <u>\$ 43,080,454</u> | <u>\$ 5,026,662</u> | <u>\$ 16,777,122</u> | <u>\$ 64,884,238</u> |

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2011 and 2010

#### NOTE D - INVESTMENTS (CONTINUED)

The table below summarizes the changes in investments measured at fair value for which the Organization used Level 3 inputs to determine fair value during fiscal-years 2011 and 2010:

|                               | <b>September 30, 2011</b>                               |                                      |                      |
|-------------------------------|---|--------------------------------------|----------------------|
|                               | <b>Fair-Value Measurements<br/>Using Level 3 Inputs</b> |                                      |                      |
|                               | <b>Alternative<br/>investments</b>                      | <b>Donor Advised<br/>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> |

|                              | <b>September 30, 2010</b>                               |                                      |                      |
|------------------------------|---|--------------------------------------|----------------------|
|                              | <b>Fair-Value Measurements<br/>Using Level 3 Inputs</b> |                                      |                      |
|                              | <b>Alternative<br/>investments</b>                      | <b>Donor Advised<br/>Fund Assets</b> | <b>Total</b>         |
| Balance - October 1, 2009:   | \$ 12,470,645   | \$ 1,305,480                         | \$ 13,776,125        |
| Current-year contributions   | 1,063,039   | 1,000                                | 1,064,039            |
| Net investment gains         | <u>850,058</u>  | <u>1,086,900</u>                     | <u>1,936,958</u>     |
| Balance - September 30, 2010 | <u>\$ 14,383,742</u>                                    | <u>\$ 2,393,380</u>                  | <u>\$ 16,777,122</u> |

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

|                       | <b>Fair Value</b>    | <b>Unfunded<br/>Commitments</b> | <b>Redemption<br/>Frequency</b> | <b>Redemption<br/>Notice Period</b> |
|-----------------------|----------------------|---------------------------------|---------------------------------|-------------------------------------|
| Private Equity Funds  | \$ 54,432            |                                 | Quarterly                       | 90 days                             |
| Venture Capital Funds | 476,264              | \$ 570,000                      | N/A                             | N/A                                 |
| Fund of Funds         | 3,741,129            |                                 | Quarterly                       | 90 days                             |
| Fund of Funds         | 214,183              |                                 | Redeemed in current year        |                                     |
| Fund of Funds         | 6,948,518            |                                 | Annually                        | 90 days                             |
| Private Equity        | <u>1,000,868</u>     |                                 | N/A                             | N/A                                 |
|                       | <u>\$ 12,435,394</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, 2011 and 2010

#### 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 \$437,066 and \$15,158 during fiscal-years ending 2011 and 2010, 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 \$203,005 and \$28,000 during fiscal-years 2011 and 2010, respectively, of which \$110,000 was made to the Organization in fiscal-year 2011. The aggregate value of investment assets held in the DAF was \$1,251,209 and \$2,422,671 at September 30, 2011 and 2010, respectively.

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

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

|   | <u>September 30,</u> |                     |
|---|----------------------|---------------------|
|   | <u>2011</u>          | <u>2010</u>         |
| Promissory note from donor, payable on demand     | \$ 100,000           | \$ 100,000          |
| Promissory note terminating 2012, at LIBOR + 1.5% | 131,250              | 356,250             |
| Promissory note terminating 2013, at LIBOR + 1.5% | 316,653              | 516,657             |
| Promissory note terminating 2018, at LIBOR + 1.5% | <u>987,500</u>       | <u>1,137,500</u>    |
|   | 1,535,403            | 2,110,407           |
| Fair-value adjustment                             | <u>(45,550)</u>      | <u>(86,560)</u>     |
|   | <u>\$ 1,489,853</u>  | <u>\$ 2,023,847</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 is a 4-year promissory note for the purpose of funding the renovations of its Washington D.C. office. The original principal balance of \$900,000 is to be repaid in 48 equal monthly installments of \$18,750, plus interest at one-month LIBOR plus 1.5%, beginning in fiscal-year 2008 and terminating in fiscal-year 2012.

The second loan is a 5-year promissory note for the purpose of funding the renovations of its New York office. The original principal balance of \$1,000,000 is to be repaid in 60 equal monthly installments of \$16,667, plus interest at one-month LIBOR plus 1.5%, beginning in fiscal-year 2008 and terminating in fiscal-year 2013.

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2011 and 2010

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

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, 2011, 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, 2011 or 2010 under this line of credit.

At September 30, 2011, 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 \$1,435,403 and \$2,010,407 at September 30, 2011 and 2010, 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 (\$45,550) and (\$86,560) at September 30, 2011 and 2010, 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, 2011, excluding the \$100,000 note payable on demand, are as follows:

| <u>Year Ending<br/>September 30,</u> | <u>Amount</u>       |
|--------------------------------------|---------------------|
| 2012                                 | \$ 481,254          |
| 2013                                 | 266,649             |
| 2014                                 | 150,000             |
| 2015                                 | 150,000             |
| 2016                                 | 150,000             |
| 2017 and thereafter                  | <u>237,500</u>      |
| Total                                | <u>\$ 1,435,403</u> |

Interest expense on debt borrowings, as well as interest-rate-swap agreements was \$119,845 and \$150,054 in fiscal-years 2011 and 2010, respectively.



## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2011 and 2010

#### 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>2011</u>          | <u>2010</u>          |
| Restricted by purpose: |                      |                      |
| Climate                | \$ 3,552,374         | \$ 18,701,516        |
| Oceans                 | 37,161,417           | 21,505,830           |
| Ecosystems             | 22,460,575           | 16,402,367           |
| Health                 | 3,072,752            | 3,601,210            |
| Education              | <u>5,235,921</u>     | <u>6,241,074</u>     |
|                        | 71,483,039           | 66,451,997           |
| Restricted by time     | <u>27,676,103</u>    | <u>29,016,306</u>    |
|                        | <u>\$ 99,159,142</u> | <u>\$ 95,468,303</u> |

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

|                             | <u>Year Ended September 30,</u> |                      |
|-----------------------------|---------------------------------|----------------------|
|                             | <u>2011</u>                     | <u>2010</u>          |
| Climate                     | \$ 32,343,788                   | \$ 46,508,463        |
| Oceans                      | 21,957,860                      | 16,991,885           |
| Ecosystems                  | 13,458,521                      | 14,439,889           |
| Health                      | 3,765,072                       | 1,864,708            |
| Education                   | <u>617,729</u>                  | <u>1,133,686</u>     |
|                             | 72,142,970                      | 80,938,631           |
| Time restrictions satisfied | <u>823,637</u>                  | <u>1,511,580</u>     |
|                             | <u>\$ 72,966,607</u>            | <u>\$ 82,450,211</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 2011 and 2010, respectively, was approximately \$1,603,000 and \$1,593,000.

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, 2011 and 2010, respectively, the asset value of this plan was approximately \$1,347,000 and \$1,227,700.

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 2011 and 2010, respectively, was \$66,740 and \$91,890, with a like

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2011 and 2010

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

amount recorded as a liability. During fiscal-year 2011, the Organization contributed \$25,270 to the plan and made payments of \$147,500. During fiscal-year 2010, no amounts were contributed and no payments were made out of the plan. The Organization has fully funded the plan for awards-to-date. At September 30, 2011 and 2010, respectively, the asset value of the plan was approximately \$303,100 and \$454,100. 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 2011 and 2010, the Organization has allocated joint costs (for informational materials and activities that include fund-raising appeals) among program and supporting services as follows:

|                           | <b>Year Ended September 30,</b> |                     |
|---------------------------|---------------------------------|---------------------|
|                           | <b>2011</b>                     | <b>2010</b>         |
| Climate                   | <b>\$ 2,143,506</b>             | \$ 1,308,890        |
| Oceans                    | <b>66,515</b>                   | 292,778             |
| Ecosystems                | <b>121,598</b>                  | 204,319             |
| Health                    | <b>53,544</b>                   | 44,241              |
| Education                 | <b>2,314,837</b>                | 2,363,958           |
| Membership activities     | <b>404,876</b>                  | 835,175             |
| New member acquisition    | <b>589,866</b>                  | 424,293             |
| Membership - fund-raising | <b><u>1,182,335</u></b>         | <u>660,563</u>      |
|                           | <b><u>\$ 6,877,077</u></b>      | <u>\$ 6,134,217</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 non-interest-bearing accounts. There are currently no insurance limits on balances held in non-interest-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, 2011 and 2010**

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

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

The Action Fund reported support and revenue of \$1,855,111 and \$10,086,473 in fiscal-years 2011 and 2010, respectively, which included grants of \$600,000 and \$450,000, respectively, from EDF, representing a portion of the grassroots lobbying and the direct lobbying allowances permitted EDF as a 501(c)(3) organization.

The Action Fund recorded expenses of \$4,823,693 and \$12,453,177 in fiscal-years 2011 and 2010, 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 \$4,948,007 due from EDF. This amount is invested by EDF on behalf of the Action Fund and interest accrues to the benefit of the Action Fund. The amount of the intercompany receivable is payable on demand.

##### **[2] California Fisheries Fund, Inc.:**

California Fisheries recorded revenue and support of \$298,317 and \$228,724 in fiscal-years 2011 and 2010, respectively. Grants of \$5,000,000 were awarded in fiscal-year 2008 consisting of grants to EDF in support of California Fisheries mission. Consequently, EDF managed the grants as pass-through grants to California Fisheries. The proceeds from the grants were, in turn, provided to California Fisheries to fund its operations and to establish a revolving loan fund ("Loan Fund"). The Loan Fund was established with an initial amount of \$4,550,000 to provide loan capital for use in making loans intended to improve and reform the conservation and financial performance of California's marine fisheries. 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 in fiscal-year 2011 for programs, resulting in a Loan Fund balance of \$3,663,960 as of September 30, 2011.

In fiscal-years 2011 and 2010, EDF awarded grants of \$50,000 to California Fisheries to cover administrative costs.

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

The Environmental Defense Fund de Mexico, A.C. commenced operations in August 2009. Expenditures of \$1,381,995 and \$533,492 for fiscal-years 2011 and 2010, respectively, are included in the accompanying consolidated and consolidating financial statements, as part of EDF.

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

EDAF PAC commenced operations in December 2009. Revenues of \$2,055 and \$48,000 and expenditures of \$1,554 and \$11,257 for fiscal-years 2011 and 2010, respectively, are included in the accompanying consolidated and consolidating financial statements, as part of the Action Fund.

## ENVIRONMENTAL DEFENSE FUND, INCORPORATED

### Notes to Consolidated and Consolidating Financial Statements September 30, 2011 and 2010

#### NOTE L - COMMITMENT AND CONTINGENCY

##### [1] Operating leases:

The Organization leases premises at thirteen 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, 2011:

| <u>Year Ending<br/>September 30,</u> | <u>Amount</u>        |
|--------------------------------------|----------------------|
| 2012                                 | \$ 4,504,823         |
| 2013                                 | 4,427,442            |
| 2014                                 | 2,818,789            |
| 2015                                 | 2,727,827            |
| 2016                                 | 2,778,670            |
| Thereafter                           | <u>9,650,799</u>     |
|                                      | <u>\$ 26,908,350</u> |

Rent expense included in operations for fiscal-years 2011 and 2010 was \$4,468,284 and \$4,110,281, 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, 2011 and 2010, 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, 2011, 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 has been recorded in the accompanying consolidated and consolidating financial statements. If, and when, an unfavorable outcome is probable and a reasonable estimate can be made, the Organization will accrue a loss in the 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, 2011. As required by accounting principles generally accepted in the United States of America, 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, 2011 and 2010

### 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 (see Note M[2]).

#### [6] Endowment net asset composition by type of fund consisted of the following:

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

# ENVIRONMENTAL DEFENSE FUND, INCORPORATED

## Notes to Consolidated and Consolidating Financial Statements September 30, 2011 and 2010

### NOTE M - ENDOWMENT (CONTINUED)

[8] Changes in endowment net assets for the fiscal-year were as follows:

|  | September 30, 2011        |                             |                     |
|--|---------------------------|-----------------------------|---------------------|
|  | Temporarily<br>restricted | Permanently<br>restricted   | Total               |
| 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>                    </u> | <u>(253,787)</u>    |
| Net assets, end of year                    | <u>\$ 755,557</u>         | <u>\$ 3,736,498</u>         | <u>\$ 4,492,055</u> |