# FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2010

December 31, 2010

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# **Independent Auditors' Report**

To the Board of Directors Earth Island Institute Inc. San Francisco, California

We have audited the accompanying statement of financial position of Earth Island Institute Inc. (a California nonprofit organization) as of December 31, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of Earth Island Institute Inc. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Earth Island Institute Inc. as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Le. Ho i Company, LLP

Daly City, California July 20, 2011

# STATEMENT OF FINANCIAL POSITION

December 31, 2010

### **Assets**

Current Assets	
Cash and cash equivalents	\$ 3,666,883
Wetland Restoration Trust Fund (contra)	1,639,072
Investments in marketable securities	1,389,221
Accounts and contributions receivable	109,580
Grants receivable	1,059,463
Bequest receivable	25,000
Receivable from Wetlands Restoration Fund Trust	12,297
Merchandise inventory	12,435
Prepaid expenses and others	100,828
Total Current Assets	8,014,779
Property and equipment, net of accumulated depreciation	1,479,726
Grants receivable	140,000
Total Assets	\$ 9,634,505
Liabilities and Net Assets	
Current Liabilities	
Accounts payable and other accrued expenses	\$ 234,626
Accrued vacation	129,930
Accrued grants payable	450,600
Agency obligation (contra)	1,639,072
Deposits and advances	44,266
Total Current Liabilities	2,498,494
Net Assets	
Unrestricted net assets	
Designated for investment in net property and equipment	1,479,726
Unrestricted	5,317,081
Total unrestricted net assets	6,796,807
Temporarily restricted net assets	339,204
Total Net Assets	7,136,011
Total Liabilities and Net Assets	\$ 9,634,505

#### STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2010

				Temporary Restricted		Total
<b>Support and Revenues</b>						
Contributions	\$	3,600,635	\$	-	\$	3,600,635
Foundation and other grants		5,122,487		120,000	\$	5,242,487
Membership dues		309,233		-		309,233
Service and consulting revenue		858,498		-		858,498
Merchandise sales, net of cost of sales						
and gifts of \$8,067		28,918		-		28,918
Royalty income		138,862		-		138,862
Advertising income		7,088		-		7,088
Journal sales		13,902		-		13,902
Investment return		72,852		-		72,852
Loss on disposal of asset		(1,019)		-		(1,019)
Administrative fee		63,762		-		63,762
Special events, net of costs of						
direct benefits to donors of \$79,671		132,194		-		132,194
In-kind contributions		18,294		-		18,294
Bequests		39,623		-		39,623
Loans forgiven		2,500		-		2,500
Miscellaneous		180,013		-		180,013
Net assets released from restrictions						
Expiration of time restrictions		571,250		(571,250)		-
Total support and revenues		11,159,092		(451,250)		10,707,842
Expenses						
Program services		8,151,126		_		8,151,126
Administrative and general		1,157,577		_		1,157,577
Fundraising		762,117		_		762,117
Total expenses		10,070,820	-			10,070,820
rotal expenses		10,070,020			-	10,070,020
Change in Net Assets		1,088,272		(451,250)		637,022
Net Assets, beginning of year		5,708,535		790,454		6,498,989
Net Assets, end of year	\$	6,796,807	\$	339,204	\$	7,136,011

#### STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2010

	 Program Services		Administrative and General						undraising	 Total
Expenses										
Salaries	\$ 2,733,997	\$	618,733	\$	273,040	\$ 3,625,770				
Payroll taxes and fringes	517,025		117,008		51,635	685,668				
Independent contractors	780,808		21,511		35,160	837,479				
Printing, audio/visual, and publications	113,725		18,669		8,238	140,632				
Postage and shipping	72,128		10,680		4,712	87,520				
Travel and meetings	812,281		20,248		8,935	841,464				
Conferences and training	390,236		7,938		3,503	401,677				
Direct mail costs	6,348		1,437		119,355	127,140				
Special appeals	42,514		-		42,514	85,028				
Grants and allocations	1,268,024		-		-	1,268,024				
Promotion and public education	179,741		-		54,334	234,075				
Professional fees	-		89,539		-	89,539				
Occupancy	289,416		65,498		28,904	383,818				
Insurance	41,475		9,386		4,142	55,003				
Supplies	3,590		77,262		34,095	114,947				
Telephone	75,019		16,977		7,492	99,488				
Depreciation and amortization	34,766		7,868		3,472	46,106				
Equipment rental and maintenance	55,737		12,614		5,566	73,917				
South Coast Habitat										
Restoration costs	377,803		_		_	377,803				
Outside services	162,762		18,366		13,479	194,607				
Bank fees	-		_		44,193	44,193				
Miscellaneous	 193,731		43,843	_	19,348	 256,922				
<b>Total Expenses</b>	\$ 8,151,126	\$	1,157,577	\$	762,117	\$ 10,070,820				

# STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2010

Cash Flows from Operating Activities		
Change in net assets	\$	637,022
Adjustments to reconcile change in net assets to net cash		
provided by operating activities:		
Depreciation and amortization		46,106
Loan forgiven		(2,500)
Net unrealized gain on investment in marketable securities		(65,563)
Net realized loss on sales of marketable securities		46,335
Write-off of balance from disposal of fixed asset		1,019
(Increase) decrease in:		
Accounts and contributions receivable		21,166
Grants receivable		(30,436)
Bequest receivable		75,000
Receivable from Wetlands Restoration Fund Trust		(12,297)
Merchandise inventory		(10,077)
Prepaid expenses and others		(23,465)
Increase (decrease) in:		
Accounts payable and accrued expenses		77,420
Accrued vacation		3,162
Accrued grants payable		450,600
Deposits and advances		(54,742)
Deferred Income		(12,429)
Net Cash Provided by Operating Activities	_	1,146,321
Cash Flows from Investing Activities		
Payments for EcoVillage improvements		(74,150)
Purchases of marketable securities		(890,514)
Proceeds from sales and redemption of marketable securities		318,261
Net Cash Used in Investing Activities		(646,403)
Net Increase in Cash and Cash Equivalents		499,918
Cash and Cash Equivalents, beginning of year		3,166,965
Cash and Cash Equivalents, end of year	\$	3,666,883

# NOTES TO FINANCIAL STATEMENTS

December 31, 2010

#### (1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Organization* – Earth Island Institute Inc. (Earth Island) was incorporated in California in September 1982 as a nonprofit organization for the purposes of promoting, through education, the social welfare of the general public in global conservation, environmental, and ecological principles.

Earth Island promotes the conservation, preservation, and restoration of the Earth through various program services worldwide under the administration of Earth Island Network Services (see Note 12). Many of those activities are carried out through fiscally sponsored projects managed under Earth Island's Project Support core program. Other core programs of Network Services providing services to the public and other constituencies are Publishing/Public Education, Restoration Initiatives, and New Leaders Initiative. Most of Earth Island's revenues come from contributions from the general public, foundation grants, and membership dues.

**Basis of Accounting** – The accompanying financial statements are presented using the accrual method of accounting.

Financial Statement Presentation – Information regarding the financial position and activities are classified into the applicable classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Earth Island does not have any permanently restricted net assets.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of the statements of cash flows, Earth Island considers all demand deposits with financial institutions, money market accounts, certificates of deposit, and short-term investments with an initial maturity of three months or less to be cash equivalents.

*Investments* – Investments in equity securities with readily determinable fair values and all investments in debt securities are reported in the statement of financial position at fair value with realized and unrealized gains and losses included in the statement of activities. Gains and losses are reflected as increases or decreases in the unrestricted class of net assets unless the donor or relevant laws place temporary or permanent restrictions on the gains and losses.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2010

*Accounts Receivable* – No allowance for uncollectible accounts has been provided since the accounts receivable are all deemed to be collectible.

*Merchandise Inventory* – Merchandise inventory consists primarily of T-shirts, books, bicycle parts and other various items sold to the general public for educational and fundraising purposes. The inventory is stated at the lower of cost or market with cost determined by the first-in, first-out method.

**Property and Equipment** – Property and equipment are stated at cost of acquisition or construction. Contributed property and equipment are recorded at their estimated fair market values at the date of donation. Earth Island reports donated property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The cost of maintenance and repairs is expensed as incurred while significant renewals and betterments are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the term of the lease including extensions.

Earth Island uses \$5,000 as its capitalization threshold for property and equipment since the beginning of 2009.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions received by Earth Island are usually related to specific programs. These contributions are considered unrestricted and are reported as unrestricted support. Contributions received that have further restrictions placed by the donors within the specific programs or are designated for future periods are reported as temporarily restricted support that increases that net asset class. If a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Material unconditional promises to give and multi-year grants that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in foundation grants revenue.

**Donated Services** – Earth Island receives various volunteer services throughout the year. Only those donated services that met the criteria for recognition under generally accepted accounting principles are recognized in the statement of activities. There is no donated service recorded in the current year.

*Membership Dues* – Membership dues are recognized as revenue based on the period covered by the membership dues. Earth Island's membership is on a calendar year basis.

#### NOTES TO FINANCIAL STATEMENTS

December 31, 2010

*Grants Made* – Earth Island periodically provides grants to unrelated nonprofit organizations for the support of various environmental, educational, and informational activities. Unconditional grants made by Earth Island to unrelated nonprofit organizations are recorded as expense upon commitment.

**Functional Allocation of Expenses** – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events – Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affects the financial statements. Such events have been evaluated through July 22, 2011, which is the date the financial statements were available to be issued.

Income Taxes – Earth Island is exempt from Federal income and California franchise taxes under provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, respectively. However, taxexempt organizations are subject to Federal income and California franchise taxes for unrelated business taxable income and provision for income taxes is provided for the unrelated business taxable income, if any.

Earth Island is required to file annual informational returns and business income tax returns with the Internal Revenue Services and the California Franchise Tax Board. Management believes that there are no uncertain tax positions because all tax positions taken are all well supported. The tax returns are subject to examination by the taxing authorities generally for three years and four years for federal and state, respectively, starting with the date of filing or the due date of the tax return whichever is later.

Earth Island has elected to utilize Section 501(h) of the Internal Revenue Code, which allows limited lobbying activities by Section 501(c)(3) nonprofit organizations.

#### (2) INVESTMENTS IN MARKETABLE SECURITIES

Accounting Standards Codification (ASC) 820 established a fair value hierarchy to prioritize the inputs used in valuation techniques. There are three levels to the fair value hierarchy of inputs to fair value (with Level 1 being the highest priority and Level 3 the lowest priority):

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active market;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities either directly or indirectly; and

Level 3: Unobservable inputs which reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the assets or

# NOTES TO FINANCIAL STATEMENTS December 31, 2010

liabilities, based on the best information available.

The marketable securities of Earth Island are valued based on quoted market price and consisted of the following as of December 31, 2010:

 Total	Level I	Level II	Level III
\$ 587,965	587,965	_	-
412,748	412,748	-	-
230,340	230,340	-	-
79,098	79,098	-	-
 79,070	79,070		
\$ 1,389,221	\$ 1,389,221	\$ -	\$ -
\$ \$	\$ 587,965 412,748 230,340 79,098 79,070	\$ 587,965 587,965 412,748 412,748 230,340 230,340 79,098 79,098 79,070 79,070	\$ 587,965

The investment return for year 2010 consisted of the following:

Interest and dividend from banks and brokerage firm Net unrealized gain on investment in marketable securities Net realized loss on sales of marketable securities		53,624 65,563 (46,335)
Total	\$	72,852

#### (3) PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2010 consisted of the following:

				Estimated
			Accumulated	Useful
		Basis	Depreciation	<u>Life</u>
Furniture and equipment	\$	146,160	\$ 106,670	Various
House (EcoVillage)		51,951	8,947	30 yrs.
Automobiles		79,108	53,917	5 yrs.
Leasehold Improvements at DBC		231,974	26,969	15 yrs
Building Improvements (Ecovillag	ge)	11,687	779	30 yrs.
Land Improvements (EcoVillage)		527,500	-	30 yrs.
Land (EcoVillage)		628,628	<del>_</del>	N/A
Total	\$	1,677,008	\$ 197,282	

Earth Island moved its main office to David Brower Center (DBC) in May 2009 and the amortization for the leasehold improvements at DBC started upon the move. EcoVillage's land improvements have not been completed as of December 31, 2010 and their depreciation would not start until the improvements are completed.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2010

#### (4) <u>LEASES</u>

Earth Island's main office is at the David Brower Center in Berkeley. This lease is for five years commencing on April 20, 2009 with two five-year renewal options for \$18,156 per month.

Earth Island subleased office space at David Brower Center to three unrelated parties. One sublease had an initial lease term of one year starting May 1, 2009 for \$413 per month. Upon the end of the initial lease term, the sublease has been continuing month-to-month for \$425 per month until a new lease for the calendar year 2011 was signed on January 1, 2011. All other subleases were on a month-to-month basis for \$350 and \$800 per month for seven months and four months during 2010, respectively. On January 1, 2011, one of the month-to-month sublease was changed to a one-year lease for \$350 per month. Also on January 1, 2011, Earth Island signed a new sublease with a new sublesee for one year for \$415 per month.

David Brower Center building is owned by Oxford Street Development, LLC. David Brower Center holds a master lease for the building. Oxford Street Development, LLC has two members and one of which is David Brower Center, a California non-profit organization that qualifies within the meaning of Section 509(a)(3) of the Internal Revenue Code as a supporting organization for public charities described in section 509(a)(1) or (2) of the Internal Revenue Code. David Brower Center has designated two supported organizations — one of them is Earth Island Institute. David Brower Center engages in efforts to protect the natural world, educates the public about the natural world, and promotes sustainable human communities.

The office lease for Earth Island's project, Kids for the Bay, in Berkeley has been renewed for the period from May 10, 2008 to May 10, 2011 for \$1,760 per month for the first year, \$1,830 per month for the second year, and \$1,903 per month for the third year.

Earth Island's project, Bay Area Wilderness Training (BAWT), has two office leases – Milpitas and Oakland. The office lease in Milpitas is for the period from October 1, 2008 to September 30, 2011 with monthly rent of \$1,525; however, the landlord (a nonprofit organization) waived all except for \$1 of the monthly base rent. In addition to the rent, BAWT has to pay a CAM charge of \$452 per month. The total in-kind contribution recognized in 2010 from the reduced rent is \$18,294. The office lease in Oakland was for the period from January 15, 2009 to January 14, 2011 for \$2,927 per month. In August 2010, the monthly rent was renegotiated to be \$2,027 per month for the rest of the lease term. Effective January 15, 2011, the Oakland lease was extended to January 14, 2012 for \$2,000 base rent per month.

Earth Island's project, Energy Action, subleases an office in Washington D.C. for the period from December 1, 2009 to August 31, 2012. The rent is \$9,987 per month for the first year and is subject to a yearly 4% escalation on the anniversary date. Energy Action

# NOTES TO FINANCIAL STATEMENTS

December 31, 2010

subleases the space to two unrelated parties with the terms of the subleases end on August 31, 2012. The sublease income is \$762 per month and \$2,995 per month with a 4% rent escalation clause on the anniversary date.

Earth Island's Bay Localize project has entered into a two-year lease starting March 1, 2010 with monthly rent of \$1,540 for the first year and \$1,584 for the second year. Part of the space is subleased to an unrelated party over the term of one year ending February 28, 2011 for \$325 per month.

Earth Island's project, Global Service Corps, extended its lease to June 30, 2011. The monthly rent for this lease is \$550.

Earth Island's project, Changing Gears Bike Shop, has entered into a one-year lease beginning October 1, 2010 for \$863 per month.

In addition, Earth Island has several offices on a one-time or month-to-month basis throughout the U.S. to carry out its programs. Earth Island also paid its project directors for the usage of their home offices.

The rent and occupancy costs incurred in 2010 for all the leases, net of sublease income, totaled \$383,818.

The minimum future lease payments for the non-cancelable long-term leases are as follows:

Year Ending		Rent	S	ublet		Net	
December 31,	P	<u>Payments</u>		Payments Revenue		<u>Payments</u>	
2011	\$	393,745	\$	61,611	\$	332,134	
2012		292,600		32,258		260,342	
2013		203,016		-		203,016	
2014		67,672		_		67,672	

#### (5) <u>WETLAND RESTORATION TRUST FUND</u>

Wetland Restoration Trust Fund was established at Merrill Lynch brokerage firm by Earth Island per a Stipulation and Consent Decree as amended on March 22, 2001 by the United States District Court Southern District of California. This fund is to be used on restoration projects designated by the Southern California Wetlands Recovery Project Work Plan (the Recovery Project) and for administrative expenses. The Recovery Project is an inter-agency task force composed of the state and federal resources agencies and for which the California Coastal Conservancy acts as staff. According to the Consent Decree, Earth Island must designate at least 33% of the Fund exclusively for use on any of these projects listed on the Recovery Project 2001-2002 Work Plan and approved by

# NOTES TO FINANCIAL STATEMENTS

December 31, 2010

the Governing Board of the Recovery Project on or about May 18, 2001. Earth Island should designate which projects were to be recipients of these funds before the expiration of the 2001-2002 Work Plan on or about June 1, 2002. The remaining funds must be designated to projects listed on any of the Recovery Projects work plan through June 1, 2004. Any funds remaining undesignated after June 1, 2004 should be allocated at the sole discretion of the Recovery Project. Any funds remaining unspent by the Recovery Project by June 1, 2005 might be redirected by Earth Island to another restoration project on the then approved work plan. If any funds remaining unallocated after December 31, 2006, those funds should be released to the California Coastal Conservancy for wetlands restoration projects in Southern California. The parties have agreed to continue the administrative arrangement with Earth Island under the same terms after December 31, 2006 until all funds are allocated. Any disbursement of the funds from Merrill Lynch needs to be approved by the California Coastal Conservancy.

Funds received for Wetland Restoration Trust Fund but not yet spent were recorded as agency obligation. As of December 31, 2010, these funds were invested through Merrill Lynch in municipal bonds, money accounts, government securities, corporate bonds and mutual funds and were stated at fair value of \$1,639,072. Agency fund activities for the year ended December 31, 2010 are as follows:

Agency obligation, January 1, 2010	\$ 1,839,701
Disbursements to projects	(333,337)
Investment return	118,721
Return of unspent grant funds	54,602
Administrative expenses paid	(40,465)
Bank fees	(150)
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Agency obligation, December 31, 2010 <u>\$ 1,639,072</u>

#### (6) GRANTS PAYABLE

One of the programs of Energy Action Coalition, a project of Earth Island, is to raise funds and then re-granting it to collaborative partners for the "The Campus Climate Challenge" project. Energy Action Coalition develops a set of funding criteria for each year, reviews proposals from each partner and facilitates budget setting and distributes funds. At December 31, 2010, Energy Action Coalition has committed \$206,600 for regranting to the partners.

The International Marine Mammal Project, a project of Earth Island, made an agreement with the citizens of Fanalei and Walende Malaita Solomon Islands to end the dolphin hunts and live dolphin trade in the Solomon Islands in exchange for \$300,000 of funding over a two-year period to develop alternatives to dolphin hunts and trade. At December 31, 2010, the International Marine Mammal Project had \$244,000 left to be disbursed.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2010

#### (7) NOTE PAYABLE

The note payable to the Red Panda Network was non-interest bearing and was payable based on funds available. The loan balance at December 31, 2009 was \$2,500 and was fully forgiven in 2010.

#### (8) <u>TEMPORARILY RESTRICTED NET ASSETS</u>

As discussed in the Note 1, Earth Island records contributions which have time restrictions or further purpose restrictions within a specific program as temporarily restricted net assets. The releases during the year and the balances of temporarily restricted net assets at December 31, 2010 are as follows:

<u>Programs / projects</u>	]	Releases		Balance
Time-restricted:				
International Marine Mammal Project	\$	50,000	\$	-
Sacred Land Film Project		225,000		-
Center for Safe Energy		25,000		-
Energy Action		71,250		30,000
Women's Earth Alliance		-		100,000
Kids for the Bay		130,000		180,000
Bay Area Wildness Training		50,000		-
Connect the Dots		20,000		
Subtotal		571,250		310,000
Purpose-restricted:				
Marine Education Program				29,204
Subtotal			_	29,204
Total	\$	571,250	\$	339,204

#### (9) CONCENTRATION OF CREDIT RISK

Earth Island maintains its cash, cash equivalents, and investments at one bank and one brokerage firm. The cash balances in the banks are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 per customer per bank. In addition, there is no limit on FDIC insurance for qualified non-interest-bearing transaction accounts. The securities in the brokerage accounts are protected by Security Investor Protection Corporation (SIPC) for a maximum of \$500,000; moreover, the brokerage firms usually carry additional insurance to provide further protection for their customers.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2010

Neither SIPC nor the additional coverage protects against losses on investments due to market fluctuations.

At times, these balances may exceed the FDIC limits or the SIPC limits; however, Earth Island has not experienced any losses with respect to its bank and brokerage accounts. At December 31, 2010, Earth Island had approximately \$819,000 in the brokerage account exceeded the SIPC insurance limit.

#### (10) RECEIPT OF CONDITIONAL PROMISE TO GIVE

In September 2010, Energy Action Coalition, a project of Earth Island, received a conditional promise to give of \$200,000 from a foundation for the Define Our Decade campaign if the project could match the grant with other contributions. The Define Our Decade campaign would create a national vision for the future of energy, the environment and climate change, and work towards fulfilling that vision. Energy Action Coalition did not meet the match until February 2011.

#### (11) CONTINGENCIES

Earth Island participates in grant programs assisted by various governmental agencies. Those programs are subject to financial and compliance audits by the grantors or their representatives, the purpose of which is to ensure compliance with condition precedent and subsequent to the granting of funds. According to management, any liability for reimbursements, which may arise as the result of these audits, is believed not to be material.

Earth Island and an employee of Earth Island, along with four other parties, were named as defendants in the following two cases filed with the 11<sup>th</sup> Circuit Court in Florida. The following first case was also filed with the 17<sup>th</sup> Circuit Court in Florida.

Ocean World, S.A. v. Earth Island Institute, Inc. et al. – The plaintiff has brought tortuous interference claims against an employee of Earth Island and attempts to impute liability to Earth Island for the alleged negligent hiring and retention of the employee. The alleged interference stems from a speech by the employee concerning the drive harvest in Taiji, Japan that results in the slaughter of thousands of dolphins, including the purchase by Ocean World of twelve dolphins captured in the drive harvest and the attempted importation of those dolphins into the Dominican Republic.

Stefan Meister v. Earth Island Institute, Inc. et al. – The Plaintiff who is the Vice President of Ocean World has brought defamation, commercial misappropriation, negligence, fraud and conspiracy claims against Earth Island and one of its employees. The alleged claims stem from the same speech described in the above case.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2010

No trial dates have been set for both cases and Earth Island intends to contest all claims vigorously. The outcome of these cases presently cannot be determined.

#### (12) <u>EARTH ISLAND PROJECTS</u>

Earth Island had the following programs and projects in 2010:

- Earth Island Network Services is the core program of Earth Island aimed at carrying on Dave Brower's legacy of developing environmental leadership for the conservation, preservation and restoration of the Earth. Project Support provides incubation services to our project network; Public Education publishes *Earth Island Journal*, a quarterly publication on international environmental issues as well as Earth Island's website and monthly Island Wire e-newsletter; our Brower New Leaders Initiative oversees the Brower Youth Awards and emerging leaders; Restoration Initiative supports grassroots environment restoration leadership.
- Adaptation Network promotes adaptation, in concert with mitigation, to build resilience
  in the United States changing climate through support of both grassroots and policy level
  efforts.
- Altai Project works to protect the natural and cultural heritage of the Altai a uniquely diverse, mountainous region of southern Siberia through small grants, professional exchanges, and joint projects with indigenous partners.
- Baikal Watch promotes international activities for the permanent protection of biologically unique Lake Baikal in Siberia, as well as related initiatives throughout Russia and northern Asia.
- Bay Area Wilderness Training provides educators with the training and equipment needed to take urban youth on safe, powerful wilderness trips.
- **Bay Localize** builds more livable and self-reliant communities while decreasing dependence on fossil fuel in the nine-county Bay Area.
- **Big Wildlife** is a conservation advocacy group working to raise public awareness and gain support for top carnivore and keystone wildlife throughout North America through grassroots organizing and media.
- **Borneo Project** works to support indigenous rights, rain forest protection, and community development in Borneo.
- **Brower Fund\*** educates the public on David Brower's legacy of leadership and his message and provides short-term organizational support and small seed grants to innovative campaigns and projects demonstrating bold emerging leadership.
- Burrowing Owl Conservation Network~ is focused on the protection and restoration of burrowing owls and promotes the preservation and careful management of habitat. They combine hands-on conservation efforts with advocacy, research, landowner cooperation and support, progressive burrowing owl and habitat management policies and laws,

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outreach and education to prevent loss, foster healthy populations, and maintain intact natural communities for this declining species.

- California Student Sustainability Coalition (CSSC) is a statewide network of young leaders working together to advance sustainability through education, training, and networking. CSSC is currently collaborating with key decision makers to promote, create and implement university sustainability policies.
- Campaign to Safeguard America's Waters (C-SAW) works to stop industrial water pollution by fighting for strong national and state water quality standards. C-SAW's major foci for the past few years have been "mixing zones" and cruise ship pollution.
- CarbonfreeDC is a grassroots initiative dedicated to mobilizing DC area residents on one goal: dramatically reducing local carbon emissions. This is accomplished by bringing together individuals, businesses, organizations, and local government to: learn about local opportunities, increase adoption of renewable energy in the area, cultivate sustainable office initiatives, and galvanize citizens to share knowledge and resources.
- Center for EcoPerspectives (formerly Yggdrasil and Yggdrasil Institute) has as its mission furthering global sustainability. The Center conducts research and disseminates information relating to environmental and ecological issues with the aim of increasing global sustainability.
- Center for Ecosystem Restoration is a non-profit organization dedicated to the restoration of ecosystems and communities. Its goal is to improve the quality of the human and natural environment while charting a course for sustainable economic development, helping communities to prosper through work that improves the land, water, air, climate and biodiversity on which we all depend.
- Center for Safe Energy works to provide knowledge, American contacts, skills, technical assistance and financial resources to non-profit partners in the former Soviet Union that are strengthening democratic society and improving environmental conditions
- Changing Gears Community Bike Shop~ provides full service sales and repairs to the general public, job training to formerly homeless individuals, opportunities for low income people to earn bikes and parts, and a community gathering space for nearby residents. The shop receives over 1250 bike donations per year, and is located on a former naval air base in a 4,000 square foot repurposed warehouse in Alameda, CA.
- China Rivers Project works to protect China's river heritage for people and wildlife and
  to foster river-based recreation in China by coordinating education-oriented river trips
  and providing opportunities for stakeholder dialogue about the value of healthy, freeflowing rivers.
- Climate Wise Women~ is a global platform for the promotion of women's leadership on climate change. Through powerful personal narratives, Climate Wise Women gives a human face and voice to an issue that sits squarely at the nexus of the conversation on gender equality, environmental justice, food security, the eradication of extreme poverty, and public health.

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- CoalSwarm mission of CoalSwarm is to assist the movement of grassroots groups fighting Big Coal, and to mobilize support for that movement outside the current framework of environmental groups and outside the boundaries of directly impacted states. To accomplish that mission, CoalSwarm is building a Wikipedia-style information base on coal at http://coalswarm.org.
- Connect the Dots consults exclusively for the nonprofit community to reduce their environmental impact as they continue to focus on their social missions. Its Green Start program concentrates on high impact, minimal effort conservation practices to "jump start" nonprofits towards sustainability. We seek to "green nonprofits" by: enabling nonprofits to easily take action to make an immediate environmental impact; creating an infrastructure that encourages on-going integration of sustainable practices; empowering people of diverse backgrounds to participate in environmental sustainability.
- **Eco-Island Project\*** endeavors to make Angel Island a symbol of the Bay Area's environmental leadership by partnering with Angel Island State Park to harness renewable energy, promote sustainable management, and foster environmental education.
- **EcoEquity** is a research and advocacy organization dedicated to the promotion of a just and adequate solution to the climate crisis. Its primary focus is a fair and adequate global climate regime, and preparing the US people for its demands.
- EcoVillage Farm Learning Center is an "Oasis of Connectivity" promoting environmental education, social justice, youth leadership and community building through its various programs and activities.
- **Energy Action Coalition** is a coalition of more than 40 organizations from across the US and Canada, founded and led by youth to help support and strengthen the student and youth clean energy movement in North America.
- Ethical Traveler is a global community through which tourists and travelers can understand their economic and political power of travel and use it to benefit both the human community and planetary environment.
- **Fiji Organic Project\*\*** is leading the effort to shift agricultural production in Fiji to organic growing methods, particularly in the sugar cane industry.
- **Fired Up Media** is harnessing dynamic advances in digital communications and new media, creative social entrepreneurship, and existing youth media on and off-campus to build a revolutionary media network. This growing network is made up of videographers, photographers, bloggers, and journalists reporting from the front lines of the youth climate movement and disseminating through Fired Up Media online and offline outlets.
- Global Service Corps provides opportunities for adult volunteer participants to live and work on environmental and social justice projects in Africa and Thailand.
- **Green Café Network** (formerly Paradigm Café Network) is dedicated to addressing America's over-consumption by reducing the ecological impacts of the coffeehouse industry and harnessing café culture for environmental education.

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- **Hydro Nova**\*\* (Formerly Treatment Wetlands Organization) supports a decentralized approach to water and wastewater management. In contrast to the big pipe mentality, Hydro Nova emphasizes approaches that foster local solutions to critical water issues.
- International Marine Mammal Project is leading the international effort to stop the slaughter of dolphins, to end commercial whaling, and to end the use of drift nets and other destructive fishing practices, end commercial exploitation of cetaceans by aquariums and sea parks, and protect key whale and dolphin habitats.
- **John Muir Project** works to ensure ecological management of our National Forests by ending the federal timber sales program and eliminating its system of perverse economic and political incentives that undermine science and threaten native wildlife and forest ecosystems.
- **Kids for the Bay** (formerly Estuary Action Challenge) partners with 4,000 students and 200 teachers in low-income elementary schools in Alameda and Contra Costa counties each year to inspire environmental consciousness and cultivate a love of learning through our seven environmental education programs.
- **Kids vs. Global Warming** is a youth-led organization, dedicated to educating students about the science of climate change and empowering them to take action. It educates through youth-created and delivered, inspirational presentations to schools, conferences and events as well as videos, interactive booths, websites and educational resources.
- Living Laboratories~ works with East bay schools and their communities to create outdoor classroom spaces. It do this by working with the communities to envision their ideal schoolyard, full of regenerated habitat, creative play spaces, art, food growing, supporting curriculum, etc; it then work with the communities to create a plan and implement it through community work parties.
- Mongol Ecology Center aims to preserve environment and protect the nomadic way of life in Mongolia by conducting research and training of scientists and experts to be environmental and civil leaders, establishing partnerships with international academic, governmental, and non-governmental organizations. The project increases public awareness and builds the capacity of local NGOs to improve environmental assessment, monitor reclamation work, and influence public policy in Mongolia.
- Nature in the City is San Francisco's first and only organization wholly dedicated to ecological conservation, restoration and stewardship of the Franciscan bioregion. Our strategies/program areas are public education, community organizing and stewardship, conservation advocacy and policy, and collaboration.
- Orella Stewardship Institute (OSI)~ is a catalyst for the advancement of regenerative design and its principles. OSI studies, promotes, and embodies sustainable land use and regenerative agriculture.
- Plastic Pollution Coalition~ is a global alliance of individuals, businesses and organizations working together to end plastic pollution and its toxic impacts on people, animals and the environment.

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- **Project Coyote's** mission is to create innovative solutions that help people and coyotes coexist. It accomplishes this by increasing awareness and understanding of the essential role coyotes play in maintaining a healthy, natural environment and by supporting and promoting humane and ecologically sound solutions to human-coyote conflicts.
- **Project Survival Media~** (formerly a sub-project of Fired Up Media) is a global youth journalism network dedicated to broadcasting stories of survival and ingenuity in the face of climate change.
- **Red Panda Network\*\*** (formerly Red Panda Project) is focused on conducting community-based conservation through education, monitoring and sustainable development. It is focused on grassroots species conservation focusing on the ambassador for the Eastern Himalaya red panda.
- **Reef Protection International** educates the public about the marine aquarium trade and promotes consumer behavior that enhances coral reef conservation internationally.
- Rooted in Community is a national grassroots network that empowers young people to take leadership in their own communities. It is a diverse movement of youth and adults working together who are committed to fostering healthy communities and food justice through urban and rural agriculture, community gardening, food security, and related environmental justice work.
- Sacred Land Film Project produces a variety of media and educational materials films, videos, DVDs, articles, photographs, school curricula materials, and Web site content to deepen public understanding of sacred places, indigenous cultures, and environmental justice.
- Safe Food and Fertilizer seeks to ban the use of hazardous and other industrial wastes in fertilizer, soil amendments, and animal feeds due to of their potential risk to human health and the environment.
- **SAVE International** (Spoonbill Action Voluntary Echo) seeks to protect the critically endangered Black-faced Spoonbill and its Asian habitat throughout its flyway by promoting alternative economic development and long-term sustainability of the ecosystems and local communities.
- **Serengeti Watch**~ (formerly Save The Serengeti) is building a strong coalition of support, advocacy, and funding for the Serengeti ecosystem, the people living near it, and adjacent reserves and protected areas. The project seeks lasting protection to the Serengeti ecosystem.
- Solar College Initiative~ serves as a partner to colleges and universities helping them to navigate the complex process of bringing solar photovoltaic systems to their campuses at virtually no cost to the institution, via innovative third party financing mechanisms which enable the institution to benefit from the many advantages of solar PV on campus.
- **South Coast Habitat Restoration** works to manage habitat protection, conservation, restoration, and outreach projects in the Santa Barbara and Ventura region.

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- Sustainable Alliance of Nature and Design~ (SAND@OB) stewards the multijurisdictional and multi-stakeholder vision and planning process for Ocean Beach – facilitating the convergence of visions, desires and agendas in a way that prioritizes and preserves Ocean Beach as not only an invaluable natural open space urban resource for San Francisco and visitors but also as a critical ecosystem bridge between land and sea.
- Sustainable Watershed Alliance (formerly Alliance for a Clean Waterfront) is a coalition of 28 organizations that works to reform the way San Francisco perceives and handles its water resources.
- **Sustainable World Coalition** (formerly World Sustainability Hearings) is a research and education organization, with the purpose of educating the general public about the essential condition of the planet and the best solutions—individually and collectively—for creating a peaceful human society and a healthy environment.
- **Tibetan Plateau Project** promotes biodiversity conservation and sustainable development of local communities in the Tibetan Plateau region.
- True Colors Mural Project~ supports the development of young artist activists for the improvement of the urban environment through the creation of public murals. The purpose of the murals is to both educate urban dwellers and beautify the urban environment with messages and images that support ecological sustainability, conservation and restoration.
- Ultimate Civics defines and takes on the democracy crisis lying at the heart of the climate crisis, globalization, and other societal ills that undermine our sovereign self-governance. Ultimate Civics is the 21<sup>st</sup>-century civil rights movement: human rights versus corporate rights. The democracy crisis is two-fold: 1) dysfunctional communities from civic dis-engagement; and 2) human rights are being trumped by corporate rights.
- **Urban Biofilter** leverages waste to improve quality of life in inner cities. A microindustrial forestry project grown with wastewater on brown fields, Urban Biofilter bioremediates water, soil, and air while shielding residents from industry and transportation routes. By valuing ecosystem services the project enables a green economy that serves environmental justice.
- **Viva Sierra Gorda** (formerly Friends of Sierra Gorda) is a support organization to a coalition of local organizations working together for a high impact public—private partnership to guarantee long-term sustainability in a sacred and priority natural sanctuary, the Sierra Gorda Biosphere Reserve, Mexico.
- **WildeBeat\*** is an audio journal like a radio news magazine presenting news and features to help you explore and appreciate America's wild public lands. Each week, it publishes a 10-minute documentary piece about wild places one can visit, outings one can join, or skills and gear one will need.
- WildFutures (formerly the Wildlife Network) provides essential tools and trainings for wildlife and habitat groups as well as other conservation organizations. Through facilitation, trainings, campaign planning assistance and other services, WildFutures helps organizations, coalitions, and individuals advance their conservation goals.

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- Women's Earth Alliance (WEA) strengthens and unites grassroots women-led environmental initiatives around the world. WEA's mission is to unite grassroots women environmental advocates around the world and to provide the connections, resources and training they need to enact effective, lasting change in their communities.
- \* These projects were *inactive* during all or part of fiscal year 2010.
- \*\* These projects *separated* from Earth Island during the fiscal year 2010.
- ~ These projects were *new* to Earth Island in fiscal year 2010.