# FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

FOR THE YEAR ENDED DECEMBER 31, 2012

December 31, 2012

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## **Independent Auditor's Report**

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

## **Report on the Financial Statements**

We have audited the accompanying financial statements of Earth Island Institute Inc. (a California limited nonprofit organization), which comprises the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Earth Island Institute Inc. as of December 31, 2012, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Daly City, California July 22, 2013 Le. Ho i Company. LLP

# EARTH ISLAND INSTITUTE

# STATEMENT OF FINANCIAL POSITION

December 31, 2012

# **Assets**

Current Assets	
Cash and cash equivalents	\$ 5,473,094
Wetland Restoration Trust Fund (contra)	1,195,869
Investments in marketable securities	1,569,237
Accounts and contributions receivable	71,636
Grants receivable	569,289
Bequests receivable	961,250
Merchandise inventory	15,606
Prepaid expenses and others	87,406
Total Current Assets	9,943,387
Property and equipment, net of accumulated depreciation	1,371,003
Security deposits for offices	31,753
Total Assets	\$ 11,346,143
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts payable and other accrued expenses	\$ 170,073
Accrued vacation	175,769
Accrued grants payable	225,234
Agency obligation (contra)	1,195,869
Loans payable	49,000
Deposits and advances	69,723
Total Current Liabilities	1,885,668
Net Assets	
Unrestricted net assets	3,650,940
Temporarily restricted net assets	5,809,535
Total Net Assets	9,460,475
<b>Total Liabilities and Net Assets</b>	\$ 11,346,143

# EARTH ISLAND INSTITUTE

# STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2012

		J	Гетрогагу	
	 Unrestricted	1	Restricted	 Total
<b>Support and Revenues</b>				
Contributions	\$ 156,409	\$	2,275,743	\$ 2,432,152
Foundation and other grants	-		5,389,835	5,389,835
Membership dues	249,272		-	249,272
Service and consulting revenue	1,073,695		-	1,073,695
Merchandise sales, net of cost of sales				
and gifts of \$53,620	142,706		_	142,706
Royalty income	67,021		_	67,021
Advertising income	3,675		_	3,675
Journal sales	12,517		_	12,517
Investment return	231,675		_	231,675
Administrative fee	27,669		-	27,669
Special events, net of costs of				
direct benefits to donors of \$31,948	104,540		-	104,540
In-kind contributions	, -		14,047	14,047
Bequests	2,227,462		, <u>-</u>	2,227,462
Cancelled and returned grants	332,500		-	332,500
Miscellaneous	69,932		-	69,932
Net assets released from restrictions	,			,
Fulfillment of purpose restrictions	8,211,611		(8,211,611)	_
Total support and revenues	 12,910,684		(531,986)	 12,378,698
Total support and revenues	12,710,004		(331,700)	 12,370,070
Expenses				
Program services	8,965,883		_	8,965,883
Administrative and general	1,257,047		_	1,257,047
Fundraising	 747,879		<u> </u>	 747,879
Total expenses	 10,970,809			 10,970,809
Change in Net Assets	1,939,875		(531,986)	1,407,889
Net Assets, beginning of year	 1,697,018		6,355,568	 8,052,586
Net Assets, end of year	\$ 3,636,893	\$	5,823,582	\$ 9,460,475

EARTH ISLAND INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2012

		Program	Adı	Administrative				
		Services	an	and General	Fu	Fundraising		Total
Expenses								
Salaries	\$	3,645,623	\$	692,396	<del>\$</del>	305,378	S	4,643,397
Payroll taxes and fringes		731,554		138,941		61,279		931,774
Independent contractors		930,361		1,228		602		932,191
Printing, audio/visual, and publications		136,715		17,659		7,789		162,163
Postage and shipping		61,415		8,576		3,782		73,773
Travel and meetings		624,789		118,663		52,336		795,788
Conferences and training		185,825		35,293		15,566		236,684
Direct mail costs		ı		ı		58,677		58,677
Special appeals		34,157		ı		34,158		68,315
Grants and allocations		1,202,234		1		1		1,202,234
Promotion and public education		155,072		1		37,596		192,668
Professional fees		67,829		77,532		1		145,361
Occupancy		361,855		68,725		30,311		460,891
Insurance		40,574		7,706		3,399		51,679
Supplies		117,441		22,305		9,838		149,584
Telephone		79,566		15,112		6,665		101,343
Depreciation and amortization		50,623		9,615		4,240		64,478
Equipment rental and maintenance		58,085		11,032		4,865		73,982
Outside services		282,757		ı		2,414		285,171
Bank fees		1		ı		52,357		52,357
Miscellaneous		199,408		32,264		56,627		288,299
Total Expenses	<del>∕</del>	8,965,883	↔	1,257,047	<del>⊘</del>	747,879	<del>\$</del>	10,970,809

See accompanying notes to financial statements.

# EARTH ISLAND INSTITUTE

# STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2012

Cash Flows from Operating Activities	
Change in net assets	\$ 1,407,889
Adjustments to reconcile change in net assets to net cash	
provided by operating activities:	
Depreciation and amortization	64,478
Net unrealized gain on investment in marketable securities	(33,416)
Net realized gain on sales of marketable securities	(108,781)
(Increase) decrease in:	
Accounts and contributions receivable	96,321
Grants receivable	1,748,171
Bequests receivable	(936,250)
Merchandise inventory	1,150
Prepaid expenses and others	(55,552)
Security deposits for offices	(3,857)
Increase (decrease) in:	
Accounts payable and accrued expenses	(1,003,114)
Accrued vacation	46,208
Accrued grants payable	39,234
Deposits and advances	 (42,141)
Net Cash Provided by Operating Activities	 1,220,340
Cash Flows from Investing Activities	
Purchases of marketable securities	(1,385,844)
Proceeds from sales and redemption of marketable securities	954,641
Net Cash Used in Investing Activities	 (431,203)
Cash Flows from Financing Activities	
Loan proceeds	44,000
Net Cash Provided by Financing Activities	 44,000
Net Cash Hovided by I maneing Activities	 ++,000
Net Increase in Cash and Cash Equivalents	833,137
Cash and Cash Equivalents, beginning of year	 4,639,957
Cash and Cash Equivalents, end of year	\$ 5,473,094

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

## (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.

**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

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

support unless explicit donor stipulations specify how the donated assets must be used. Restoration works on property that Earth Island's project has no ownership title are reported as expenses. 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.

**Contributions** – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

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 fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received at the time the unconditional promise to give is initially recognized. Amortization of the discounts is included in foundation grants revenue. Conditional promises to give are not included as support until the conditions are substantially met.

The programs of Earth Island usually solicit contributions for its own use. All contributions received by the programs are reported as temporarily restricted net assets. Furthermore, for restricted contributions which restrictions are fulfilled in the same period in which the contribution is received, they are reported first as temporarily restricted contributions and then released to unrestricted upon satisfaction of the restrictions. For programs that have revenue other than contributions, Earth Island adopted a policy to expend the non-contribution revenue before expending the contributions.

**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.

*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, 2013, which is the date the financial statements were available to be issued.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

*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, tax-exempt 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 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, 2012:

		 Total		Level I	_]	Level II	_I	Level III
Mutual funds		\$ 810,640	\$	810,640	\$	_	\$	-
Preferred stocks		265,595		265,595		-		-
Equities		398,121		398,121		-		-
Municipal bonds		 94,881	_	94,881				
	Total	\$ 1,569,237	<u>\$</u>	1,569,237	\$		\$	

The investment return for year 2012 consisted of the following:

\$ 89,478
108,781
 33,416
\$ 231.675
\$ \$

# NOTES TO FINANCIAL STATEMENTS

December 31, 2012

# (3) <u>BEQUESTS RECEIVABLE</u>

During 2012, Earth Island received a bequest with a value of \$2,151,010. The bequest is held in a trust account and the trustee released \$1,346,099 in November 2012 to Earth Island. At December 31, 2012, the trustee was holding the remaining bequest with a value of \$907,545.

Earth Island also have other bequests receivable with a total estimated value of \$53,705 at December 31, 2012.

## (4) PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2012 consisted of the following:

				Estimated
		Accu	mulated	Useful
	 Basis	Depr	reciation	Life
Furniture and equipment	\$ 174,605	\$	120,933	Various
House (EcoVillage)	51,951		14,919	30 yrs.
Automobiles	20,975		20,975	5 yrs.
Leasehold Improvements at DBC	230,775		57,606	15 yrs
Building Improvements (EcoVillage)	11,687		1,558	30 yrs.
Land Improvements (EcoVillage)	533,589		65,216	30 yrs.
Land (EcoVillage)	 628,628			N/A
Total	\$ 1,652,210	\$	281,207	

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

Earth Island's main office is located at the David Brower Center in Berkeley, CA. This lease is for five years commencing on April 20, 2009 with two five-year renewal options. The monthly rent for 2012 was \$18,156 per month. In addition, in February 2011, Earth Island subleased an office with a tenant in the building after that tenant moved-out. This sublease ended on September 30, 2012 and Earth Island amended its lease to include this space in its own lease and the monthly rent was changed to \$21,315.

Earth Island has been subleasing some of its office spaces at David Brower Center to other unrelated parties. These subleases are currently on month-to month basis.

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.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

In addition, the projects of Earth Islands also have separate offices that are under noncancelable term leases, one-time lease, and/or month-to month leases. Earth Island also pays the project directors for the usage of their home offices. Some may also sublease its spaces. The following is a summary of term leases by program that end after 2012:

<u>Program</u>	Lease Ending Date		nthly Rent ecember 2012	
Changing Gears Community				
Bike Shop	September 30, 2014	\$	1,177	
Energy Action Coalition	August 31, 2017	Ψ	2,200	
Energy Action Coalition	August 31, 2017		3,800	
Borneo Project	June 30, 2013		300	
Kids for the Bay	June 14, 2014		1,980	
Bay Area Wilderness Training	August 31, 2013		2,700	
Bay Localize	June 30, 2013		1,354	
Renew Missouri	October 31, 2013		583	

The monthly rent of some of these leases increases annually. In addition, two of Earth Island programs have free use of space with value totaling \$14,047 for the year. Earth Island and some of its projects subleased part of their space to unrelated parties, and the sublease revenue is reported as an offset against the rent expenses. The rent and occupancy costs incurred in 2012 for all the leases, net of sublease income, totaled \$460,891.

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

Year Ending December 31,	 Rent Payments	 Sublet Revenue	Net Payments	
2013	\$ 403,618	\$ 19,980	\$	383,638
2014	180,166	2,700		177,466
2015	78,179	-		78,179
2016	52,979	_		52,979

# (6) WETLAND RESTORATION TRUST FUND

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 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

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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, 2012, these funds were invested through Merrill Lynch in municipal bonds, money accounts, government securities, preferred stocks, alternative investments and mutual funds and were stated at fair value of \$1,390,929. Agency fund activities for the year ended December 31, 2012 are as follows:

Agency obligation, January 1, 2012	\$ 1,390,929
Disbursements to projects	(251,946)
Investment return	85,062
Administrative expenses paid	(28,026)
Bank fees	(150)
Agency obligation, December 31, 2012	\$ 1.195,869

## (7) CANCELLED AND RETURNED GRANTS

The International Marine Mammal Project (IMMP), a project of Earth Island, executed 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. In 2012, IMMP stopped funding this project when it was apparent that there was no advance made in this effort. There was an outstanding balance of \$187,500 on this grant when IMMP terminated the funding.

In 2010, IMMP gave Free Willy Keiko Foundation a \$150,000 grant and in March 2012, the Free Willy Keiko Foundation returned unused fund of \$145,000 to IMMP.

# (8) <u>LOAN PAYABLE</u>

The loans payable at December 31, 2012 consisted of:

Global Service Corps - this is a \$35,000 loan from the program director. The loan carries no interest and repayment begins when the program has cash equal to at least one month operating expenses and at least half of the most recent trip liability total. The repayment will be on monthly basis and the amount of payment is to be determined. The loan must be repaid, extended or forgiven as of October 1, 2015. If there is no extension, any unpaid balance at October 1,2015 will be forgiven.

\$ 35,000

# NOTES TO FINANCIAL STATEMENTS

December 31, 2012

Wholly H20 - a \$5,000 loan in May 2011 and an another \$5,000 in February 2012 from the program director. These loans are similar in terms that both loans carry no interest and repayment begin when the program has cash equal to at least one month of operating cash expense cash, plus total outstanding liability, plus the balance of this loan. Repayment schedule is to be determined; however, if the loan is not repaid within two years, the loan will be forgiven. There was no repayment for these loans during the year.

10,000

All One Ocean - this is a \$4,000 from a friend of the project. This loan carries no interest and repayment begins when the program has cash equal to at least three months of operating expenses. The amount of payments is to be determined. The loan must be repaid, extended or forgiven as of January 31, 2014. If there is no extension, any unpaid balance at January 31, 2014 will be forgiven.

4,000

Total \$ 49,000

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

Earth Island categorized its projects into six groups based on the common nature of the projects. The groups are: International/Indigenous Communities, Animal Protection, Energy/Climate Change, Restoration/Preservation, Education/Youth Development and Sustainability.

The following is a summary of the temporarily restriction donations by the groups for 2012:

	Beginning of			End of
	Year	Additions	Releases	Year
International/Indigenous				
Communities	\$ 933,985	\$ 1,480,335	\$(1,616,811)	\$ 797,509
Animal Protection	1,816,857	907,039	(982,680)	1,741,216
Energy/Climate Change	1,355,344	2,587,212	(2,806,572)	1,135,984
Restoration/Preservation	42,595	815,841	(771,924)	86,512
Education/Youth				
Development	1,902,466	1,161,812	(1,313,242)	1,751,036
Sustainability	304,321	713,339	<u>(720,382</u> )	<u>297,278</u>
Total	<u>\$ 6,355,568</u>	<u>\$ 7,665,578</u>	<u>\$(8,211,611</u> )	\$ 5,809,535

## (10) 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

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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. 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.

# (11) <u>CONTINGENCIES</u>

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 first case in the following 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.

No trial dates have been set for the 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 Network Services** is the core program of Earth Island aimed at carrying on David Brower's legacy of developing environmental leadership for the conservation, preservation and restoration of the Earth. Project Support provides incubation services to the 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; the Brower New Leaders Initiative oversees the Brower Youth Awards and emerging leaders; Restoration Initiative supports grassroots environment restoration leadership.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

The following are Earth Island's 2012 projects, which are grouped into separate categories by common nature:

## ANIMAL PROTECTION

- **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.
- Burrowing Owl Conservation Network focuses on the protection and restoration of burrowing owls and promotes the preservation and careful management of habitat. The project combines hands-on conservation efforts with advocacy, research, landowner cooperation and support, progressive burrowing owl and habitat management policies and laws, outreach and education to prevent loss, foster healthy populations, and maintain intact natural communities for this declining species.
- 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.
- **Project Coyote** creates innovative solutions that help people and coyotes coexist. The Project accomplishes its mission 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.
- **Reef Protection International\*\*** educates the public about the marine aquarium trade and promotes consumer behavior that enhances coral reef conservation internationally.
- 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.
- 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.

## EDUCATION/YOUTH DEVELOPMENT

- **Bay Area Wilderness Training** provides educators with the training and equipment needed to take urban youth on safe and powerful wilderness trips.
- **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.
- 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.

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- Children in Nature Collaborative is part of a network of regional movements across the country focused on helping people to create healthier lives and more vibrant communities through restoring their relationship with nature and each other.
- **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.
- **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 the 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. This project 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. This project works with the communities to envision their ideal schoolyard, full of regenerated habitat, creative play spaces, art, food growing, supporting curriculum, etc; and work with the communities to create a plan and implement it through community work parties.
- Los Angeles Wilderness Training provides training and resources to adults to lead successful
  outdoor educational and recreational activities in order to get more youth outdoors in the Los
  Angeles area.
- 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.
- 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.
- **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.
- Yards to Gardens (Y2G)\*\* lets participants share or find all kind of things related to gardening. Whether having extra space in the yard, extra tools in the garage, extra seeds or seedlings, or just looking for a space to garden, Y2G makes it easy for them to share information.
- Youth Empowered Action Camp (YEA) is a collection of experienced activists, credentialed teachers, and community leaders committed to a world in which people, animals, and the planet are treated with respect, and where everyone is empowered to take action, and express what matters most to them. YEA Camp promotes youths to have the power to impact

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the environment, their communities, and the society as a whole. YEA Camp wants to make this happen.

#### **ENERGY/CLIMATE CHANGE**

- CarbonfreeDC is a grassroots initiative dedicated to mobilizing District of Columbia 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.
- 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.
- 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. The Green Start program concentrates on high impact, minimal effort conservation practices to "jump start" nonprofits towards sustainability. Connect the Dots seeks 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.
- **EcoEquity** is a research and advocacy organization dedicated to the promotion of a just and adequate solution to the climate crisis. The primary focus is a fair and adequate global climate regime, and preparing the US people for its demands.
- **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.
- **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.
- **Project Survival Media** is a global youth journalism network dedicated to broadcasting stories of survival and ingenuity in the face of climate change.
- **Renew Missouri** exists to advance the development of renewable energy in Missouri. The vision is "Missouri: A Clean Energy State." The mission is for Missouri to be a leading state in renewable energy and energy efficiency by 2016.
- 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

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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.

#### INTERNATIONAL/INDIGENOUS COMMUNITIES

- **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.
- AlterTerra~ takes an innovative approach to addressing the environmental and socioeconomic effects of unplanned urbanization by promoting initiatives that reduce poverty, create jobs, and improve general health of neighborhoods that lack sanitation and healthcare. Focusing on biodiversity and watershed-based planning, they create locally specific solutions for economic conservation in impoverished regions of Americas.
- **Armenia Environmental Network** has a dual mission: To increase information sharing and distribution among Armenians in Armenia, the Armenian Diaspora and the wider conservation community; and to facilitate partnerships through the responsible involvement of Diaspora.
- 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.
- **Borneo Project** works to support indigenous rights, rain forest protection, and community development in Borneo.
- Center for Safe Energy (CSE) 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.
- 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, free-flowing
  rivers.
- **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.
- **Global Service Corps** provides opportunities for adult volunteer participants to live and work on environmental and social justice projects in Africa and Thailand.
- Mongol Environmental Conservation\*\* (formerly 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 nonprofit organizations to improve environmental assessment, monitor reclamation work, and influence public policy in Mongolia.
- Resilience Fund~ is a nonprofit social venture that links coffee roasting companies and their customers with their farming partners at origin. The Fund provides financial investment and knowledge sharing to support projects that help farmers and their communities adapt and survive the impacts of climate change.

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- 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.
- **Serengeti Watch** (formerly Save The Serengeti) builds 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.
- **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.
- 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.

## RESTORATION/PRESERVATION

- California Urban Stream Partnership~ (formerly Urban Creeks Coalition and Urban Stream Alliance) is an organization of local, regional and statewide groups in California which advocate for the protection, restoration and stewardship of urban streams.
- Center for Ecosystem Restoration is a non-profit organization dedicated to the restoration of ecosystems and communities. The 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 to improve the land, water, air, climate and biodiversity.
- **John Muir Project** ensures ecological management of the 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.
- Nature in the City is San Francisco's first and only organization wholly dedicated to ecological conservation, restoration and stewardship of the Franciscan bioregion. The 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.
- Small Grant Project is an initiative to assist the protection and restoration of wetlands in Southern California. The program is part of the California Wetlands Recovery Project administered by the California Coastal Conservancy. Earth Island Institute, through its Restoration Program, assists in the identification, review, evaluation, and provides small grants to approximately ten projects per year. Each grants averages approximately \$20,000. and allows for restoration activities such as replanting, invasive vegetation control, and streambed stabilization.
- **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. It facilitates 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.
- **Urban Biofilter** leverages waste to improve quality of life in inner cities. A micro-industrial 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.

## **SUSTAINABILITY**

- All One Ocean~ is devoted to educating people about the destructive impacts of our trash by providing a simple way for beach-goers to help clean up our oceans, beautify beaches and prevent needless death and suffering to marine life. The partner with beach agencies and communities to install Beach Clean Up Stations, small boxes permanently mounted with information and supplies for collecting trash from the beach.
- **Bay Localize** builds more livable and self-reliant communities while decreasing dependence on fossil fuel in the nine-county Bay Area.
- California Student Sustainability Coalition 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 (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.
- CoCo San Farm's~ mission is to use existing resources to increase local food security and decrease nutritional poverty with low carbon footprint and cost, while providing environmental education. Their goal is to create a sustainable urban farm servicing local schools and food banks.
- Food Shift~ is dedicated to building a more just and sustainable food system that curbs waste, empowers communities, respects the environment and nourishes all people. Food Shift educates and empowers consumers, businesses and communities by increasing awareness about food waste and inspiring food-related behavior change.
- **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.
- **Hempstead Project HEART's~** mission is to create awareness of the many uses of hemp as a way of establishing a green economy in America.
- **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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- 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.
- 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.
- **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 disengagement; and 2) human rights are being trumped by corporate rights.
- Wholly H20's mission is to equip Californians in the residential, commercial, institutional, industrial and agricultural sectors with the information and skills necessary to normalize water conservation and efficiency, as well as rainwater, gray water, storm water and black water reuse/recycling.

<sup>\*</sup>These projects were *inactive* during all or part of fiscal year 2012.

<sup>\*\*</sup>These projects separated from Earth Island during the fiscal year 2012.

<sup>~</sup>These projects were *new* to Earth Island in fiscal year 2012.