

FRIENDS OF THE EARTH
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

**FRIENDS OF THE EARTH
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YEARS ENDED JUNE 30, 2013 AND 2012**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Friends of the Earth
Washington, DC

We have audited the accompanying financial statements of Friends of the Earth, which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years 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.

Auditors' Responsibility

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

Board of Directors
Friends of the Earth

Opinion

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 13, 2013

**FRIENDS OF THE EARTH
BALANCE SHEETS
JUNE 30, 2013 AND 2012**

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5,396,999	\$ 4,773,497
Accounts Receivable	18,157	13,295
Due from Friends of the Earth (Action), Inc.	173,567	131,162
Promises to Give, Current Portion	1,055,000	227,330
Prepaid Expenses and Other Assets	104,212	93,425
Total Current Assets	6,747,935	5,238,709
FIXED ASSETS		
Furniture and Equipment	361,132	324,472
Leasehold Improvements	479,561	479,561
Less Accumulated Depreciation and Amortization	371,133	275,934
	469,560	528,099
OTHER ASSETS		
Promises to Give, Net of Current Portion	50,000	-
Charitable Gift Annuity, at Fair Value	95,612	84,667
Certificate of Deposit	143,295	140,213
Investments	133,139	75,615
Deposits	4,690	9,326
Total Other Assets	426,736	309,821
 Total Assets	 \$ 7,644,231	 \$ 6,076,629
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 420,696	\$ 152,854
Accrued Leave	83,858	81,927
Capital Lease Obligation	8,328	9,166
Total Current Liabilities	512,882	243,947
OTHER LIABILITIES		
Capital Lease Obligation	-	8,325
Deferred Rent	270,716	263,852
Leasehold Improvement Allowance	368,272	417,927
Charitable Gift Annuity Liability	46,357	46,827
Total Other Liabilities	685,345	736,931
Total Liabilities	1,198,227	980,878
NET ASSETS		
Unrestricted:		
Operating	665,036	424,319
Board Designated	3,768,624	1,783,969
	4,433,660	2,208,288
Temporarily Restricted:		
Operating Fund	1,603,651	2,589,042
Reserve Fund	145,000	145,000
Endowment Fund	53,421	53,421
	1,802,072	2,787,463
Permanently Restricted	210,272	100,000
Total Net Assets	6,446,004	5,095,751
 Total Liabilities and Net Assets	 \$ 7,644,231	 \$ 6,076,629

See accompanying Notes to Financial Statements.

**FRIENDS OF THE EARTH
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE								
Grants, Bequests and Contributions	\$ 4,871,294	\$ 2,334,815	\$ 110,272	\$ 7,316,381	\$ 2,258,472	\$ 3,602,464	\$ 100,000	\$ 5,960,936
Investment Income	17,670	-	-	17,670	11,208	-	-	11,208
Rental Income	111,581	-	-	111,581	105,759	-	-	105,759
Mailing List Sales	3,862	-	-	3,862	2,427	-	-	2,427
Administrative Fees	29,946	-	-	29,946	47,576	-	-	47,576
Other	3,417	-	-	3,417	15,225	-	-	15,225
Net Assets Released from Restrictions	3,320,206	(3,320,206)	-	-	2,481,310	(2,481,310)	-	-
Total Revenue	8,357,976	(985,391)	110,272	7,482,857	4,921,977	1,121,154	100,000	6,143,131
EXPENSES								
Program Expenses:								
Economic Policy	1,099,169	-	-	1,099,169	745,100	-	-	745,100
Oceans & Vessels	257,318	-	-	257,318	284,578	-	-	284,578
Climate & Energy	2,403,501	-	-	2,403,501	1,279,934	-	-	1,279,934
Food & Technology	339,298	-	-	339,298	419,645	-	-	419,645
Outreach	510,093	-	-	510,093	741,079	-	-	741,079
Membership	509,890	-	-	509,890	203,386	-	-	203,386
Total Program Expenses	5,119,269	-	-	5,119,269	3,673,721	-	-	3,673,721
Supporting Expenses:								
Management and General	476,664	-	-	476,664	469,018	-	-	469,018
Fundraising	536,671	-	-	536,671	312,624	-	-	312,624
Total Supporting Expenses	1,013,335	-	-	1,013,335	781,642	-	-	781,642
Total Expenses	6,132,604	-	-	6,132,604	4,455,364	-	-	4,455,364
CHANGE IN NET ASSETS	2,225,372	(985,391)	110,272	1,350,253	466,613	1,121,154	100,000	1,687,767
Net Assets - Beginning of Year	2,208,288	2,787,463	100,000	5,095,751	1,741,675	1,666,309	-	3,407,984
NET ASSETS - END OF YEAR	\$ 4,433,660	\$ 1,802,072	\$ 210,272	\$ 6,446,004	\$ 2,208,288	\$ 2,787,463	\$ 100,000	\$ 5,095,751

See accompanying Notes to Financial Statements.

**FRIENDS OF THE EARTH
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013**

	Program Expenses						Supporting Expenses				Total Expenses	
	Economic Policy	Oceans & Vessels	Climate & Energy	Food & Technology	Outreach	Membership	Total	Overhead	Management and General	Fundraising		Total
Salaries	\$ 480,329	\$ 119,881	\$ 317,932	\$ 123,277	\$ 158,252	\$ 128,915	\$ 1,328,586	\$ 59,781	\$ 169,591	\$ 177,025	\$ 406,397	\$ 1,734,983
Benefits	95,595	25,051	64,000	24,845	32,217	27,227	268,935	18,336	33,630	37,284	89,250	358,185
Independent Contractors	63,646	32,036	363,895	76,753	11,293	8,440	556,063	7,817	-	9,120	16,937	573,000
Professional Fees	35,954	1,000	1,040,612	10,594	59,309	47,358	1,194,827	118,593	34,201	70,632	223,426	1,418,253
Advertising & Media	615	-	147,153	210	70	-	148,048	540	350	789	1,679	149,727
Research, Data, Lists	45,500	-	79,999	149	15,181	9,746	150,575	-	-	5,748	5,748	156,323
Web Services	17,300	-	34,279	16	38,351	717	90,663	92	-	8,823	8,915	99,578
Professional Development	-	-	-	-	-	-	-	2,587	-	150	2,737	2,737
Travel	39,519	4,603	61,597	21,422	13,057	9,487	149,685	2,675	11,649	40,228	54,552	204,237
Meetings & Events	4,213	-	21,205	2,308	11,152	2,237	41,115	1,245	15,027	7,553	23,825	64,940
Printing & Duplicating	5,451	126	3,787	2,547	4,272	118,529	134,712	4,602	2	33,491	38,095	172,807
Occupancy	-	-	638	-	12	1,214	1,864	324,311	4,535	684	329,530	331,394
Depreciation	-	-	-	-	-	-	-	94,359	-	840	95,199	95,199
Insurance	-	-	-	-	-	-	-	15,558	-	-	15,558	15,558
IT & Connectivity	813	6	468	36	117	295	1,735	118,183	3,371	3,350	124,904	126,639
Postage & Shipping	418	30	18,461	411	4,892	74,063	98,275	12,715	1,888	29,163	43,766	142,041
General Supplies	505	138	5,331	3,811	49	458	10,292	27,197	729	4,849	32,775	43,067
Dues, Publications, Subscriptions	23,364	7,048	14,159	5,350	7,093	865	57,879	570	-	5,995	6,565	64,444
Small Grants, Contributions	52,000	-	97,500	-	82,325	-	231,825	-	-	-	-	231,825
Miscellaneous	-	-	3	-	95	245	343	3,889	123,699	19,736	147,324	147,667
Applied Overhead	233,947	67,399	132,482	67,569	72,356	80,094	653,847	(813,050)	77,992	81,211	(653,847)	-
Total Expenses	\$ 1,099,169	\$ 257,318	\$ 2,403,501	\$ 339,298	\$ 510,093	\$ 509,890	\$ 5,119,269	\$ -	\$ 476,664	\$ 536,671	\$ 1,013,335	\$ 6,132,604

See accompanying Notes to Financial Statements.

**FRIENDS OF THE EARTH
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2012**

	Program Expenses						Supporting Expenses					Total Expenses
	Economic Policy	Oceans & Vessels	Climate & Energy	Food & Technology	Outreach	Membership	Total	Overhead	Management and General	Fundraising	Total	
Salaries	\$ 383,691	\$ 131,946	\$ 316,126	\$ 167,098	\$ 248,387	\$ 82,540	\$ 1,329,788	\$ 91,253	\$ 136,475	\$ 110,736	\$ 338,463	\$ 1,668,251
Benefits	72,558	25,114	58,796	32,546	44,844	15,552	249,410	17,445	25,482	20,641	63,568	312,978
Professional Fees/Consultants	212	33,145	363,128	67,008	72,577	8,849	544,918	87,418	73,663	46,434	207,514	752,432
Legal	994	-	168,763	239	721	-	170,717	-	10,731	-	10,731	181,448
Travel	37,806	4,434	44,058	27,389	21,439	1,240	136,365	3,108	22,961	9,680	35,749	172,113
Advertising	-	-	145,712	-	1,761	-	147,474	1,092	70	10	1,172	148,646
Printing & Duplicating	924	30	13,172	2,761	107,080	26,290	150,257	7,990	1,694	14,577	24,260	174,517
Publications	3,486	1,639	3,257	1,618	4,902	-	14,900	584	3,367	1,132	5,083	19,983
Telephone	1,222	301	2,675	419	163	188	4,968	32,025	968	655	33,648	38,615
Postage & Courier	495	-	547	1,076	57,795	15,306	75,219	15,232	2,571	14,315	32,119	107,337
Supplies	579	-	1,039	582	1,033	-	3,234	13,301	8,498	48	21,848	25,082
Computer Services	1,272	-	-	197	29,715	-	31,183	108,135	-	7,096	115,230	146,414
Dues and Contributions	11,166	3,822	13,654	7,633	10,570	-	46,845	2,135	250	758	3,142	49,987
Occupancy	248	-	600	-	1,307	1,174	3,328	387,368	100,679	267	488,315	491,643
Depreciation and Amortization	-	-	-	-	-	-	-	89,143	-	235	89,378	89,378
Equipment/Maintenance	-	-	-	-	-	-	-	2,768	-	-	2,768	2,768
Small Grants	-	-	-	-	12,100	-	12,100	-	-	-	-	12,100
Other	173	-	-	-	-	-	173	17,855	12,942	30,702	61,499	61,672
Applied Overhead	230,276	84,148	148,407	111,081	126,685	52,247	752,844	(876,851)	68,667	55,340	(752,844)	-
Total Expenses	\$ 745,100	\$ 284,578	\$ 1,279,934	\$ 419,645	\$ 741,079	\$ 203,386	\$ 3,673,721	\$ -	\$ 469,018	\$ 312,624	\$ 781,642	\$ 4,455,364

See accompanying Notes to Financial Statements.

**FRIENDS OF THE EARTH
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,350,253	\$ 1,687,767
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	95,199	89,378
Realized/Unrealized Gain on Sales of Donated/Other Securities	(7,369)	(4,057)
Net Value of Donated Securities	(135,819)	(73,891)
Charitable Gift Annuity	8,148	18,903
Changes in Assets and Liabilities:		
Accounts Receivable	(4,862)	7,057
Due from Friends of the Earth (Action), Inc.	(42,405)	37,900
Promises to Give	(877,670)	242,391
Prepaid Expenses and Other Assets	(10,787)	8,285
Deposits	4,636	(3,124)
Accounts Payable and Accrued Expenses	267,842	(62,712)
Accrued Leave	1,931	(23,432)
Deferred Rent/Leasehold Improvement Allowance	(42,791)	(33,578)
Net Cash Provided by Operating Activities	606,306	1,890,887
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of Donated/Other Securities	112,113	89,608
Purchase of Certificate of Deposit	(3,082)	(850)
Purchases of Securities	(37,397)	(54,302)
Purchases of Fixed Assets	(36,660)	(31,058)
Net Cash Provided by Investing Activities	34,974	3,398
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Lease	(9,164)	(8,337)
Charitable Gift Annuity Payments	(8,614)	(8,613)
Net Cash Used by Financing Activities	(17,778)	(16,950)
NET INCREASE IN CASH AND CASH EQUIVALENTS	623,502	1,877,335
Cash and Cash Equivalents - Beginning of Year	4,773,497	2,896,162
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 5,396,999	\$ 4,773,497
SUPPLEMENTAL INFORMATION		
Cash Paid During the Year for Interest	\$ 1,274	\$ 2,470

See accompanying Notes to Financial Statements.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Friends of the Earth defend the environment and champion a healthy and just world. The Organization works toward achieving its mission through the following program areas:

The **Economic Policy** program fights to replace economic policies that fuel environmental destruction and social injustice with fair and sustainable approaches.

The **Climate & Energy** program moves toward limiting potentially catastrophic climate change, encouraging the much more efficient use of energy, and the shift to cleaner energy sources, which include wind, solar and geothermal power.

The **Food & Technology** program works to keep toxic chemicals and risky new technologies, such as genetic engineering and nanotechnology, out of the food we eat and the products we use.

The **Oceans & Vessels** program campaigns to protect marine ecosystems and the people who live and work near them, in part by influencing shipping policies.

The **Outreach** and **Membership** programs educate members and the public about important environmental issues through advertisements, mail, the internet, and a quarterly newsmagazine.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain 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 financial statement purposes, the Organization considers all investments with a maturity of three months or less at the time of purchase to be cash equivalents. Amounts held in the charitable gift annuity are not considered cash equivalents, regardless of maturity.

Accounts Receivable and Promises to Give

Accounts receivable and promises to give are recorded at their net realizable value. Accounts 90 days past due are analyzed for collectibility and when all collection efforts have been exhausted, the account is written off against bad debt expense. All amounts recorded are considered fully collectible by management at June 30, 2013 and 2012.

Fixed Assets

Furniture and equipment are recorded at cost and depreciated on the straight-line basis over the estimated useful lives of the assets (3 to 5 years). Leasehold improvements are amortized on the straight-line basis over the remaining term of the lease. Donated fixed assets are recorded at fair market value at time of donation. The Organization capitalizes all furniture and equipment expenditures greater than \$1,000 with a useful life of greater than one year.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charitable Gift Annuity

The donors contributing to the charitable gift annuity receive a promise from the Organization to pay a fixed amount over the time period specified by the donor. The investments are recorded at their fair value when contributed. The annuity liability represents the present value of the estimated payments owed to the donors of the charitable gift annuities.

Fair Value of Financial Instruments

Fair Value Measurements

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1

Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organization has the ability to access. Securities value using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange. Securities valued using Level 1 input include equities and equity mutual funds.

Level 2

Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include among others, quoted prices for similar assets or liabilities in active market or non-active market. The Organization has no investments classified as Level 2.

Level 3

Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. The Organization has no investments classified as Level 3.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets are classified for accounting and reporting purposes according to their nature and purpose and based upon the existence or absence of any restrictions thereon. A description of each net asset group is as follows:

Unrestricted – Operating Fund - represents net assets that are not subject to donor-imposed restrictions.

Unrestricted – Board Designated – consists of unrestricted contributions that the Board designated for specific programs and a reserve fund of the Organization.

Temporarily Restricted – Operating Fund - consists of grants and contributions received from various organizations and individuals who have specified that the contributions be used to fund specific programs. Temporarily restricted net assets become unrestricted when the time restrictions expire or the funds are used for their restricted purpose and are reported in the statement of activities as net assets released from restrictions.

Temporarily Restricted – Reserve Fund - consists of restricted contributions (\$145,000) which can be used for operations on a temporary basis according to guidelines established by the Board of Directors. Interest earned on this fund is credited to the unrestricted operating fund.

Temporarily Restricted – Endowment Fund - consists of a bequest (\$53,421) whereby the principal of this bequest is required to be endowed for a period of thirty years (through fiscal year 2019), during which time the Organization may expend only the annual investment income of the fund for charitable, educational or other purposes to which the Organization is devoted. Interest earned on this fund is credited to the unrestricted operating fund.

Permanently Restricted – consists of contributions (\$210,272) whereby the principal of the endowment funds are to be held in perpetuity and the net earnings used for internships.

Grants and Contributions

Contributions and grants are recorded as revenue in the year notification is received from the donor. Support that is donor-restricted, either by program or by time, is reported as an increase in temporarily restricted net assets. When the restriction expires, that is, when a time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets as net assets released from restrictions. The Organization's policy is to report all donors' restricted contributions as temporarily restricted revenue even if those restrictions are met in the same reporting period the contributions are received.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing programs and supporting services are summarized on a functional basis in the statements of activities. Accordingly, salary, benefits and overhead expenses have been allocated among the programs and supporting services benefited.

Income Taxes

The Organization is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization has been classified by the Internal Revenue Service as a publicly supported organization under section 509(a)(1) of the IRC.

The Organization's income tax returns are subject to review and examination by federal and state authorities. The tax returns for the fiscal years ended 2010 through 2012 are open to examination by federal and state authorities.

Reclassification

Certain reclassifications have been made to the June 30, 2012 financial statements in order to present them in conformity with the June 30, 2013 financial statements. These reclassifications had no effect on net assets as previously reported.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 13, 2013, the date the financial statements were available for issue.

NOTE 2 CONCENTRATION OF CREDIT RISK

Financial instruments that subject the Organization to a concentration of credit risk consist of demand deposits placed with a financial institution. Funds in excess of Federal insurance limits may be exposed to credit risk.

NOTE 3 RELATED PARTY TRANSACTIONS

The Organization shares expenses with Friends of the Earth (Action), Inc. (FOE, Inc.), which is an exempt organization under Section 501(c)(4) of the Internal Revenue Code. Shared expenses include employee compensation, rent, and other expenses. Friends of the Earth and FOE, Inc. have separate Boards of Directors.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 3 RELATED PARTY TRANSACTIONS (CONTINUED)

The following is a summary of the transactions for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Due from FOE, Inc. - Beginning of Year	\$ 131,162	\$ 169,062
Contributions received on behalf of FOE, Inc.	(5,970)	(18,181)
Administrative Fee Charged to FOE, Inc.	29,946	17,367
Expense Paid by FOE on Behalf of FOE, Inc.	18,429	2,812
Reimbursements from FOE, Inc.	<u>-</u>	<u>(39,898)</u>
Due from FOE, Inc. - End of Year	<u>\$ 173,567</u>	<u>\$ 131,162</u>

Members of the Board of Directors make contributions to the Organization on an annual basis. Amounts contributed amounted to approximately \$135,000 and \$149,000 for the years ended June 30, 2013 and 2012, respectively.

NOTE 4 INVESTMENTS/CHARITABLE GIFT ANNUITIES

Investments consist of Charitable Gift Annuities (CGA) and other investments held by the Organization. CGAs are unrestricted irrevocable gifts under which the Organization agrees in turn to pay a life annuity to the donor, or designated beneficiary. The contributed funds and the attendant liabilities immediately become part of the general assets and liabilities of the Organization. Investments recorded at fair value, except money funds which are recorded at cost and approximate fair value, consist of the following at June 30:

	<u>2013</u>		<u>2012</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money Funds	\$ 89,697	\$ 89,697	\$ 56,106	\$ 56,106
Equities	46,997	43,442	18,448	19,509
	<u>\$ 136,694</u>	<u>\$ 133,139</u>	<u>\$ 74,554</u>	<u>\$ 75,615</u>
CGA - Mutual Funds - Equities	76,368	95,612	77,823	84,667
	<u>\$ 213,062</u>	<u>\$ 228,751</u>	<u>\$ 152,377</u>	<u>\$ 160,282</u>

The Organization invests in a variety of investments. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the balance sheet.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 5 FAIR VALUE HIERARCHY

The Organization uses measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Significant Accounting Policies.

The following table presents the Organization’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30:

	2013			Total
	Level 1	Level 2	Level 3	
Equities	\$ 43,442	\$ -	\$ -	\$ 43,442
CGA - Mutual Funds - Equities	95,612	-	-	95,612
	<u>\$ 139,054</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 139,054</u>
	2012			Total
	Level 1	Level 2	Level 3	
Equities	\$ 19,509	\$ -	\$ -	\$ 19,509
CGA - Mutual Funds - Equities	84,667	-	-	84,667
	<u>\$ 104,176</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 104,176</u>

NOTE 6 CAPITAL LEASE COMMITMENT

In May 2009, the Organization entered into a five-year capital lease obligation for two copiers. The liability under this capital lease at June 30, 2013 and 2012 is \$8,328 and \$17,491, respectively.

The capitalized equipment has a cost of \$41,410 and accumulated amortization of \$34,508 as of June 30, 2013. Amortization expense of \$8,282 was recognized on the capitalized equipment for the years ended June 30, 2013 and June 30, 2012.

Future minimum payments to be paid in the 2014 fiscal year for the capital lease obligation are \$8,328, including interest.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 7 TEMPORARILY RESTRICTED AND DESIGNATED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Purpose:		
Economic Policy	\$ 997,254	\$ 545,895
Oceans & Vessels	93,867	30,625
Climate & Energy	138,945	1,644,571
Food & Technology	203,208	308,279
Outreach Programs	170,377	59,672
Reserve Fund	145,000	145,000
Endowment Fund	53,421	53,421
Total	<u>\$ 1,802,072</u>	<u>\$ 2,787,463</u>

Net assets released from restriction for the years ended June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Purpose:		
Economic Policy	\$ 910,154	\$ 647,499
Oceans & Vessels	66,613	112,425
Climate & Energy	2,009,876	1,234,098
Food & Technology	220,030	413,390
Outreach Programs	113,533	73,898
Total	<u>\$ 3,320,206</u>	<u>\$ 2,481,310</u>

Board Designated net assets consisted of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Anti-nuclear Work	\$ 397,016	\$ 759,026
General Support	2,827,149	652,035
Food & Technology	54,087	144,419
Reserve Fund	477,901	206,679
Legal Fund	12,471	21,810
Total	<u>\$ 3,768,624</u>	<u>\$ 1,783,969</u>

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 8 PROMISES TO GIVE

The Organization receives promises to give primarily from private grantors. Such promises to give are due as follows for the years ended June 30:

	2013	2012
Receivables Due in Less than One Year	\$ 1,055,000	\$ 227,330
Receivables Due in One to Two Years	50,000	-
Total	\$ 1,105,000	\$ 227,330

NOTE 9 RETIREMENT PLAN

The Organization maintains a contributory defined contribution retirement plan that covers all employees who meet certain age requirements. Under the Plan, the Organization contributes 3% of the participants' compensation. Total pension expense amounted to \$37,022 and \$35,926 for the years ended June 30, 2013 and 2012, respectively.

NOTE 10 ALLOCATION OF JOINT COSTS

The Organization incurs joint costs for informational materials and activities that include fundraising appeals and on-line Action Alerts. The following is a summary of these costs for the years ended June 30:

	2013	2012
Grass Roots Lobbying	\$ 8,813	\$ 15,606
Fundraising	28,798	95,677
Program - Outreach	136,060	208,170
Total	\$ 173,671	\$ 319,453

NOTE 11 LEASE COMMITMENTS

The Organization entered into a non-cancelable lease agreement in 2010 for office space located at 1100 15th Street, Washington, DC that expires in October 2020. As part of the lease agreement, the Organization received rent incentives consisting of abated rent and lease hold improvements. The recognition of these assets and liabilities have been recorded as fixed assets, deferred rent and leasehold improvement allowance on the accompanying balance sheet and will be recognized over the term of the lease.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 11 LEASE COMMITMENTS (CONTINUED)

In June 2012, the Organization entered into a new three-year lease for office space in Berkley, CA. Rent expense, including miscellaneous occupancy charges, amounted to \$443,446 and \$491,639 for the years ended June 30, 2013 and 2012, respectively.

Future minimum rental payments on the office space are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 475,413
2015	489,937
2016	469,944
2017	480,513
2018	491,315
Thereafter	<u>972,815</u>
Total	<u>\$ 3,379,937</u>

In lieu of a security deposit on its leased office space, the Organization established a letter of credit (LOC) totaling \$134,820. The required amount of the LOC is \$84,263 after the third lease year and \$33,705 after the sixth lease year. The letter of credit is secured by a certificate of deposit.

NOTE 12 ENDOWMENT

Interpretation of Relevant Law

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit Organization donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies the original value of the temporarily restricted endowment gifts that have long-term time restrictions as a temporarily restricted endowment. The earnings on the endowment are also classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 12 ENDOWMENT (CONTINUED)

The endowment's investment policy objective is to protect the principal, earn a return, and provide growth.

Endowment net asset composition by type and changes in endowment net assets for the years ended June 30 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, July 1, 2011	\$ -	\$ 53,421	\$ -	\$ 53,421
Additions	-	-	100,000	100,000
Investment Return	-	875	-	875
Appropriations	-	(305)	-	(305)
Endowment Net Assets, June 30, 2012	<u>-</u>	<u>53,991</u>	<u>100,000</u>	<u>153,991</u>
Additions	-	-	110,272	110,272
Investment Return	-	427	-	427
Appropriations	-	(140)	-	(140)
Endowment Net Assets, June 30, 2013	<u><u>\$ -</u></u>	<u><u>\$ 54,278</u></u>	<u><u>\$ 210,272</u></u>	<u><u>\$ 264,550</u></u>