

FRIENDS OF THE EARTH
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

**FRIENDS OF THE EARTH
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YEARS ENDED JUNE 30, 2012 AND 2011**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Friends of the Earth
Washington, DC

We have audited the accompanying balance sheets of Friends of the Earth as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 audits provide 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 Friends of the Earth at June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 1, 2012

**FRIENDS OF THE EARTH
BALANCE SHEETS
JUNE 30, 2012 AND 2011**

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,773,497	\$ 2,896,162
Accounts Receivable	13,295	20,352
Due from Friends of the Earth (Action), Inc.	131,162	169,062
Promises to Give, Current Portion	227,330	459,721
Prepaid Expenses and Other Assets	93,425	101,710
Total Current Assets	5,238,709	3,647,007
FIXED ASSETS		
Furniture and Equipment	324,472	294,418
Leasehold Improvements	479,561	478,556
Less Accumulated Depreciation and Amortization	275,934	186,556
	528,099	586,418
OTHER ASSETS		
Promises to Give, Net of Current Portion	-	10,000
Charitable Gift Annuity, at Fair Value	84,667	86,402
Certificate of Deposit	140,213	139,363
Investments	75,615	31,304
Deposits	9,326	6,202
Total Other Assets	309,821	273,271
Total Assets	\$ 6,076,629	\$ 4,506,696
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 152,854	\$ 215,566
Accrued Leave	81,927	105,359
Capital Lease Obligation	9,166	10,428
Total Current Liabilities	243,947	331,353
OTHER LIABILITIES		
Capital Lease Obligation	8,325	15,400
Deferred Rent	263,852	247,775
Leasehold Improvement Allowance	417,927	467,582
Charitable Gift Annuity Liability	46,827	36,602
Total Other Liabilities	736,931	767,359
Total Liabilities	980,878	1,098,712
NET ASSETS		
Unrestricted:		
Operating	424,319	581,942
Board Designated	1,783,969	1,159,733
	2,208,288	1,741,675
Temporarily Restricted:		
Operating Fund	2,589,042	1,467,888
Reserve Fund	145,000	145,000
Endowment Fund	53,421	53,421
	2,787,463	1,666,309
Permanently Restricted		
Total Net Assets	100,000	-
	5,095,751	3,407,984
Total Liabilities and Net Assets	\$ 6,076,629	\$ 4,506,696

See accompanying Notes to Financial Statements.

**FRIENDS OF THE EARTH
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012				2011		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE							
Grants, Bequests and Contributions	\$ 2,258,472	\$ 3,602,464	\$ 100,000	\$ 5,960,936	\$ 2,974,121	\$ 2,254,284	\$ 5,228,405
Investment Income	11,208	-	-	11,208	46,185	-	46,185
Rental Income	105,759	-	-	105,759	83,171	-	83,171
Mailing List Sales	2,427	-	-	2,427	4,403	-	4,403
Administrative Fees	47,576	-	-	47,576	47,211	-	47,211
Other	15,225	-	-	15,225	104,719	-	104,719
Net Assets Released from Restrictions	2,481,310	(2,481,310)	-	-	2,709,253	(2,709,253)	-
Total Revenue	<u>4,921,977</u>	<u>1,121,154</u>	<u>100,000</u>	<u>6,143,131</u>	<u>5,969,063</u>	<u>(454,969)</u>	<u>5,514,094</u>
EXPENSES							
Program Expenses:							
Economic Policy	745,100	-	-	745,100	880,939	-	880,939
Oceans & Vessels	284,578	-	-	284,578	233,053	-	233,053
Climate & Energy	1,279,934	-	-	1,279,934	1,360,467	-	1,360,467
Food & Technology	419,645	-	-	419,645	257,173	-	257,173
Outreach	741,079	-	-	741,079	834,598	-	834,598
Membership	203,386	-	-	203,386	80,386	-	80,386
Total Program Expenses	<u>3,673,721</u>	<u>-</u>	<u>-</u>	<u>3,673,721</u>	<u>3,646,616</u>	<u>-</u>	<u>3,646,616</u>
Supporting Expenses:							
Management and General	469,018	-	-	469,018	596,280	-	596,280
Fundraising	312,624	-	-	312,624	251,836	-	251,836
Total Supporting Expenses	<u>781,642</u>	<u>-</u>	<u>-</u>	<u>781,642</u>	<u>848,116</u>	<u>-</u>	<u>848,116</u>
Total Expenses	<u>4,455,364</u>	<u>-</u>	<u>-</u>	<u>4,455,364</u>	<u>4,494,732</u>	<u>-</u>	<u>4,494,732</u>
CHANGE IN NET ASSETS	466,613	1,121,154	100,000	1,687,767	1,474,331	(454,969)	1,019,362
Net Assets - Beginning of Year	<u>1,741,675</u>	<u>1,666,309</u>	<u>-</u>	<u>3,407,984</u>	<u>267,344</u>	<u>2,121,278</u>	<u>2,388,622</u>
NET ASSETS - END OF YEAR	<u>\$ 2,208,288</u>	<u>\$ 2,787,463</u>	<u>\$ 100,000</u>	<u>\$ 5,095,751</u>	<u>\$ 1,741,675</u>	<u>\$ 1,666,309</u>	<u>\$ 3,407,984</u>

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
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011**

	Program Expenses						Supporting Expenses				Total Expenses	
	Economic Policy	Oceans & Vessels	Climate & Energy	Food & Technology	Outreach	Membership	Total	Overhead	Management and General	Fundraising		Total
Salaries	\$ 440,889	\$ 109,679	\$ 532,889	\$ 74,650	\$ 267,948	\$ 29,100	\$ 1,455,155	\$ 44,742	\$ 106,258	\$ 65,565	\$ 216,565	\$ 1,671,720
Benefits	96,265	19,710	110,547	16,155	51,579	6,940	301,196	9,992	11,983	13,737	35,712	336,908
Professional Fees/Consultants	6,815	29,564	150,951	73,923	150,634	11,510	423,397	136,662	348,313	39,646	524,621	948,018
Travel	40,242	6,120	21,683	37,577	19,864	(9)	125,477	457	8,063	9,586	18,106	143,583
Advertising	-	-	71,956	-	11,000	-	82,956	754	8,355	229	9,338	92,294
Printing & Duplicating	941	-	17,460	-	103,881	9,970	132,252	7,873	1,864	22,850	32,587	164,839
Publications	-	295	20	315	5,748	-	6,378	541	1,340	(33)	1,848	8,226
Telephone	90	394	5,877	207	238	65	6,871	28,922	4,590	238	33,750	40,621
Postage & Courier	97	8	292	1,028	56,669	7,984	66,078	25,001	4,808	18,324	48,133	114,211
Supplies	266	-	3,046	814	1,094	-	5,220	8,603	15,680	4,805	29,088	34,308
Computer Services	7,020	-	9,700	100	18,346	-	35,166	54,073	1,873	19,289	75,235	110,401
Dues and Contributions	21,597	-	10,357	260	13,465	-	45,679	3,352	-	117	3,469	49,148
Occupancy	192	-	1,421	-	817	690	3,120	428,734	42,602	149	471,485	474,605
Equipment/Maintenance	-	-	-	-	-	-	-	780	-	-	780	780
Small Grants	400	-	-	-	1,500	-	1,900	-	200	-	200	2,100
Other	40	-	-	40	4,555	118	4,753	19,792	9,315	18,746	47,853	52,606
Bad Debt	-	-	-	-	-	-	-	-	2,000	-	2,000	2,000
Depreciation and Amortization	-	-	-	-	471	-	471	96,615	-	1,642	98,257	98,728
Return of Grant Funds	-	-	149,636	-	-	-	149,636	-	-	-	-	149,636
Applied Overhead	266,085	67,283	274,632	52,104	126,789	14,018	800,911	(866,893)	29,036	36,946	(800,911)	-
Total Expenses	\$ 880,939	\$ 233,053	\$ 1,360,467	\$ 257,173	\$ 834,598	\$ 80,386	\$ 3,646,616	\$ -	\$ 596,280	\$ 251,836	\$ 848,116	\$ 4,494,732

See accompanying Notes to Financial Statements.

**FRIENDS OF THE EARTH
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,687,767	\$ 1,019,362
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	89,378	98,728
Realized/Unrealized Gain on Sales of Donated/Other Securities	(4,057)	(38,453)
Net Value of Donated Securities	(73,891)	(6,791)
Charitable Gift Annuity	18,903	2,567
Changes in Assets and Liabilities:		
Accounts Receivable	7,057	34,027
Due from Friends of the Earth (Action), Inc.	37,900	(40,997)
Promises to Give	242,391	(57,806)
Prepaid Expenses and Other Assets	8,285	(32,557)
Deposits	(3,124)	57,822
Accounts Payable and Accrued Expenses	(62,712)	48,484
Accrued Leave	(23,432)	(8,210)
Deferred Rent/Leasehold Improvement Allowance	(33,578)	129,164
Net Cash Provided by Operating Activities	1,890,887	1,205,340
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of Donated/Other Securities	89,608	63,196
Purchase of Certificate of Deposit	(850)	(2,216)
Purchases of Securities	(54,302)	(58,251)
Purchases of Fixed Assets	(31,058)	(14,710)
Net Cash Provided (Used) by Investing Activities	3,398	(11,981)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Lease	(8,337)	(7,589)
Charitable Gift Annuity Payments	(8,613)	(7,206)
Net Cash Used by Financing Activities	(16,950)	(14,795)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,877,335	1,178,564
Cash and Cash Equivalents - Beginning of Year	2,896,162	1,717,598
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,773,497	\$ 2,896,162
SUPPLEMENTAL INFORMATION		
Cash Paid During the Year for Interest	\$ 2,470	\$ 2,856

See accompanying Notes to Financial Statements.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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, 2012 and 2011.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2012 AND 2011**

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 a contribution (\$100,000) 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, 2012 AND 2011**

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 2009 through 2011 are open to examination by federal and state authorities.

Reclassification

Certain reclassifications have been made to the June 30, 2011 financial statements in order to present them in conformity with the June 30, 2012 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 1, 2012, 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, 2012 AND 2011**

NOTE 3 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	<u>2012</u>	<u>2011</u>
Due from FOE, Inc. - Beginning of Year	\$ 169,062	\$ 128,065
Contributions received on behalf of FOE, Inc.	(18,181)	(46,775)
Administrative Fee Charged to FOE, Inc.	17,367	47,212
Expense Paid by FOE on Behalf of FOE, Inc.	2,812	40,560
Reimbursements from FOE, Inc.	<u>(39,898)</u>	<u>-</u>
Due from FOE, Inc. - End of Year	<u>\$ 131,162</u>	<u>\$ 169,062</u>

Members of the Board of Directors make contributions to the Organization on an annual basis. Amounts contributed amounted to approximately \$149,000 and \$160,000 for the years ended June 30, 2012 and 2011, 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>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money Funds	\$ 56,106	\$ 56,106	\$ 2,544	\$ 2,544
Equities	18,448	19,509	16,531	28,760
CGA - Mutual Funds - Equities	77,823	84,667	82,402	86,402
	<u>\$ 152,377</u>	<u>\$ 160,282</u>	<u>\$ 101,477</u>	<u>\$ 117,706</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, 2012 AND 2011**

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:

	2012			
	Level 1	Level 2	Level 3	Total
Equities	\$ 19,509	\$ -	\$ -	\$ 19,509
CGA - Mutual Funds - Equities	84,667	-	-	84,667
	\$ 104,176	\$ -	\$ -	\$ 104,176
	2011			
	Level 1	Level 2	Level 3	Total
Equities	\$ 28,760	\$ -	\$ -	\$ 28,760
CGA - Mutual Funds - Equities	86,402	-	-	86,402
	\$ 115,162	\$ -	\$ -	\$ 115,162

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, 2012 and 2011 is \$17,491 and \$25,828, respectively.

The capitalized equipment has a cost of \$41,410 and accumulated amortization of \$26,226 as of June 30, 2012. Amortization expense of \$8,282 was recognized on the capitalized equipment for the years ended June 30, 2012 and June 30, 2011.

Future minimum payments for the capital lease obligation are as follows:

	2013	\$ 10,428
	2014	8,690
	Total Payments	19,118
Less: Amount Representing Interest		1,627
	Total	\$ 17,491

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 7 TEMPORARILY RESTRICTED AND DESIGNATED NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Purpose:		
Economic Policy	\$ 545,895	\$ 377,702
Oceans & Vessels	30,625	58,050
Climate & Energy	1,644,571	878,211
Food & Technology	308,279	108,854
Outreach Programs	59,672	45,071
Reserve Fund	145,000	145,000
Endowment Fund	53,421	53,421
Total	<u>\$ 2,787,463</u>	<u>\$ 1,666,309</u>

Net assets released from restriction for the years ended June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Purpose:		
Economic Policy	\$ 647,499	\$ 779,359
Oceans & Vessels	112,425	152,779
Climate & Energy	1,234,098	1,303,638
Food & Technology	413,390	212,700
Outreach Programs	73,898	260,777
Total	<u>\$ 2,481,310</u>	<u>\$ 2,709,253</u>

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

	<u>2012</u>	<u>2011</u>
Anti-nuclear Work	\$ 759,026	\$ 509,027
General Support	652,035	439,005
Food & Technology	144,419	148,085
Reserve Fund	206,679	41,806
Legal Fund	21,810	21,810
Total	<u>\$ 1,783,969</u>	<u>\$ 1,159,733</u>

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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:

	2012	2011
Receivables Due in Less than One Year	\$ 227,330	\$ 459,721
Receivables Due in One to Two Years	-	10,000
Total	\$ 227,330	\$ 469,721

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 \$35,926 and \$40,032 for the years ended June 30, 2012 and 2011, respectively.

NOTE 10 ALLOCATION OF JOINT COSTS

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

	2012	2011
Grass Roots Lobbying	\$ 15,606	\$ 10,995
Fundraising	95,677	35,799
Program - Outreach	208,170	160,378
Total	\$ 319,453	\$ 207,172

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, 2012 AND 2011**

NOTE 11 LEASE COMMITMENTS (CONTINUED)

The Organization is also co-obligated with As You Sow Foundation on a lease for office space located in San Francisco, CA that expires on July 31, 2012. The Organization pays 55% of the rent associated with the San Francisco lease. In the event As You Sow Foundation were to default on its portion of the lease agreement, FOE would be liable for the full amount of the rent. 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 \$491,643 and \$474,605 for the years ended June 30, 2012 and 2011, respectively.

Future minimum rental payments, less the amount paid by As You Sow Foundation, on the office space are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 461,504
2014	472,171
2015	482,714
2016	466,477
2017	476,950
Thereafter	<u>1,625,785</u>
Total	<u><u>\$ 3,985,601</u></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.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 12 ENDOWMENT (CONTINUED)

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.

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:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, July 1, 2010	\$ -	\$ 53,421	\$ -	\$ 53,421
Investment Return	-	174	-	174
Appropriations	-	(174)	-	(174)
Endowment Net Assets, June 30, 2011	<u>-</u>	<u>53,421</u>	<u>-</u>	<u>53,421</u>
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>