

FRIENDS OF THE EARTH
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

**FRIENDS OF THE EARTH
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YEARS ENDED JUNE 30, 2011 AND 2010**

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CPAs, Consultants & Advisors
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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, 2011 and 2010, 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, 2011 and 2010, 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.

LarsonAllen LLP
LarsonAllen LLP

Arlington, Virginia
November 4, 2011



(1)

An independent member of Nexia International

**FRIENDS OF THE EARTH
BALANCE SHEETS
JUNE 30, 2011 AND 2010**

	2011			2010		
	Unrestricted Operating Fund	Temporarily Restricted	Total	Unrestricted Operating Fund	Temporarily Restricted	Total
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	\$ 1,699,574	\$ 1,196,588	\$ 2,896,162	\$ 8,235	\$ 1,709,363	\$ 1,717,598
Accounts Receivable:						
Grants, Contributions and Bequests	-	-	-	21,651	-	21,651
Other	20,352	-	20,352	32,728	-	32,728
Total Accounts Receivable	20,352	-	20,352	54,379	-	54,379
Due from Friends of the Earth (Action), Inc.	169,062	-	169,062	128,065	-	128,065
Promises to Give, Current Portion	-	459,721	459,721	-	391,915	391,915
Prepaid Expenses and Other Assets	101,710	-	101,710	69,153	-	69,153
Total Current Assets	1,990,698	1,656,309	3,647,007	259,832	2,101,278	2,361,110
FIXED ASSETS						
Furniture and Equipment	294,418	-	294,418	970,259	-	970,259
Leasehold Improvements	478,556	-	478,556	478,556	-	478,556
Less Accumulated Depreciation and Amortization	186,556	-	186,556	778,379	-	778,379
	586,418	-	586,418	670,436	-	670,436
OTHER ASSETS						
Promises to Give, Net of Current Portion	-	10,000	10,000	-	20,000	20,000
Charitable Gift Annuity, at Fair Value	86,402	-	86,402	69,433	-	69,433
Certificate of Deposit	139,363	-	139,363	137,147	-	137,147
Investments	31,304	-	31,304	57,627	-	57,627
Deposits	6,202	-	6,202	64,024	-	64,024
Total Other Assets	263,271	10,000	273,271	328,231	20,000	348,231
 Total Assets	 <u>\$ 2,840,387</u>	 <u>\$ 1,666,309</u>	 <u>\$ 4,506,696</u>	 <u>\$ 1,258,499</u>	 <u>\$ 2,121,278</u>	 <u>\$ 3,379,777</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts Payable and Accrued Expenses	\$ 215,566	\$ -	\$ 215,566	\$ 167,082	\$ -	\$ 167,082
Accrued Leave	105,359	-	105,359	113,569	-	113,569
Capital Lease Obligation	10,428	-	10,428	10,428	-	10,428
Total Current Liabilities	331,353	-	331,353	291,079	-	291,079
OTHER LIABILITIES						
Capital Lease Obligation	15,400	-	15,400	22,988	-	22,988
Deferred Rent	247,775	-	247,775	118,611	-	118,611
Leasehold Improvement Allowance	467,582	-	467,582	517,236	-	517,236
Charitable Gift Annuity Liability	36,602	-	36,602	41,241	-	41,241
Total Other Liabilities	767,359	-	767,359	700,076	-	700,076
Total Liabilities	1,098,712	-	1,098,712	991,155	-	991,155
NET ASSETS						
Unrestricted - Operating	581,942	-	581,942	267,344	-	267,344
Unrestricted Board Designated	1,159,733	-	1,159,733	-	-	-
Temporarily Restricted:						
Operating Fund	-	1,467,888	1,467,888	-	1,922,857	1,922,857
Reserve Fund	-	145,000	145,000	-	145,000	145,000
Endowment Fund	-	53,421	53,421	-	53,421	53,421
Total Net Assets	1,741,675	1,666,309	3,407,984	267,344	2,121,278	2,388,622
 Total Liabilities and Net Assets	 <u>\$ 2,840,387</u>	 <u>\$ 1,666,309</u>	 <u>\$ 4,506,696</u>	 <u>\$ 1,258,499</u>	 <u>\$ 2,121,278</u>	 <u>\$ 3,379,777</u>

See accompanying Notes to Financial Statements.

**FRIENDS OF THE EARTH
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

	Unrestricted Operating Fund	Temporarily Restricted	Total
REVENUE			
Grants, Bequests and Member Contributions	\$ 2,974,121	\$ 2,254,284	\$ 5,228,405
Investment Income	46,185	-	46,185
Rental Income	83,171	-	83,171
Mailing List Sales	4,403	-	4,403
Administrative Fees	47,211	-	47,211
Other	104,719	-	104,719
Net Assets Released from Restrictions	2,709,253	(2,709,253)	-
Total Revenue	5,969,063	(454,969)	5,514,094
EXPENSES			
Program Expenses:			
Economic Policy	880,939	-	880,939
Oceans & Vessels	233,053	-	233,053
Climate & Energy	1,360,467	-	1,360,467
Food & Technology	257,173	-	257,173
Outreach	834,598	-	834,598
Membership	80,386	-	80,386
Total Program Expenses	3,646,616	-	3,646,616
Supporting Expenses:			
Management and General	596,280	-	596,280
Fundraising	251,836	-	251,836
Total Supporting Expenses	848,116	-	848,116
Total Expenses	4,494,732	-	4,494,732
CHANGE IN NET ASSETS	1,474,331	(454,969)	1,019,362
Net Assets - Beginning of Year	267,344	2,121,278	2,388,622
NET ASSETS - END OF YEAR	\$ 1,741,675	\$ 1,666,309	\$ 3,407,984

See accompanying Notes to Financial Statements.

**FRIENDS OF THE EARTH
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

	Unrestricted Operating Fund	Temporarily Restricted	Total
REVENUE			
Grants, Bequests and Member Contributions	\$ 1,471,263	\$ 2,784,869	\$ 4,256,132
Investment Income	17,286	-	17,286
Rental Income	64,123	-	64,123
Mailing List Sales	2,286	-	2,286
Administrative Fees	25,299	-	25,299
Other	104,777	-	104,777
Net Assets Released from Restrictions	2,918,107	(2,918,107)	-
Total Revenue	4,603,141	(133,238)	4,469,903
EXPENSES			
Program Expenses:			
Domestic	1,209,355	-	1,209,355
International	928,415	-	928,415
Bluewater Network	648,037	-	648,037
Outreach	789,360	-	789,360
Membership	72,524	-	72,524
Total Program Expenses	3,647,691	-	3,647,691
Supporting Expenses:			
Management and General	320,284	-	320,284
Fundraising	380,288	-	380,288
Total Supporting Expenses	700,572	-	700,572
Total Expenses	4,348,263	-	4,348,263
CHANGE IN NET ASSETS	254,878	(133,238)	121,640
Net Assets - Beginning of Year	12,466	2,254,516	2,266,982
NET ASSETS - END OF YEAR	\$ 267,344	\$ 2,121,278	\$ 2,388,622

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
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2010**

	Program Expenses					Supporting Expenses					Total Expenses
	Domestic	International	Bluewater Network	Outreach	Membership	Total	Overhead	Management and General	Fundraising	Total	
Salaries	\$ 488,816	\$ 352,016	\$ 311,132	\$ 318,975	\$ 23,160	\$ 1,494,099	\$ 255,156	\$ 85,408	\$ 93,870	\$ 434,434	\$ 1,928,533
Benefits	83,543	76,819	65,199	52,769	7,043	285,373	54,033	32,538	18,547	105,118	390,491
Professional Fees/Consultants	168,336	2,839	45,464	41,358	3,053	261,050	118,387	25,803	93,042	237,232	498,282
Travel	32,840	98,624	9,726	3,439	18	144,647	3,013	13,011	51,529	67,553	212,200
Printing	2,319	4,356	976	130,594	18,392	156,637	4,078	3,883	14,683	22,644	179,281
Duplicating	798	281	185	3,656	129	5,049	6,271	115	145	6,531	11,580
Publications	148	125	72	7,318	1,250	8,913	4,524	17	298	4,839	13,752
Telephone	9,807	7,021	4,158	2,379	-	23,365	9,712	4,009	873	14,594	37,959
Postage	4,160	2,223	846	54,773	5,420	67,422	10,936	6,066	13,115	30,117	97,539
Local Courier	-	-	23	27	1	51	677	196	57	930	981
Supplies	11,455	252	308	-	4	12,019	12,402	6,881	7,760	27,043	39,062
Computer Services	49,017	3,515	5,264	21,039	298	79,133	27,584	4,171	6,367	38,122	117,255
Dues and Contributions	9,570	10,737	8,000	5,000	-	33,307	175	185	-	360	33,667
Occupancy	103,508	79,522	55,779	40,966	3,642	283,417	32,054	36,741	13,580	82,375	365,792
Equipment/Maintenance	-	-	-	-	-	-	393	-	-	393	393
Small Grants	-	133,000	-	-	-	133,000	-	-	-	-	133,000
Other	55,855	14,148	1,312	21,178	26	92,519	27,310	29,919	18,348	75,577	168,096
Depreciation and Amortization	-	-	-	1,540	1,087	2,627	47,610	29	15,354	62,993	65,620
Bad Debt	-	-	-	-	-	-	-	54,780	-	54,780	54,780
Applied Overhead	189,183	142,937	139,593	84,349	9,001	565,063	(614,315)	16,532	32,720	(565,063)	-
Total Expenses	\$ 1,209,355	\$ 928,415	\$ 648,037	\$ 789,360	\$ 72,524	\$ 3,647,691	\$ -	\$ 320,284	\$ 380,288	\$ 700,572	\$ 4,348,263

See accompanying Notes to Financial Statements.

**FRIENDS OF THE EARTH
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,019,362	\$ 121,640
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	98,728	65,620
Realized/Unrealized Gain on Sales of Donated/Other Securities	(38,453)	(7,582)
Net Value of Donated Securities	(6,791)	(57,434)
Pooled Income Fund	-	1,826
Charitable Gift Annuity	2,567	5,884
Changes in Assets and Liabilities:		
Accounts Receivable	34,027	248,236
Promises to Give	(57,806)	48,595
Prepaid Expenses and Other Assets	(32,557)	27,904
Deposits	57,822	(33,045)
Accounts Payable and Accrued Expenses	48,484	52,507
Accrued Leave	(8,210)	(2,921)
Deferred Rent/Leasehold Improvement Allowance	129,164	98,515
Due from Friends of the Earth (Action), Inc.	(40,997)	(68,662)
Net Cash Provided by Operating Activities	1,205,340	501,083
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of Donated/Other Securities	63,196	5,250
Purchase of Certificate of Deposit	(2,216)	(137,147)
Purchases of Securities	(58,251)	-
Purchases of Fixed Assets	(14,710)	(109,342)
Net Cash Used by Investing Activities	(11,981)	(241,239)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principle Payments on Capital Lease	(7,589)	(6,906)
Charitable Gift Annuity Payments	(7,206)	(7,206)
Net Cash Used by Financing Activities	(14,795)	(14,112)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,178,564	245,732
Cash and Cash Equivalents - Beginning of Year	1,717,598	1,471,866
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,896,162	\$ 1,717,598
SUPPLEMENTAL INFORMATION		
Cash Paid During the Year for Interest	\$ 2,856	\$ 3,523
LHI, Furniture and Equipment Acquired Through Leases	\$ -	\$ 529,650

See accompanying Notes to Financial Statements.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

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** 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.

Friends of the Earth reorganized its program titles in the current year in order to more relevantly and accurately reflect its mission and focus over the previous geographically organized program titles as noted below.

The **Domestic** program works on potential threats from emerging technologies such as genetically modified food, and nanotechnology. It also addresses environmental issues in the federal budget and local Washington, DC environmental problems.

The **International** program focuses on threats from global warming, promotes environmentally sustainable trade and agriculture policy, and presses for environmentally responsible lending by major banks.

The **Bluewater Network** program, based in San Francisco, works to reduce air pollution and climate change by promoting clean fuels and technologies for automobiles, and new standards and policies for ports and vessels. Bluewater seeks to protect public land resources from damage caused by off-road vehicles.

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.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 pooled income and charitable gift annuity funds 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, 2011 and 2010.

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.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (Continued)

Fair Value Measurements (Continued)

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.

Net Assets

To ensure observance of restrictions placed on the use of available resources, the accounts are classified for accounting and reporting purposes into net asset groups. Temporarily restricted net assets (funds restricted by outside sources) are distinguished from unrestricted net assets. Temporarily restricted net assets may be utilized only in accordance with the purpose established by the source of such net assets and are in contrast to unrestricted net assets, over which the Board of Directors retains full control to use in achieving any of the Organization's purposes.

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 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 in the amount of \$53,421. 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.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Revenue

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.

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 2008 through 2010 are open to examination by federal and state authorities.

Reclassification

Certain reclassifications have been made to the June 30, 2010 financial statements in order to present them in conformity with the June 30, 2011 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 4, 2011, 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, 2011 AND 2010**

NOTE 3 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	<u>2011</u>	<u>2010</u>
Due from FOE, Inc. - Beginning of Year	\$ 128,065	\$ 59,403
Contributions received on behalf of FOE, Inc.	(46,775)	(13,170)
Administrative Fee Charged to FOE, Inc.	47,212	7,321
Expense Paid by FOE, Inc. on Behalf of FOE	-	(449)
Expense Paid by FOE on Behalf of FOE, Inc.	40,560	109,960
Reimbursements from FOE, Inc.	<u>-</u>	<u>(35,000)</u>
Due from FOE, Inc. - End of Year	<u>\$ 169,062</u>	<u>\$ 128,065</u>

Members of the Board of Directors make contributions to the Organization on an annual basis. Amounts contributed amounted to approximately \$160,000 and \$165,000 for the years ended June 30, 2011 and 2010, 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>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money Funds	\$ 2,543	\$ 2,544	\$ 1,089	\$ 1,089
Equities	16,531	28,760	51,287	56,538
CGA - Mutual Funds - Equities	82,402	86,402	87,089	69,433
	<u>\$ 101,476</u>	<u>\$ 117,706</u>	<u>\$ 139,465</u>	<u>\$ 127,060</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, 2011 AND 2010**

NOTE 5 FAIR VALUE HIERARCHY

The Organization 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:

	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
	2010			
	Level 1	Level 2	Level 3	Total
Equities	\$ 56,538	\$ -	\$ -	\$ 56,538
CGA - Mutual Funds - Equities	69,433	-	-	69,433
	\$ 125,971	\$ -	\$ -	\$ 125,971

NOTE 6 CAPITAL LEASE COMMITMENT

In May 2009, the Organization entered into a five-year capital lease obligation for a color copier. The liability under this capital lease at June 30, 2011 and 2010 is \$25,828 and \$33,416, respectively.

The capitalized equipment has a cost of \$41,410 and accumulated amortization of \$17,944 as of June 30, 2011. Amortization expense of \$8,282 was recognized on the capitalized equipment for the years ended June 30, 2011 and June 30, 2010.

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

	2012	\$ 10,428
	2013	10,428
	2014	8,690
	Total Payments	29,546
	Less: Amount Representing Interest	3,718
	Total	\$ 25,828

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 7 TEMPORARILY RESTRICTED AND DESIGNATED NET ASSETS

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

	<u>2011</u>	<u>2010</u>
Purpose:		
Domestic Team Programs	\$ -	\$ 903,145
International Team Programs	-	477,675
Bluewater Network Programs	-	274,548
Economic Policy	377,702	-
Oceans & Vessels	58,050	-
Climate & Energy	878,211	-
Food & Technology	108,854	-
Outreach Programs	45,071	267,489
Reserve Fund	145,000	145,000
Endowment Fund	53,421	53,421
Total	<u>\$ 1,666,309</u>	<u>\$ 2,121,278</u>

Net assets released from restriction for the years ended June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Purpose:		
Domestic Team Programs	\$ -	\$ 1,239,105
International Team Programs	-	928,132
Bluewater Network Programs	-	554,437
Economic Policy	779,359	-
Oceans & Vessels	152,779	-
Climate & Energy	1,303,638	-
Food & Technology	212,700	-
Outreach Programs	260,777	194,607
Pooled Income Fund	-	1,826
Total	<u>\$ 2,709,253</u>	<u>\$ 2,918,107</u>

The net asset releases related to the 2010 program titles are included in the revised 2011 program titles.

Board Designated net assets consisted of the following as of June 30, 2011:

Anti-nuclear Work	\$ 509,027
General Support	439,005
Food & Technology	148,085
Reserve Fund	41,806
Legal Fund	21,810
Total	<u>\$ 1,159,733</u>

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

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:

	2011	2010
Receivables Due in Less than One Year	\$ 459,721	\$ 391,915
Receivables Due in One to Two Years	10,000	20,000
Total	\$ 469,721	\$ 411,915

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 \$40,032 and \$50,315 for the years ended June 30, 2011 and 2010, 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:

	2011	2010
Grass Roots Lobbying	\$ 10,995	\$ 7,061
Fundraising	35,799	16,845
Program - Outreach	160,378	131,195
Total	\$ 207,172	\$ 155,101

NOTE 11 LEASE COMMITMENTS

The Organization entered into a non-cancelable lease agreement 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.

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.

**FRIENDS OF THE EARTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 11 LEASE COMMITMENTS (CONTINUED)

Rent expense, including miscellaneous occupancy charges, amounted to \$474,605 and \$365,792 for the years ended June 30, 2011 and 2010, 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>
2012	\$ 487,617
2013	431,005
2014	434,915
2015	447,626
2016	466,477
Thereafter	<u>2,012,735</u>
Total	<u>\$ 4,280,375</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, 2011 AND 2010**

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>Total</u>
Endowment Net Assets, July 1, 2009	\$ -	\$ 53,421	\$ 53,421
Investment Return	-	160	160
Appropriations	-	(160)	(160)
Endowment Net Assets, June 30, 2010	<u>-</u>	<u>53,421</u>	<u>53,421</u>
Investment Return	-	174	174
Appropriations	-	(174)	(174)
Endowment Net Assets, June 30, 2011	<u>\$ -</u>	<u>\$ 53,421</u>	<u>\$ 53,421</u>