



**ENVIRONMENTAL DEFENSE FUND,
INCORPORATED**

CONSOLIDATED AND CONSOLIDATING FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 and 2014

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Environmental Defense Fund, Incorporated
New York, New York

Report on the Consolidated and Consolidating Financial Statements

We have audited the accompanying consolidated and consolidating financial statements of the Environmental Defense Fund, Incorporated (the "Organization"), which comprise the consolidated and consolidating statements of financial position as of September 30, 2015 and 2014, and the related consolidated and consolidating statements of activities, and consolidated and consolidating statements of cash flows for the years then ended, and the related notes to the consolidated and consolidating financial statements.

Management's Responsibility for the Consolidated and Consolidating Financial Statements

The Organization's management is responsible for the preparation and fair presentation of these consolidated and consolidating 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 consolidated and consolidating 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated and consolidating financial statements referred to above present fairly, in all material respects, the financial position of the Environmental Defense Fund, Incorporated as of September 30, 2015 and 2014, 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.



New York, New York
November 23, 2015

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statements of Financial Position

	September 30,	
	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 2,676,767	\$ 4,451,435
Temporary investments for future periods	32,169,719	22,677,914
Prepaid expenses and other assets	4,633,892	4,343,461
Pledges receivable, net	127,836,099	138,469,343
Property and equipment, net	5,259,347	4,866,931
California Fisheries loans, net	1,868,032	1,376,096
Donor-advised fund investments	241,475	241,475
Investments	<u>59,465,968</u>	<u>59,115,651</u>
	<u>\$ 234,151,299</u>	<u>\$ 235,542,306</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 8,666,095	\$ 8,520,755
Deferred revenue and rent payable	2,744,671	2,390,427
Annuities payable	4,006,847	4,453,000
Notes payable	1,871,147	2,216,267
California Fisheries grants payable	3,358,086	3,479,461
Other liabilities	<u>4,034,991</u>	<u>2,955,197</u>
	<u>24,681,837</u>	<u>24,015,107</u>
NET ASSETS		
Unrestricted:		
Available for operations	3,001,196	3,357,604
Designated for long-term investment	<u>45,841,599</u>	<u>44,000,863</u>
Total unrestricted	48,842,795	47,358,467
Temporarily restricted	156,890,169	160,432,234
Permanently restricted	<u>3,736,498</u>	<u>3,736,498</u>
Total net assets	<u>209,469,462</u>	<u>211,527,199</u>
	<u>\$ 234,151,299</u>	<u>\$ 235,542,306</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidating Statement of Financial Position September 30, 2015

(with summarized financial information for 2014)

	EDF	EDAF	CFF	Eliminations	September 30,	
					2015	2014
ASSETS						
Cash and cash equivalents	\$ 1,003,056	\$ 1,235,744	\$ 437,967		\$ 2,676,767	\$ 4,451,435
Temporary investments for future periods	27,763,114	3,201,553	1,205,052		32,169,719	22,677,914
Prepaid expenses and other assets	4,559,629	74,263			4,633,892	4,343,461
Pledges receivable, net	126,610,099	1,226,000			127,836,099	138,469,343
Property and equipment, net	5,259,347				5,259,347	4,866,931
California Fisheries loans, net			1,868,032		1,868,032	1,376,096
Donor-advised fund investments	241,475				241,475	241,475
Investments	59,465,968				59,465,968	59,115,651
Intercompany receivable	301,376			\$ (301,376)	0	0
	<u>\$ 225,204,064</u>	<u>\$ 5,737,560</u>	<u>\$ 3,511,051</u>	<u>\$ (301,376)</u>	<u>\$ 234,151,299</u>	<u>\$ 235,542,306</u>
LIABILITIES						
Accounts payable and accrued expenses	\$ 8,468,986	\$ 184,401	\$ 12,708		\$ 8,666,095	\$ 8,520,755
Deferred revenue and rent payable	2,744,671				2,744,671	2,390,427
Annuities payable	4,006,847				4,006,847	4,453,000
Notes payable	1,871,147				1,871,147	2,216,267
California Fisheries grants payable			3,358,086		3,358,086	3,479,461
Other liabilities	4,034,991				4,034,991	2,955,197
Intercompany payable		273,568	27,808	\$ (301,376)	0	0
	<u>21,126,642</u>	<u>457,969</u>	<u>3,398,602</u>	<u>(301,376)</u>	<u>24,681,837</u>	<u>24,015,107</u>
NET ASSETS						
Unrestricted:						
Available for operations	2,580,076	308,671	112,449		3,001,196	3,357,604
Designated for long-term investment	45,841,599				45,841,599	44,000,863
Total unrestricted	48,421,675	308,671	112,449		48,842,795	47,358,467
Temporarily restricted	151,919,249	4,970,920			156,890,169	160,432,234
Permanently restricted	3,736,498				3,736,498	3,736,498
Total net assets	<u>204,077,422</u>	<u>5,279,591</u>	<u>112,449</u>		<u>209,469,462</u>	<u>211,527,199</u>
	<u>\$ 225,204,064</u>	<u>\$ 5,737,560</u>	<u>\$ 3,511,051</u>	<u>\$ (301,376)</u>	<u>\$ 234,151,299</u>	<u>\$ 235,542,306</u>

See notes to consolidated and consolidating financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidating Statement of Financial Position September 30, 2014

	<u>EDF</u>	<u>EDAF</u>	<u>CFF</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 2,949,591	\$ 1,244,697	\$ 257,147		\$ 4,451,435
Temporary investments for future periods	15,339,315	5,200,918	2,137,681		22,677,914
Prepaid expenses and other assets	4,329,375	14,086			4,343,461
Pledges receivable, net	137,814,343	655,000			138,469,343
Property and equipment, net	4,866,931				4,866,931
California Fisheries loans, net			1,376,096		1,376,096
Donor-advised fund investments	241,475				241,475
Investments	59,115,651				59,115,651
Intercompany receivable	<u>190,339</u>	<u>522,298</u>		\$ (712,637)	<u>0</u>
	<u>\$ 224,847,020</u>	<u>\$ 7,636,999</u>	<u>\$ 3,770,924</u>	<u>\$ (712,637)</u>	<u>\$ 235,542,306</u>
LIABILITIES					
Accounts payable and accrued expenses	\$ 8,359,726	\$ 155,029	\$ 6,000		\$ 8,520,755
Deferred revenue rent payable	2,390,427				2,390,427
Annuities payable	4,453,000				4,453,000
Notes payable	2,216,267				2,216,267
California Fisheries grants payable			3,479,461		3,479,461
Other liabilities	2,955,197				2,955,197
Intercompany payable	<u>522,298</u>		<u>190,339</u>	\$ (712,637)	<u>0</u>
	<u>20,896,915</u>	<u>155,029</u>	<u>3,675,800</u>	<u>(712,637)</u>	<u>24,015,107</u>
NET ASSETS					
Unrestricted:					
Available for operations	2,877,430	385,050	95,124		3,357,604
Designated for long-term investment	<u>44,000,863</u>				<u>44,000,863</u>
Total unrestricted	46,878,293	385,050	95,124		47,358,467
Temporarily restricted	153,335,314	7,096,920			160,432,234
Permanently restricted	<u>3,736,498</u>				<u>3,736,498</u>
Total net assets	<u>203,950,105</u>	<u>7,481,970</u>	<u>95,124</u>		<u>211,527,199</u>
	<u>\$ 224,847,020</u>	<u>\$ 7,636,999</u>	<u>\$ 3,770,924</u>	<u>\$ (712,637)</u>	<u>\$ 235,542,306</u>

See notes to consolidated and consolidating financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Activities Year Ended September 30, 2015 (with summarized financial information for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Year Ended September 30, 2014
Operating support and revenue:					
Support:					
Contributions and membership	\$ 19,810,682	\$ 80,877,337		\$ 100,688,019	\$ 81,403,557
Foundations and other institutional giving	192,414	34,476,898		34,669,312	60,974,093
Government grants and other giving	178,127	2,516,192		2,694,319	3,356,721
Bequests and other planned giving	<u>4,270,009</u>			<u>4,270,009</u>	<u>3,360,690</u>
Total support	<u>24,451,232</u>	<u>117,870,427</u>		<u>142,321,659</u>	<u>149,095,061</u>
Revenue:					
Investment income allocated for operations	2,359,909	282,629		2,642,538	2,477,537
Fees, royalties and other income	<u>659,511</u>	<u>30,000</u>		<u>689,511</u>	<u>670,794</u>
Total revenue	<u>3,019,420</u>	<u>312,629</u>		<u>3,332,049</u>	<u>3,148,331</u>
Net assets released from restrictions	<u>121,826,086</u>	<u>(121,826,086)</u>		<u>0</u>	<u>0</u>
Total operating support and revenue	<u>149,296,738</u>	<u>(3,643,030)</u>		<u>145,653,708</u>	<u>152,243,392</u>
Operating expenses:					
Program services:					
Scientific research, economic analysis, and policy development:					
Climate and Energy	66,537,070			66,537,070	60,419,668
Oceans	21,148,146			21,148,146	21,190,430
Ecosystems	19,940,260			19,940,260	18,941,562
Health	7,096,924			7,096,924	5,937,427
Education	5,986,910			5,986,910	5,381,835
Membership activities	<u>1,975,333</u>			<u>1,975,333</u>	<u>1,061,942</u>
Total program services	<u>122,684,643</u>			<u>122,684,643</u>	<u>112,932,864</u>
Supporting services:					
Management and general	8,440,051			8,440,051	8,296,709
New member acquisition	301,533			301,533	509,583
Fund-raising:					
Membership	2,801,490			2,801,490	2,466,492
Development	<u>10,823,624</u>			<u>10,823,624</u>	<u>9,791,106</u>
Total supporting services	<u>22,366,698</u>			<u>22,366,698</u>	<u>21,063,890</u>
Total operating expenses	<u>145,051,341</u>			<u>145,051,341</u>	<u>133,996,754</u>
Change in net assets from operations	4,245,397	(3,643,030)		602,367	18,246,638
Change in net assets from non-operating activities:					
Other income (expenses), net of contributions and other income	(730,572)			(730,572)	(51,195)
Investment results, net of allocation to operations	<u>(2,030,497)</u>	<u>100,965</u>		<u>(1,929,532)</u>	<u>1,199,958</u>
Change in net assets	1,484,328	(3,542,065)		(2,057,737)	19,395,401
Net assets - beginning of year	<u>47,358,467</u>	<u>160,432,234</u>	<u>\$ 3,736,498</u>	<u>211,527,199</u>	<u>192,131,798</u>
Net assets - end of year	<u>\$ 48,842,795</u>	<u>\$ 156,890,169</u>	<u>\$ 3,736,498</u>	<u>\$ 209,469,462</u>	<u>\$ 211,527,199</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statement of Activities Year Ended September 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating support and revenue:				
Support:				
Contributions and membership	\$ 19,509,552	\$ 61,894,005		\$ 81,403,557
Foundations and other institutional giving	2,593,625	58,380,468		60,974,093
Government grants and other giving	75,664	3,281,057		3,356,721
Bequests and other planned giving	<u>3,360,690</u>			<u>3,360,690</u>
Total support	<u>25,539,531</u>	<u>123,555,530</u>		<u>149,095,061</u>
Revenue:				
Investment income allocated for operations	2,232,321	245,216		2,477,537
Fees, royalties and other income	<u>670,794</u>			<u>670,794</u>
Total revenue	<u>2,903,115</u>	<u>245,216</u>		<u>3,148,331</u>
Net assets released from restrictions	<u>108,553,162</u>	<u>(108,553,162)</u>		<u>0</u>
Total operating support and revenue	<u>136,995,808</u>	<u>15,247,584</u>		<u>152,243,392</u>
Operating expenses:				
Program services:				
Scientific research, economic analysis, and policy development:				
Climate and energy	60,419,668			60,419,668
Oceans	21,190,430			21,190,430
Ecosystems	18,941,562			18,941,562
Health	5,937,427			5,937,427
Education	5,381,835			5,381,835
Membership activities	<u>1,061,942</u>			<u>1,061,942</u>
Total program services	<u>112,932,864</u>			<u>112,932,864</u>
Supporting services:				
Management and general	8,296,709			8,296,709
New member acquisition	509,583			509,583
Fund-raising:				
Membership	2,466,492			2,466,492
Development	<u>9,791,106</u>			<u>9,791,106</u>
Total supporting services	<u>21,063,890</u>			<u>21,063,890</u>
Total operating expenses	<u>133,996,754</u>			<u>133,996,754</u>
Change in net assets from operations	2,999,054	15,247,584		18,246,638
Change in net assets from non-operating activities:				
Other income, net of contributions and other income	(64,563)	13,368		(51,195)
Investment results, net of allocation to operations	<u>(46,376)</u>	<u>1,246,334</u>		<u>1,199,958</u>
Change in net assets	2,888,115	16,507,286		19,395,401
Net assets - beginning of year	<u>44,470,352</u>	<u>143,924,948</u>	<u>\$ 3,736,498</u>	<u>192,131,798</u>
Net assets - end of year	<u>\$ 47,358,467</u>	<u>\$ 160,432,234</u>	<u>\$ 3,736,498</u>	<u>\$ 211,527,199</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidating Statement of Activities
Year Ended September 30, 2015
(with summarized financial information for 2014)

	EDF	EDAF	CFF	Eliminations	Total	Year Ended September 30, 2014
Operating support and revenue:						
Support:						
Contributions and membership	\$ 95,830,361	\$ 4,857,658			\$ 100,688,019	\$ 81,403,557
Foundations and other institutional giving	33,174,312	2,145,000	\$ 50,000	\$ (700,000)	34,669,312	60,974,093
Government grants and other giving	2,694,319				2,694,319	3,356,721
Bequests and other planned giving	<u>4,270,009</u>				<u>4,270,009</u>	<u>3,360,690</u>
Total support	<u>135,969,001</u>	<u>7,002,658</u>	<u>50,000</u>	<u>(700,000)</u>	<u>142,321,659</u>	<u>149,095,061</u>
Revenue:						
Investment income allocated for operations	2,642,538				2,642,538	2,477,537
Fees, royalties and other income	<u>481,943</u>	<u>863</u>	<u>206,705</u>		<u>689,511</u>	<u>670,794</u>
Total revenue	<u>3,124,481</u>	<u>863</u>	<u>206,705</u>		<u>3,332,049</u>	<u>3,148,331</u>
Total operating support and revenue	<u>139,093,482</u>	<u>7,003,521</u>	<u>256,705</u>	<u>(700,000)</u>	<u>145,653,708</u>	<u>152,243,392</u>
Operating expenses:						
Compensation	64,015,566	905,985	149,948		65,071,499	59,022,086
Professional and consulting fees	25,432,363	2,784,233	72,949		28,289,545	27,107,359
Travel	5,660,859	55,485	3,228		5,719,572	5,670,258
Printing	4,613,567	467,527			5,081,094	1,883,066
Postage and delivery	471,446	59,056	28		530,530	1,528,914
Occupancy	7,615,098	103,136	8,576		7,726,810	7,260,827
Telecommunications	1,287,745	14,946	1,182		1,303,873	1,230,145
Data management	1,129,205	110,768			1,239,973	1,419,542
Supplies and equipment	570,293	18,737	381		589,411	1,009,535
Meetings and events	3,000,917	105,754	1,251		3,107,922	3,068,043
Subscriptions and dues	1,165,307	12,420	119		1,177,846	890,008
Advertising and promotions	2,455,341	3,973,860			6,429,201	4,869,057
Grants to others	16,601,730	527,900		(700,000)	16,429,630	16,867,871
Other	<u>891,464</u>	<u>66,093</u>	<u>1,718</u>		<u>959,275</u>	<u>937,295</u>
Depreciation and amortization	<u>134,910,901</u>	<u>9,205,900</u>	<u>239,380</u>	<u>(700,000)</u>	<u>143,656,181</u>	<u>132,764,006</u>
	<u>1,395,160</u>				<u>1,395,160</u>	<u>1,232,748</u>
Total operating expenses	<u>136,306,061</u>	<u>9,205,900</u>	<u>239,380</u>	<u>(700,000)</u>	<u>145,051,341</u>	<u>133,996,754</u>
Change in net assets from operations	2,787,421	(2,202,379)	17,325	0	602,367	18,246,638
Change in net assets from non-operating activities:						
Other expenses, net of contributions and other income	(730,572)				(730,572)	(51,195)
Investment results, net of allocation to operations	<u>(1,929,532)</u>				<u>(1,929,532)</u>	<u>1,199,958</u>
Change in net assets	127,317	(2,202,379)	17,325		(2,057,737)	19,395,401
Net assets - beginning of year	<u>203,950,105</u>	<u>7,481,970</u>	<u>95,124</u>		<u>211,527,199</u>	<u>192,131,798</u>
Net assets - end of year	<u>\$ 204,077,422</u>	<u>\$ 5,279,591</u>	<u>\$ 112,449</u>	<u>\$ 0</u>	<u>\$ 209,469,462</u>	<u>\$ 211,527,199</u>

See notes to consolidated and consolidating financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidating Statement of Activities Year Ended September 30, 2014

	<u>EDF</u>	<u>EDAF</u>	<u>CFF</u>	<u>Eliminations</u>	<u>Total</u>
Operating support and revenue:					
Support:					
Contributions and membership	\$ 75,759,746	\$ 5,643,811			\$ 81,403,557
Foundations and other institutional giving	57,474,093	4,198,000	\$ 70,000	\$ (768,000)	60,974,093
Government grants and other giving	3,356,721				3,356,721
Bequests and other planned giving	<u>3,360,690</u>				<u>3,360,690</u>
Total support	<u>139,951,250</u>	<u>9,841,811</u>	<u>70,000</u>	<u>(768,000)</u>	<u>149,095,061</u>
Revenue:					
Investment income allocated for operations	2,477,537				2,477,537
Fees, royalties and other income	<u>434,279</u>	<u>1,283</u>	<u>235,232</u>		<u>670,794</u>
Total revenue	<u>2,911,816</u>	<u>1,283</u>	<u>235,232</u>		<u>3,148,331</u>
Total operating support and revenue	<u>142,863,066</u>	<u>9,843,094</u>	<u>305,232</u>	<u>(768,000)</u>	<u>152,243,392</u>
Operating expenses:					
Compensation	57,937,153	918,556	166,377		59,022,086
Professional and consulting fees	25,096,522	1,973,886	36,951		27,107,359
Travel	5,632,758	35,487	2,013		5,670,258
Printing	1,839,429	43,637			1,883,066
Postage and delivery	1,430,974	97,903	37		1,528,914
Occupancy	7,159,356	93,344	8,127		7,260,827
Telecommunications	1,214,847	14,214	1,084		1,230,145
Data management	1,332,744	86,798			1,419,542
Supplies and equipment	993,096	16,093	346		1,009,535
Meetings and events	2,948,560	119,483			3,068,043
Subscriptions and dues	859,726	30,282			890,008
Advertising and promotions	2,925,624	1,943,433			4,869,057
Grants to others	15,345,959	2,289,912		(768,000)	16,867,871
Other	<u>813,567</u>	<u>97,062</u>	<u>26,666</u>		<u>937,295</u>
Depreciation and amortization	125,530,315	7,760,090	241,601	(768,000)	132,764,006
	<u>1,232,748</u>				<u>1,232,748</u>
Total operating expenses	<u>126,763,063</u>	<u>7,760,090</u>	<u>241,601</u>	<u>(768,000)</u>	<u>133,996,754</u>
Change in net assets from operations	16,100,003	2,083,004	63,631	0	18,246,638
Change in net assets from non-operating activities:					
Other expenses, net of contributions and other income	(51,195)				(51,195)
Investment results, net of allocation to operations	<u>1,199,958</u>				<u>1,199,958</u>
Change in net assets	17,248,766	2,083,004	63,631		19,395,401
Net assets - beginning of year	<u>186,701,339</u>	<u>5,398,966</u>	<u>31,493</u>		<u>192,131,798</u>
Net assets - end of year	<u>\$ 203,950,105</u>	<u>\$ 7,481,970</u>	<u>\$ 95,124</u>	<u>\$ 0</u>	<u>\$ 211,527,199</u>

See notes to consolidated and consolidating financial statements

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Consolidated Statements of Cash Flows

	Year Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (2,057,737)	\$ 19,395,401
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated securities	(6,546,591)	(3,071,254)
Proceeds from donated securities	6,436,779	3,071,254
Net realized and unrealized losses (gains) on investments	351,505	(2,890,854)
Depreciation and amortization	1,395,160	1,232,748
Changes in:		
Prepaid expenses and other assets	(290,431)	(649,376)
Pledges receivable	10,633,244	(8,691,760)
Donor-advised fund investments	0	418,732
California Fisheries loans	(491,936)	(654,685)
Accounts payable and accrued expenses	145,340	2,119,967
Deferred revenue and rent payable	354,244	1,115,294
Annuities payable	(446,153)	12,989
California Fisheries grants payable	(121,375)	(134,500)
Other liabilities	1,079,795	418,676
Net cash provided by operating activities	<u>10,441,844</u>	<u>11,692,632</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,672,476)	(1,136,407)
Proceeds from sales of investments	45,804,813	41,352,607
Purchases of investments	<u>(55,888,115)</u>	<u>(50,716,647)</u>
Net cash used in investing activities	<u>(11,755,778)</u>	<u>(10,500,447)</u>
Cash flows from financing activities:		
Net contributions and payments subject to split-interest agreements	(115,614)	(65,419)
Repayment of notes	<u>(345,120)</u>	<u>(380,552)</u>
Net cash used in financing activities	<u>(460,734)</u>	<u>(445,971)</u>
Net change in cash and cash equivalents	(1,774,668)	746,214
Cash and cash equivalents at beginning of year	<u>4,451,435</u>	<u>3,705,221</u>
Cash and cash equivalents at end of year	<u>\$ 2,676,767</u>	<u>\$ 4,451,435</u>
Supplementary disclosure of cash flow information:		
Interest paid	<u>\$ 88,577</u>	<u>\$ 126,040</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

The accompanying consolidated and consolidating financial statements present the financial position, changes in net assets, and cash flows of Environmental Defense Fund, Incorporated ("EDF") and its wholly-controlled entities, the Environmental Defense Action Fund ("EDAF"), the California Fisheries Fund, Inc. ("CFF"), Environmental Defense Fund de Mexico, A.C., ("EDF Mexico") and the Environmental Defense Action Fund Political Action Committee ("EDAF PAC") (together, the "Organization"), as of and for the fiscal years ended September 30, 2015 and 2014.

EDF was originally organized as the Environmental Defense Fund, Incorporated, under the laws of New York State in 1967. It is classified as a public charity and is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code, and from state and local taxes under comparable laws. It is dedicated to protecting the environmental rights of all people, including the right to clean air, clean water, healthy food and flourishing ecosystems. EDF employs scientists, economists, attorneys and other professionals in an effort both to educate the public, and to create practical solutions to environmental problems that win lasting political, economic and social support because they are nonpartisan and fair. It receives support from its membership and other contributors, as well as through foundation and government grants.

The Environmental Defense Action Fund (the "Action Fund") was incorporated in Delaware in July 2002 to educate the public about sound environmental policy and to advocate for effective laws to protect the environmental rights of all people. It has been classified as exempt from federal income taxes under Section 501(c)(4) of the U.S. Internal Revenue Code. It receives support from individuals and other contributors (see Note K[1]).

The California Fisheries Fund, Inc. ("California Fisheries") was incorporated in California in August 2007 to promote the public good and to improve and reform the conservation and financial performance of California's marine fisheries through the provision of education, training, and financial services, including, without limitation, grants, loans, and technical tools to ensure improved scientific information, enhanced stewardship of fish stocks and habitats, better fishery jobs, improved profitability, and revitalized coastal communities. California Fisheries operates exclusively for charitable and educational purposes and is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. California Fisheries receives support from government entities and foundations (see Note K[2]).

In fiscal-year 2009, EDF established the Environmental Defense Fund de Mexico, A.C. ("EDF Mexico"), a controlled foreign subsidiary the operations of which are located in La Paz, Mexico. The expenditures of EDF Mexico are included in these financial statements (see Note K[3]).

In fiscal-year 2010, the Action Fund established the Environmental Defense Action Fund Political Action Committee ("EDAF PAC") to facilitate political contributions by the Action Fund's members, officers and designated staff to help support candidate committees and other political committees that merit the support of the Action Fund and its members. Maintaining the Action Fund's reputation for objective, bipartisan advocacy, EDAF PAC was established to support equal numbers of, and raise comparable total amounts for, Republicans and Democrats. Since EDAF PAC is not a separate legal entity, its assets and liabilities, which were immaterial at September 30, 2015 and 2014, are included in these financial statements as part of the Action Fund (see Note K[4]).

The five entities that comprise the Organization, as described above, have some common officers and directors, and they share staff and other resources under a cost-sharing agreement. All intercompany accounts have been eliminated in consolidation.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Basis of accounting:

The accompanying consolidated and consolidating financial statements of the Organization have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

[3] Functional allocation of expenses:

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying consolidated and consolidating statements of activities.

Accordingly, certain expenses have been allocated among the programs and supporting services in reasonable ratios determined by management.

[4] Use of estimates:

The preparation of the consolidated and consolidating financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The Organization makes reasonable estimates regarding the value of split-interest agreements, pledges receivable and the useful lives of property and equipment. Actual results could differ from those estimates.

[5] Net assets:

The Organization's net assets and its revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

(i) *Unrestricted:*

Unrestricted net assets represent those resources for which there are no donor restrictions as to their use and which have been categorized by the Organization for general purposes to be used for the ongoing activity and working capital needs of the Organization.

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources that are subject to the requirements of New York Prudent Management Institutional Funds Act ("NYPMIFA") and those resources for which the use has been restricted by donors to specific purposes, the release of which results from either the satisfaction of the restricted purposes specified by the donors or from the passage of time, or, by appropriations by the Board of Trustees.

(iii) *Permanently restricted:*

Permanently restricted net assets represent those resources restricted by donors from use by the Organization except to generate additional income, which may or may not be directed to specific use by the donor. Under the terms of NYPMIFA, those earnings will initially be classified as temporarily restricted in the accompanying consolidated and consolidating statements of activities, pending appropriation by the Board of Trustees.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Temporary investments for future-year activities:

The cash equivalents reported in the accompanying consolidated and consolidating financial statements as temporary investments consist primarily of highly liquid investments.

[7] Measure of operations:

The Organization includes in its measure of operations:

- (i) all revenues and expenses that are an integral part of its programs and supporting activities;
- (ii) net assets released from restrictions to support operating expenditures; and
- (iii) an annual amount appropriated for expenditure from donor-restricted endowment assets and assets designated for long-term investment.

The Organization excludes from its measure of operations:

- (i) contributions from and changes in the value of split-interest agreements, until the death of the donor, unless specified otherwise; and
- (ii) investment results net of amounts made available for operating purposes.

[8] Cash and cash equivalents:

For financial reporting purposes, the Organization considers all highly liquid instruments purchased with an original maturity of three months or less to be cash and cash equivalents.

[9] Property, equipment and depreciation:

Property and equipment are recorded at their original costs and are depreciated over their estimated useful lives, which range from 3 to 10 years, using the straight-line method. Leasehold improvements are amortized using the straight-line method over the terms of the underlying leases, which may be less than the estimated useful lives of the improvements. The Organization capitalizes items of property and equipment that have a cost of \$5,000 or more and useful lives of three years or more.

Management evaluates the recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of September 30, 2015 and 2014, respectively, and in the opinion of management, there were no impairments. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[10] Fair-value measurement:

As further described in Note D, the Organization reports a fair-value measurement of all applicable financial assets and liabilities, including investments, inventory, pledges receivable, deferred revenue and short-term and long-term notes payable.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[11] Investments:

The investments in the accompanying consolidated and consolidating financial statements consist of marketable debt and equity securities, money-market accounts, and certain limited partnerships/alternative investments (which include venture capital funds). Debt and equity securities and money-market investments are reported at their fair values, which are based upon quoted market prices. The investments in investment partnership funds are carried at their original cost basis and are adjusted annually to fair values based upon the valuation of the underlying assets, as provided by the investment managers. Management routinely reviews and evaluates the values provided by the investment managers and believes the carrying amounts of these investments to be reasonable estimates of fair value. However, estimated fair values may differ significantly from the values that would have been reported had a ready market for these investments existed.

Net investment income is recorded as unrestricted unless specifically restricted by the donors. Unrealized appreciation or depreciation of investments is included in the accompanying consolidated and consolidating statements of activities.

It is the Organization's policy to sell donated equity securities upon receipt.

Investment expenses include the services of bank trustees, investment managers and custodians. The balance of investment management fees charged by the Organization's various investment managers in each fiscal year do not include those fees that are embedded in various other investment accounts and transactions.

[12] Donor-advised fund investments:

Donor-advised funds are identified by reference to contributions of a donor or donors. They are owned and controlled by the Organization for which the donors give advice with respect to the fund's distribution to various charities. The contributions by the donors remain invested until distributed.

[13] Valuation allowances:

Valuation allowances are offset against the asset categories to which they apply.

[14] Derivative instruments and fair value of financial instruments:

Interest-rate hedges may be used to manage the interest rate risk associated with the Organization's debt obligations, at the discretion of management. All derivative instruments are recognized as either assets or liabilities at fair value in the accompanying consolidated and consolidating statements of financial position. The fair value of interest-rate swap agreements is the estimated amount that an entity would receive or pay to terminate any swap agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The Organization reports the fair value of interest-rate swaps in either other assets or other liabilities, as appropriate, in the accompanying consolidated and consolidating statements of financial position. The corresponding changes in the fair value of these swaps are reported as unrealized gains or losses in the accompanying consolidated and consolidating statements of activities.

[15] Split-interest agreements:

A portion of the Organization's investments result from deferred-giving vehicles subject to split-interest agreements. Three different types of agreements are currently maintained: the charitable gift annuity, the charitable remainder unitrust, and the pooled income fund.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[15] Split-interest agreements: (continued)

Charitable gift annuities are unrestricted irrevocable gifts under which the Organization agrees in turn to pay a life annuity to the donor or to a designated beneficiary. The contributed funds and the attendant liabilities immediately become part of the general assets and liabilities of the Organization, subject to the Organization maintaining an actuarial reserve in accordance with New York State law. Charitable remainder unitrust gifts are time-restricted contributions not available to the Organization until after the death of the donor, who, while living, receives an annual payout from the trust, based on a fixed percentage of the market value of the invested funds on December 31 of each year. The pooled income fund is composed of donations that are combined in bond and equity mutual-fund investments. Contributors receive a pro-rata share of the actual ordinary income of these funds until their deaths, at which point the investment asset-share of the donors becomes available to the Organization.

The Organization values deferred gifts of cash at their face values and investments at their fair values. Organization liabilities are calculated on the basis of industry-standard actuarial data. Published IRS discount rates and actuarial tables are employed to determine the net present value of both contributions and liabilities pertaining to these deferred-giving arrangements.

The net asset value of a split-interest agreement at the time of the donor's death is reported in unrestricted operations unless specified otherwise by the donor.

[16] Accrued vacation:

Employees accrue vacation based on tenure and salary levels, which results in up to five weeks of vacation per year. Employees are allowed to accumulate up to 1½ times their yearly allotment, at which time accumulation ceases until vacation time is taken. Unused vacation balances carry over to future years.

The Organization's obligation for accrued vacation is included as a liability in the accompanying consolidated and consolidating statements of financial position and represents the cost of unused employee vacation time payable in the event of employee terminations. At September 30, 2015 and 2014, accrued vacation obligations were \$3,220,393 and \$3,035,404, respectively.

[17] Deferred rent payable:

The difference between rent expense incurred by the Organization on an accrual basis and the rent amounts paid in cash as well as the unamortized portion of rent concessions and landlord contributions to leasehold improvement projects is reported as deferred rent payable in the accompanying consolidated and consolidating statements of financial position.

[18] Revenue recognition:

(i) Contributions:

Contributions and grants, including unconditional promises to give to the Organization (pledges), are recognized as revenue in the period received. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are considered to be available for unrestricted use unless specifically restricted by the donors.

(ii) Bequests:

Under a policy established by its Board of Trustees, at the recommendation of its Finance Committee, the Organization designates an amount up to 90% of total unrestricted bequests received for long-term investment, subject to its annual operating requirements.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[18] Revenue recognition: (continued)

(iii) Donated goods and services:

Donated goods and services are recognized at their fair values at the dates of donation. Contributions of services are also recognized at fair value when they are received, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated.

Donated goods and services are reflected in the statements of activities as in-kind contributions, and therefore are recorded as both income and expense when they are received.

[19] Income taxes:

The Organization is subject to the provisions of the Financial Accounting Standards Board's (the "FASB") Standards Codification ("ASC") Topic 740, *Income Taxes*, relating to accounting and reporting for uncertainty in income taxes. For the Organization, these provisions could be applicable to the incurrence of unrelated business income tax attributable to certain of the Organization's investments. However, due to the Organization's general tax-exempt status, management believes ASC Topic 740 has not had, and is not expected to have, a material impact on the Organization's consolidated and consolidating financial statements.

[20] Endowment funds:

The Organization is subject to the provisions of the FASB's ASC Topic 958, *Not-for-Profit Entities*, which provides guidance on the net-asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the provisions of NYPMIFA. ASC Topic 958 also requires additional disclosures about endowments for all organizations (see Note M).

[21] Subsequent events:

The Organization considers the accounting treatment, and the related disclosures in the current fiscal-year's consolidated and consolidating financial statements, that may be required as the result of all events or transactions that occur after September 30, 2015 through November 23, 2015, the date the financial statements were available to be issued.

[22] Reclassifications:

Certain amounts included in the fiscal-year 2014 financial statements have been reclassified to conform to the fiscal-year 2015 presentation.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE D - INVESTMENTS

In May 2015, the FASB issued Accounting Standards update ("ASU") No. 2015-07 ("2015-07"), *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair-value hierarchy all investment for which the fair value is measured using the net asset value per share ("NAV") as a practical expedient. The Organization elected to adopt ASU 2015-07 for fiscal-year 2015.

Accordingly, investments for which fair value is measured using NAV per share as a practical expedient have not been categorized within the fair-value hierarchy, and certain related tables have been appropriately excluded from the financial statements. The amendment has been applied retrospectively to all periods presented.

At each fiscal year-end, the costs and fair values of investments were as follows:

	September 30,			
	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Alternative investments	\$ 661,043	\$ 1,119,474	\$ 747,153	\$ 970,066
Equity and debt securities, mutual and exchange traded funds	51,857,932	49,530,226	47,982,308	49,350,286
Money-market accounts	1,923,974	1,923,974	759,306	759,306
Other investments - subject to split-interest agreements	<u>6,047,784</u>	<u>6,892,294</u>	<u>6,757,824</u>	<u>8,035,993</u>
	<u>\$ 60,490,733</u>	<u>\$ 59,465,968</u>	<u>\$ 56,246,591</u>	<u>\$ 59,115,651</u>

As portrayed above, concentrations of the Organization's investments in excess of 10% of the fair values of its portfolio included approximately (i) 83% invested in equity and debt securities, mutual and exchange-traded funds, (ii) 12% invested in assets subject to split-interest agreements.

The following tables summarize investment return by net-asset classification:

	September 30,					
	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Dividends and interest	\$ 900,703	\$ 163,808	\$ 1,064,511	\$ 657,226	\$ 130,969	\$ 788,195
Realized and unrealized gains (losses)	<u>(571,291)</u>	<u>219,786</u>	<u>(351,505)</u>	<u>1,528,719</u>	<u>1,360,581</u>	<u>2,889,300</u>
Net return on investments	329,412	383,594	713,006	2,185,945	1,491,550	3,677,495
Investment return allocated for operations	<u>(2,359,909)</u>	<u>(282,629)</u>	<u>(2,642,538)</u>	<u>(2,232,321)</u>	<u>(245,216)</u>	<u>(2,477,537)</u>
Investment results, net of allocation to operations	<u>\$ (2,030,497)</u>	<u>\$ 100,965</u>	<u>\$ (1,929,532)</u>	<u>\$ (46,376)</u>	<u>\$ 1,246,334</u>	<u>\$ 1,199,958</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE D - INVESTMENTS (CONTINUED)

ASC Topic 820, *Fair Value Measurements and Disclosures*, also establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of input create the following fair-value hierarchy:

- Level 1 Valuations are based on observable inputs that reflect quoted market prices in active markets for identical investments at the reporting date.
- Level 2 Valuations are based on (i) quoted prices those investments, or similar investments, in active markets, or (ii) quoted prices those investments, or similar investments, in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date. Level 2 assets include those investments or similar investments that are redeemable at or near the balance sheet date and for which a model was derived for valuation.
- Level 3 Valuations are based on pricing inputs that are unobservable and include situations where (i) there is little, if any, market activity for the investments, or (ii) the investments cannot be independently valued, or (iii) the investments cannot be immediately redeemed at or near the fiscal year-end.

The Organization uses NAV or its equivalent to determine the fair value of all investments which (i) do not have a readily determinable fair value and (ii) prepare their investees' financial statements consistent with the measurement principles of an investment company or an entity with the attributes of an investment company.

The Organization's investments are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of those securities could occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated and consolidating financial statements.

The available market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period. During fiscal-years 2015 and 2014, there were no transfers between the fair-value hierarchy levels.

The following tables summarize the investments of the Organization's assets at each fiscal year-end, in accordance with the ASC Topic 820 valuation levels:

	September 30, 2015		
	Level 1	Level 2	Total
Temporary investments	\$ 32,169,719		\$ 32,169,719
Investments:			
Equity and debt securities, mutual and exchange traded funds	49,530,226		49,530,226
Money-market accounts	1,923,974		1,923,974
Other investments - subject to split-interest agreements	<u>382,941</u>	<u>\$ 6,509,353</u>	<u>6,892,294</u>
	<u>84,006,860</u>	<u>6,509,353</u>	<u>90,516,213</u>
Funds valued at NAV			<u>1,119,474</u>
Total investments	<u>84,006,860</u>	<u>6,509,353</u>	<u>91,635,687</u>
Donor-advised fund investments - equities	<u>241,475</u>		<u>241,475</u>
Total	<u>\$ 84,248,335</u>	<u>\$ 6,509,353</u>	<u>\$ 91,877,162</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE D - INVESTMENTS (CONTINUED)

	September 30, 2014		
	Level 1	Level 2	Total
Temporary investments	\$ 22,677,914		\$ 22,677,914
Investments:			
Equity and debt securities, mutual and exchange traded funds	49,350,287		49,350,287
Money-market accounts	759,306		759,306
Other investments - subject to split-interest agreements	<u>454,496</u>	<u>\$ 7,581,496</u>	<u>8,035,992</u>
	73,242,003	7,581,496	80,823,499
Funds valued at NAV			<u>970,066</u>
Total investments	73,242,003	<u>7,581,496</u>	<u>81,793,565</u>
Donor-advised fund investments-equities	<u>241,475</u>		<u>241,475</u>
Total	<u>\$ 73,483,478</u>	<u>\$ 7,581,496</u>	<u>\$ 82,035,040</u>

The following table lists the provisions of the Organization's fund of funds:

	September 30, 2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Venture Capital Funds	<u>\$ 1,119,474</u>	<u>\$ 60,000</u>	N/A	N/A
	<u>\$ 1,119,474</u>	<u>\$ 60,000</u>		

See Note F for fair-value measurement disclosures relating to the Organization's debt and interest-rate swaps.

NOTE E - DONOR-ADVISED FUND INVESTMENTS

In fiscal-year 2008, the Organization established a donor-advised fund ("DAF") administered by a third party and created for the purpose of managing charitable donations on behalf of individual donors. The donors have the privilege of providing advice with respect to the fund's distributions to various charities. The investments of the DAF remain as assets of the Organization until the charitable donations are made out of the fund.

The current balance in the DAF is attributable to the donation of an interest in a now publicly traded stock by two donors in fiscal-year 2009. There were no charitable donations made from the DAF in 2015, and donations of \$583,000 were made in 2014. The aggregate value of investment assets held in the DAF was \$241,475 at September 30, 2015 and 2014, respectively.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE F - NOTES PAYABLE AND INTEREST-RATE SWAPS

At each fiscal year-end, notes payable were as follows:

	<u>September 30,</u>	
	<u>2015</u>	<u>2014</u>
Promissory note from donor, payable on demand	\$ 100,000	\$ 100,000
Promissory note terminating 2018, at LIBOR + 1.5%	387,500	537,500
Promissory note terminating 2019, at 4.21%	<u>1,400,000</u>	<u>1,610,000</u>
	1,887,500	2,247,500
Fair-value adjustment	<u>(16,353)</u>	<u>(31,233)</u>
	<u>\$ 1,871,147</u>	<u>\$ 2,216,267</u>

Notes Payable and Line of Credit:

In fiscal-year 1998, a donor provided a \$100,000 interest-free loan for the Organization's operations that remains outstanding and is due on demand. The imputed interest on this loan is not material to the accompanying consolidated and consolidating financial statements.

In fiscal-year 2008, the Organization borrowed \$1,500,000 from a bank, secured by a 10-year promissory note, the proceeds from which were used for funding the renovations of the California office. The loan is being repaid in monthly principal installments of \$12,500, with interest at the one-month LIBOR, plus 1.5%. In fiscal-year 2012, the Organization secured an additional 7-year bank loan of \$2,100,000, which is being repaid in monthly principal installments of \$17,500, plus interest at 4.21%. At September 30, 2015, the Organization was in compliance with all debt covenants for these loans.

The Organization has also entered into an interest-rate swap agreement, having an initial notional value of \$3,352,083 and a notional value of \$387,500 and \$537,500 at September 30, 2015 and 2014, respectively, to protect against the interest rate fluctuations on the fiscal-year 2008 bank note. The notional value of the swap declines monthly to coincide with the declining balance on the promissory notes as installment principal payments are made, and the swap matures in 2018. Based on the swap agreement, the Organization pays interest at 5.49% and receives interest at a rate of one-month LIBOR plus 1.5% on the notional value of the swap. These terms effectively convert the interest rate on the promissory notes from a variable rate to a fixed rate.

The estimated fair value of the interest-rate swap agreement was (\$16,353) and (\$31,233) at September 30, 2015 and 2014, respectively, which represents the cost that the Organization would have to pay to terminate the interest-rate swap agreement.

The interest-rate-swap agreements are valued using a swap valuation model that utilizes an income approach using observable market inputs including interest rate, LIBOR Swap Rates and credit default swap rates. These are considered Level 2 within the valuation hierarchy of fair-value measurements.

The fair values of the promissory notes reflect an adjustment for the gain corresponding to the hedging relationship with the interest-rate swap agreement. The Organization included the gain on the hedged promissory notes in the same line item as the offsetting loss on the related interest-rate swap.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE F - NOTES PAYABLE AND INTEREST-RATE SWAPS (CONTINUED)

Notes Payable and Line of Credit: (continued)

Pre-swap annual contractual maturities of notes payable outstanding at September 30, 2015, excluding the \$100,000 note payable on demand, are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 360,000
2017	360,000
2018	297,500
2019	<u>770,000</u>
Total	<u>\$ 1,787,500</u>

Interest expense on debt borrowings, as well as on interest-rate swap agreements, was \$88,577 and \$126,040 in fiscal-years 2015 and 2014, respectively.

At September 30, 2015, the Organization had an unsecured line of credit of \$7,500,000 for ongoing operational requirements. There was no outstanding balance at either September 30, 2015 or 2014 under this line of credit.

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

At each fiscal year-end, temporarily restricted net assets (including allocation of investment gains and losses) were categorized as follows:

	<u>September 30,</u>	
	<u>2015</u>	<u>2014</u>
Restricted by purpose:		
Climate and Energy	\$ 67,765,686	\$ 66,245,629
Oceans	31,235,952	36,665,913
Ecosystems	17,585,389	17,438,897
Health	3,534,027	4,889,886
Education	<u>4,439,371</u>	<u>3,522,437</u>
	124,560,425	128,762,762
Restricted by time	<u>32,329,744</u>	<u>31,669,472</u>
	<u>\$ 156,890,169</u>	<u>\$ 160,432,234</u>

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE G - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

During each fiscal-year, net assets released from restrictions were for the following:

	Year Ended September 30,	
	2015	2014
Climate and Energy	\$ 68,347,142	\$ 60,161,631
Oceans	26,660,239	21,192,084
Ecosystems	22,296,928	22,836,656
Health	3,865,354	3,673,820
Education	373,794	355,273
	121,543,457	108,219,464
Time restrictions satisfied	282,629	333,698
	<u>\$ 121,826,086</u>	<u>\$ 108,553,162</u>

NOTE H - EMPLOYEE RETIREMENT PLANS

The Organization maintains a 403(b) tax-deferred retirement plan, which is funded by contributions from both the Organization and its employees. The Organization's contribution is based upon employees' years of service, ranges from 3% to 8% of eligible employees' salaries, and is recorded as an expense annually. The related expense for fiscal-years 2015 and 2014, respectively, was approximately \$2,523,019 and \$2,304,054.

In fiscal-year 2004, the Organization established a 457(b) deferred-compensation plan for certain key employees that is funded by both the Organization and the employees. As such, the investment allocations are directed by the employees, but the investments remain as assets of the Organization until the employees retire. At September 30, 2015 and 2014, respectively, the asset value of this plan was \$2,606,221 and \$2,543,127.

In fiscal-year 2007, the Organization established a 457(f) deferred-compensation plan for certain key employees. Awards under this plan were discretionary and were payable at future dates according to the terms of the plan. As of April 2, 2015, the Organization terminated the plan and all vested benefits were paid in full.

The fair value of plan assets and the present value of employee retirement plan liabilities are reported as other assets and other liabilities, respectively, in the accompanying consolidated and consolidating statements of financial position.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE I - JOINT COSTS

For fiscal-years 2015 and 2014, the Organization has allocated joint costs (for informational materials and activities that include fund-raising appeals) among program and supporting services as follows:

	Year Ended September 30,	
	2015	2014
Climate and Energy	\$ 4,403,149	\$ 3,104,888
Ecosystems	59,475	61,983
Education	1,148,361	1,466,762
Membership activities	1,313,377	836,627
New member acquisition	985,964	764,375
Membership - fund-raising	1,207,538	996,212
Health		9,482
Oceans		3,991
	<u>\$ 9,117,864</u>	<u>\$ 7,244,320</u>

The portion of cost allocated to membership activities consists of that component of membership mailings that contain information about the Organization and the types of actions an individual may take with regard to a specific issue. New member acquisition reflects the cost of materials and information that requests individuals to join the Organization. Membership fund-raising is that component of joint costs associated with asking the Organization's current members for contributions. Additional fund-raising activities that included program information were not eligible for allocation under accounting principles generally accepted in the United States of America and were treated exclusively as membership fund-raising or new member acquisition expense.

NOTE J - CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash and cash equivalents in both interest-bearing and noninterest-bearing accounts which, at times, may exceed federally insured limits. The Organization's investments are placed with high-credit-quality financial institutions. The Organization has not experienced any losses in such accounts, and management believes the Organization is not subject to a risk of loss beyond that related to market changes.

NOTE K - WHOLLY-CONTROLLED ENTITY TRANSACTIONS

[1] Environmental Defense Action Fund:

The Action Fund reported support and revenue of \$7,003,521 and \$9,843,094 in fiscal-years 2015 and 2014, respectively, which included grants of \$700,000 and \$698,000, respectively, from EDF, representing a portion of the grass-roots lobbying and the direct lobbying allowances permitted EDF as a 501(c)(3) organization.

The Action Fund recorded expenses of \$9,205,900 and \$7,760,090 in fiscal-years 2015 and 2014, respectively. Included in expenses were direct expenses related to grass-roots lobbying, direct lobbying and fund-raising, as well as allocated expenses for management by EDF. Changes to the Action Fund's net assets are included in unrestricted and temporarily restricted net assets in the accompanying consolidated and consolidating financial statements.

The Action Fund includes among its activity an intercompany payable of \$273,568 in fiscal-year 2015 and an intercompany receivable in the amount of \$522,298 in fiscal-year 2014, due to and from EDF respectively. Amounts invested by EDF are on behalf of the Action Fund and interest accrues to the benefit of the Action Fund. The amount of the intercompany receivable is payable on demand.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE K - WHOLLY-CONTROLLED ENTITY TRANSACTIONS (CONTINUED)

[2] California Fisheries Fund, Inc.:

Grants of \$5,000,000 were awarded in fiscal-year 2008 to EDF in support of California Fisheries' mission. Originally, EDF managed the grants as pass-through grants to California Fisheries, which were used to fund its operations and to establish a revolving loan fund ("Loan Fund"). The Loan Fund was established with an initial amount of \$4,550,000 to provide for loans intended to improve and reform the conservation and financial performance of California's marine fisheries. \$121,375 and \$134,999 was utilized for programs in fiscal-years 2015 and 2014, respectively, resulting in a Loan Fund balance of \$ 3,358,086 and \$3,479,461, respectively, which includes an estimated valuation allowance of \$207,343 and \$152,900 at September 30, 2015 and 2014, respectively.

California Fisheries recorded revenue and support of \$256,705 and \$305,232 in fiscal-years 2015 and 2014, respectively. In addition, in fiscal-year 2014, EDF awarded a grant of \$70,000 to California Fisheries to cover administrative costs.

[3] Environmental Defense Fund de Mexico, A.C.:

EDF Mexico commenced operations in August 2009. Expenditures of \$1,583,617 and \$1,858,684 for fiscal-years 2015 and 2014, respectively, are included as part of EDF in the accompanying consolidated and consolidating financial statements.

[4] Environmental Defense Action Fund Political Action Committee:

EDAF PAC commenced operations in December 2009. Revenues of \$15,000 and \$8,250 and expenditures of \$23,600 and \$52,381 for fiscal-years 2015 and 2014, respectively, are included as part of the Action Fund in the accompanying consolidated and consolidating financial statements.

NOTE L - COMMITMENTS AND CONTINGENCY

[1] Operating leases:

The Organization leases premises at 13 locations under operating leases that expire on various dates through September 2023.

The following is a schedule by year of future minimum rental payments that have initial or remaining non-cancelable lease terms in excess of one year as of September 30, 2015:

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 6,570,603
2017	6,136,941
2018	5,406,006
2019	4,911,187
2020	4,610,440
Thereafter	<u>14,613,416</u>
	<u>\$ 42,248,593</u>

Rent expense included in operations for fiscal-years 2015 and 2014 was \$6,705,846 and \$6,337,607, respectively. Certain leases provide for additional rental payments to cover increases in real estate taxes and expenses as yet undetermined.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE L - COMMITMENTS AND CONTINGENCY (CONTINUED)

[2] Governmental audits:

Government-funded activities are subject to audit by the applicable granting agencies. At September 30, 2015 and 2014, there were no material obligations outstanding as a result of such audits, and management believes that no material obligations will result from any future audits of such activities.

[3] Litigation:

The Organization is from time to time subject to legal actions in the normal course of business. In the opinion of the Organization's management, as of September 30, 2015, the eventual resolution of these matters will not materially affect the financial position, cash flows, or change in net assets of the Organization.

[4] Other contracts:

In the normal course of business, the Organization enters into various contracts and agreements, which are typically renewable on a year-to-year basis.

NOTE M - ENDOWMENT

[1] The endowment:

The Organization's permanent endowment consists of nineteen individual funds, established for a variety of purposes and consisting entirely of donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

[2] Return objectives and risk parameters:

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested with a focus on earning market returns or better while assuming a moderate level of investment risk.

[3] Spending policy and how the investment objectives relate to spending policy:

The Organization has a policy of annually appropriating for expenditure an amount of up to 5% of the average fair market value of the donor-restricted endowment, measured as of the last day of the calendar quarter for the twenty quarters immediately preceding the fiscal-year in which the appropriation for expenditure is approved. In establishing this policy, the Organization's management has considered the long-term expected return on its endowment. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE M - ENDOWMENT (CONTINUED)

[4] Endowment net-asset composition by type of fund:

	September 30, 2015		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 3,736,498	\$ 3,736,498
Accumulated earnings not yet appropriated for expenditure	\$ 3,850,705		3,850,705
Total funds	\$ 3,850,705	\$ 3,736,498	\$ 7,587,203

	September 30, 2014		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 3,736,498	\$ 3,736,498
Accumulated earnings not yet appropriated for expenditure	\$ 3,755,740		3,755,740
Total funds	\$ 3,755,740	\$ 3,736,498	\$ 7,492,238

[5] Changes in endowment net assets for the fiscal year:

	September 30, 2015		
	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	\$ 3,755,740	\$ 3,736,498	\$ 7,492,238
Investment returns	377,594		377,594
Current-year appropriation for expenditure	(282,629)		(282,629)
Net assets, end of year	\$ 3,850,705	\$ 3,736,498	\$ 7,587,203

	September 30, 2014		
	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	\$ 2,665,346	\$ 3,736,498	\$ 6,401,844
Investment returns	1,335,610		1,335,610
Current-year appropriation for expenditure	(245,216)		(245,216)
Net assets, end of year	\$ 3,755,740	\$ 3,736,498	\$ 7,492,238

ENVIRONMENTAL DEFENSE FUND, INCORPORATED

Notes to Consolidated and Consolidating Financial Statements September 30, 2015 and 2014

NOTE M - ENDOWMENT (CONTINUED)

[6] Interpretation of relevant law:

As discussed in Note A[20], NYPMIFA is applicable to the Organization's donor-restricted endowment funds. Due to unfavorable market fluctuations, from time to time, the fair value of assets associated with individual donor-restricted endowment funds may decline below the historical dollar value of the donor's original, permanently restricted contribution. Under the terms of NYPMIFA, the Organization has no responsibility to restore such decrease in value. There were no such deficiencies in either fiscal-year 2015 or 2014.

NOTE N - PROGRAM AND SUPPORTING SERVICES EXPENSES

Generally accepted accounting principles require the Organization's expenses to be reported on a functional basis. Accordingly, during each fiscal year, total expenses were allocated among program and supporting services as follows:

	<u>Year Ended September 30,</u>	
	<u>2015</u>	<u>2014</u>
Programs	\$ 122,684,643	\$ 112,932,863
General and administrative	8,741,584	8,806,292
Fund-raising	<u>13,625,114</u>	<u>12,257,599</u>
	<u>\$ 145,051,341</u>	<u>\$ 133,996,754</u>