

EARTH ISLAND INSTITUTE INC.

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

FOR THE YEAR ENDED DECEMBER 31, 2011

EARTH ISLAND INSTITUTE INC.

December 31, 2011

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Earth Island Institute Inc. (a California nonprofit organization) as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of Earth Island Institute Inc. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors 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 Earth Island Institute Inc. as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2012 on our consideration of Earth Island Institute Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Earth Island Institute Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Le, Ho & Company, LLP

Daly City, California
July 24, 2012

EARTH ISLAND INSTITUTE
STATEMENT OF FINANCIAL POSITION
December 31, 2011

Assets

Current Assets	
Cash and cash equivalents	\$ 4,639,957
Wetland Restoration Trust Fund (contra)	1,390,929
Investments in marketable securities	995,837
Accounts and contributions receivable	167,957
Grants receivable	2,147,460
Bequest receivable	25,000
Merchandise inventory	16,756
Prepaid expenses and others	<u>59,750</u>
Total Current Assets	9,443,646
Property and equipment, net of accumulated depreciation	1,435,481
Grants receivable	<u>170,000</u>
Total Assets	<u>\$ 11,049,127</u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable and other accrued expenses	\$ 1,173,187
Accrued vacation	129,561
Accrued grants payable	186,000
Agency obligation (contra)	1,390,929
Loan payable	5,000
Deposits and advances	<u>111,864</u>
Total Current Liabilities	<u>2,996,541</u>
Net Assets	
Unrestricted net assets	1,697,018
Temporarily restricted net assets	<u>6,355,568</u>
Total Net Assets	<u>8,052,586</u>
Total Liabilities and Net Assets	<u>\$ 11,049,127</u>

See accompanying notes to financial statements.

EARTH ISLAND INSTITUTE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Total</u>
Support and Revenues			
Contributions	\$ 302,849	\$ 2,281,584	\$ 2,584,433
Foundation and other grants	48,249	9,025,037	9,073,286
Membership dues	256,980	-	256,980
Service and consulting revenue	979,418	-	979,418
Conference registration fee	414,820	-	414,820
Merchandise sales, net of cost of sales and gifts of \$38,203	151,493	-	151,493
Royalty income	89,704	-	89,704
Advertising income	4,078	-	4,078
Journal sales	14,728	-	14,728
Investment return	68,916	-	68,916
Gain on disposal of asset	13,826	-	13,826
Administrative fee	42,304	-	42,304
Special events, net of costs of direct benefits to donors of \$107,146	94,884	-	94,884
In-kind contributions	-	18,294	18,294
Bequests	91,727	-	91,727
Miscellaneous	25,662	-	25,662
Net assets released from restrictions			
Expiration of time restrictions	10,393,133	(10,393,133)	-
Total support and revenues	<u>12,992,771</u>	<u>931,782</u>	<u>13,924,553</u>
Expenses			
Program services	10,946,026	-	10,946,026
Administrative and general	1,270,321	-	1,270,321
Fundraising	791,631	-	791,631
Total expenses	<u>13,007,978</u>	<u>-</u>	<u>13,007,978</u>
Change in Net Assets	(15,207)	931,782	916,575
Net Assets, beginning of year	6,796,807	339,204	7,136,011
Reclassification	<u>(5,084,582)</u>	<u>5,084,582</u>	<u>-</u>
Net Assets, end of year	<u>\$ 1,697,018</u>	<u>\$ 6,355,568</u>	<u>\$ 8,052,586</u>

See accompanying notes to financial statements.

EARTH ISLAND INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2011

	<u>Program Services</u>	<u>Administrative and General</u>	<u>Fundraising</u>	<u>Total</u>
Expenses				
Salaries	\$ 3,315,048	\$ 655,833	\$ 307,765	\$ 4,278,646
Payroll taxes and fringes	676,254	133,787	62,783	872,824
Independent contractors	1,043,185	7,031	4,444	1,054,660
Printing, audio/visual, and publications	189,906	24,922	11,695	226,523
Postage and shipping	81,285	11,457	5,377	98,119
Travel and meetings	944,828	67,243	52,681	1,064,752
Conferences and training	598,886	29,669	13,923	642,478
Direct mail costs	10,980	2,172	72,155	85,307
Special appeals	30,320	-	30,320	60,640
Grants and allocations	451,250	-	-	451,250
Promotion and public education	286,155	-	43,101	329,256
Professional fees	-	90,461	-	90,461
Occupancy	332,864	83,560	39,212	455,636
Convention	89,507	-	-	89,507
Insurance	42,727	8,453	3,967	55,147
Supplies	159,044	34,238	16,067	209,349
Telephone	79,769	15,781	7,406	102,956
Depreciation and amortization	49,105	9,715	4,559	63,379
Equipment rental and maintenance	115,623	22,874	10,734	149,231
South Coast Habitat				
Restoration contractors	1,250,547	-	-	1,250,547
Outside services	812,407	1,228	602	814,237
Bank fees	-	-	62,464	62,464
Miscellaneous	386,336	71,897	42,376	500,609
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenses	\$ 10,946,026	\$ 1,270,321	\$ 791,631	\$ 13,007,978

See accompanying notes to financial statements.

EARTH ISLAND INSTITUTE
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2011

Cash Flows from Operating Activities

Change in net assets	\$ 916,575
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	63,379
Net unrealized gain on investment in marketable securities	(22,270)
Net realized loss on sales of marketable securities	7,620
(Increase) decrease in:	
Accounts and contributions receivable	(58,377)
Grants receivable	(1,117,997)
Receivable from Wetlands Restoration Fund Trust	12,297
Merchandise inventory	(4,321)
Prepaid expenses and others	41,078
Increase (decrease) in:	
Accounts payable and accrued expenses	938,561
Accrued vacation	(369)
Accrued grants payable	(264,600)
Deposits and advances	67,598
Net Cash Provided by Operating Activities	579,174

Cash Flows from Investing Activities

Payments for property and equipment	(50,886)
Proceeds from sale of vans	31,752
Purchases of marketable securities	(204,972)
Proceeds from sales and redemption of marketable securities	613,006
Net Cash Provided by Investing Activities	388,900

Cash Flows from Financing Activities

Loan proceeds	5,000
Net Cash Provided by Financing Activities	5,000

Net Increase in Cash and Cash Equivalents 973,074

Cash and Cash Equivalents, beginning of year 3,666,883

Cash and Cash Equivalents, end of year \$ 4,639,957

See accompanying notes to financial statements.

EARTH ISLAND INSTITUTE INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Earth Island Institute Inc. (Earth Island) was incorporated in California in September 1982 as a nonprofit organization for the purposes of promoting, through education, the social welfare of the general public in global conservation, environmental, and ecological principles.

Earth Island promotes the conservation, preservation, and restoration of the Earth through various program services worldwide under the administration of Earth Island Network Services (see Note 11). Many of those activities are carried out through fiscally sponsored projects managed under Earth Island's Project Support core program. Other core programs of Network Services providing services to the public and other constituencies are Publishing/Public Education, Restoration Initiatives, and New Leaders Initiative. Most of Earth Island's revenues come from contributions from the general public, foundation grants, and membership dues.

Basis of Accounting – The accompanying financial statements are presented using the accrual method of accounting.

Financial Statement Presentation – Information regarding the financial position and activities are classified into the applicable classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Earth Island does not have any permanently restricted net assets.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of the statements of cash flows, Earth Island considers all demand deposits with financial institutions, money market accounts, certificates of deposit, and short-term investments with an initial maturity of three months or less to be cash equivalents.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are reported in the statement of financial position at fair value with realized and unrealized gains and losses included in the statement of activities. Gains and losses are reflected as increases or decreases in the unrestricted class of net assets unless the donor or relevant laws place temporary or permanent restrictions on the gains and losses.

Accounts Receivable – No allowance for uncollectible accounts has been provided since the accounts receivable are all deemed to be collectible.

Merchandise Inventory – Merchandise inventory consists primarily of T-shirts, books, bicycle parts and other various items sold to the general public for educational and fundraising purposes. The inventory is stated at the lower of cost or market with cost determined by the first-in, first-out method.

Property and Equipment – Property and equipment are stated at cost of acquisition or construction. Contributed property and equipment are recorded at their estimated fair market

EARTH ISLAND INSTITUTE INC.
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December 31, 2011

values at the date of donation. Earth Island reports donated property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Restoration works on property that Earth Island's project has no ownership title are reported as expenses. The cost of maintenance and repairs is expensed as incurred while significant renewals and betterments are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the term of the lease including extensions.

Earth Island uses \$5,000 as its capitalization threshold for property and equipment.

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

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Material unconditional promises to give and multi-year grants that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in foundation grants revenue.

Change in Accounting Policy on Contributions – The programs of Earth Island usually solicit contributions for its own use. Prior to 2011, contributions received by the programs were reported as unrestricted unless there were further usage restrictions placed by the donor within the program itself and/or when the funds were designated for future periods. If a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

Starting with 2011, all contributions received by the programs are reported as temporarily restricted net assets. Furthermore, for restriction contributions which restrictions are fulfilled in the same period in which the contribution is received, they are reported first as temporarily restricted contributions and then released to unrestricted upon satisfaction of the restrictions.

Such change in accounting policy affects the classification between temporarily restricted and unrestricted net assets and has no other effects on the financial statements.

Donated Services – Earth Island receives various volunteer services throughout the year. Only those donated services that met the criteria for recognition under generally accepted accounting principles are recognized in the statement of activities. There is no donated service recorded in the current year.

Membership Dues – Membership dues are recognized as revenue based on the period covered by the membership dues. Earth Island's membership is on a calendar year basis.

Grants Made – Earth Island periodically provides grants to unrelated nonprofit organizations for the support of various environmental, educational, and informational activities. Unconditional grants made by Earth Island to unrelated nonprofit organizations are recorded as expense upon commitment.

Functional Allocation of Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly,

EARTH ISLAND INSTITUTE INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events – Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affects the financial statements. Such events have been evaluated through July 24, 2012, which is the date the financial statements were available to be issued.

Income Taxes – Earth Island is exempt from Federal income and California franchise taxes under provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, respectively. However, tax-exempt organizations are subject to Federal income and California franchise taxes for unrelated business taxable income and provision for income taxes is provided for the unrelated business taxable income, if any.

Earth Island is required to file annual informational returns and business income tax returns with the Internal Revenue Services and the California Franchise Tax Board. Management believes that there are no uncertain tax positions because all tax positions taken are all well supported. The tax returns are subject to examination by the taxing authorities generally for three years and four years for federal and state, respectively, starting with the date of filing or the due date of the tax return whichever is later.

Earth Island has elected to utilize Section 501(h) of the Internal Revenue Code, which allows limited lobbying activities by Section 501(c)(3) nonprofit organizations.

Reclassification – Reclassification of the beginning balances between temporarily restricted net assets and unrestricted net assets are made to reflect the change of accounting policy.

(2) INVESTMENTS IN MARKETABLE SECURITIES

Accounting Standards Codification (ASC) 820 established a fair value hierarchy to prioritize the inputs used in valuation techniques. There are three levels to the fair value hierarchy of inputs to fair value (with Level 1 being the highest priority and Level 3 the lowest priority):

- Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active market;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities either directly or indirectly; and
- Level 3: Unobservable inputs which reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities, based on the best information available.

The marketable securities of Earth Island are valued based on quoted market price and consisted of the following as of December 31, 2011:

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NOTES TO FINANCIAL STATEMENTS
December 31, 2011

	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Mutual funds	\$ 579,005	\$ 579,005	\$ -	\$ -
Preferred stocks	269,520	269,520	-	-
Municipal bonds	87,124	87,124	-	-
Alternative Investments: Gold Trust	<u>60,188</u>	<u>60,188</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 995,837</u>	<u>\$ 995,837</u>	<u>\$ -</u>	<u>\$ -</u>

The investment return for year 2011 consisted of the following:

Interest and dividend from banks and brokerage firm	\$ 54,266
Net unrealized gain on investment in marketable securities	22,270
Net realized loss on sales of marketable securities	<u>(7,620)</u>
Total	<u>\$ 68,916</u>

(3) PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2011 consisted of the following:

	<u>Basis</u>	<u>Accumulated Depreciation</u>	<u>Estimated Useful Life</u>
Furniture and equipment	\$ 174,605	\$ 109,533	Various
House (EcoVillage)	51,951	13,187	30 yrs.
Automobiles	20,975	20,975	5 yrs.
Leasehold Improvements at DBC	230,775	42,221	15 yrs.
Building Improvements (EcoVillage)	11,687	1,169	30 yrs.
Land Improvements (EcoVillage)	533,589	29,644	30 yrs.
Land (EcoVillage)	<u>628,628</u>	<u>-</u>	N/A
Total	<u>\$ 1,652,210</u>	<u>\$ 216,729</u>	

Earth Island moved its main office to David Brower Center (DBC) in May 2009 and the amortization for the leasehold improvements at DBC started upon the move. EcoVillage's land improvements were completed and depreciation started at the beginning of 2011.

(4) LEASES

Earth Island's main office is at the David Brower Center in Berkeley. This lease is for five years commencing on April 20, 2009 with two five-year renewal options for \$18,156 per month. In addition, in February 2011, Earth Island also subleased an office with a tenant in the building after that tenant moved-out. This sublease ends on September 30, 2012 and the monthly rent started at \$3,000 and increased to \$3,075 in October 2011.

Earth Island has been subleasing some of its office spaces at David Brower Center to other

EARTH ISLAND INSTITUTE INC.
NOTES TO FINANCIAL STATEMENTS
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unrelated parties. These subleases are currently on month-to-month basis.

David Brower Center building is owned by Oxford Street Development, LLC. David Brower Center holds a master lease for the building. Oxford Street Development, LLC has two members and one of which is David Brower Center, a California non-profit organization that qualifies within the meaning of Section 509(a)(3) of the Internal Revenue Code as a supporting organization for public charities described in section 509(a)(1) or (2) of the Internal Revenue Code. David Brower Center has designated two supported organizations – one of them is Earth Island Institute. David Brower Center engages in efforts to protect the natural world, educates the public about the natural world, and promotes sustainable human communities.

The office lease for Earth Island's project, Kids for the Bay, in Berkeley has been renewed to June 2014 upon its expiration in May 2011. The new rent is \$1,980 per month.

Earth Island's project, Bay Area Wilderness Training (BAWT), has two office leases – Milpitas and Oakland. The office lease in Milpitas is for the period from October 1, 2008 to September 30, 2011 with monthly rent of \$1,525; however, the landlord (a nonprofit organization) waived all except for \$1 of the monthly base rent. In addition to the rent, BAWT has to pay a CAM charge of \$452 per month. The total in-kind contribution recognized in 2011 from the reduced rent is \$18,294. BAWT continues to stay in the Milpitas office after the initial lease expired. The office lease in Oakland was for the period from January 15, 2009 to January 14, 2011 for \$2,927 per month. In August 2010, the monthly rent was renegotiated to be \$2,027 per month for the rest of the lease term. Effective January 15, 2011, the Oakland lease was extended to January 14, 2012 for \$2,000 base rent per month.

Earth Island's project, Energy Action, subleases an office in Washington D.C. for the period from December 1, 2009 to August 31, 2012. The rent started at \$9,987 per month for the first year and is \$11,325 per month from February 2011 to the end of the lease. Energy Action subleases the space to an unrelated party for \$6,316 for the same period of the lease.

Earth Island's Bay Localize project has entered into a two-year lease starting March 1, 2010 with monthly rent of \$1,540 for the first year and \$1,584 for the second year. Part of the space is subleased to an unrelated party over the term of the lease.

Earth Island's project, Global Service Corps, extended its lease to June 30, 2012. The monthly rent for this lease is \$550.

Earth Island's project, Changing Gears Bike Shop, has entered into a one-year lease beginning October 1, 2010 for \$863 per month. The lease was renewed and extended to September 30, 2014 for \$1,177 per month.

Earth Island's project, Wholly H2O subleases its office for \$330 per month; this lease will be on month-to-month basis after April 30, 2012.

In addition, Earth Island has several offices on a one-time or month-to-month basis throughout the U.S. to carry out its programs. Earth Island also paid its project directors for the usage of their home offices.

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NOTES TO FINANCIAL STATEMENTS
December 31, 2011

The rent and occupancy costs incurred in 2011 for all the leases, net of sublease income, totaled \$455,636.

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

<u>Year Ending December 31,</u>	<u>Rent Payments</u>	<u>Sublet Revenue</u>	<u>Net Payments</u>
2012	\$ 413,255	\$ 59,949	\$ 353,306
2013	255,756	-	255,756
2014	93,117	-	93,117

(5) WETLAND RESTORATION TRUST FUND

Wetland Restoration Trust Fund was established at Merrill Lynch brokerage firm by Earth Island per a Stipulation and Consent Decree as amended on March 22, 2001 by the United States District Court Southern District of California. This fund is to be used on restoration projects designated by the Southern California Wetlands Recovery Project Work Plan (the Recovery Project) and for administrative expenses. The Recovery Project is an inter-agency task force composed of the state and federal resources agencies and for which the California Coastal Conservancy acts as staff. According to the Consent Decree, Earth Island must designate at least 33% of the Fund exclusively for use on any of these projects listed on the Recovery Project 2001-2002 Work Plan and approved by the Governing Board of the Recovery Project on or about May 18, 2001. Earth Island should designate which projects were to be recipients of these funds before the expiration of the 2001-2002 Work Plan on or about June 1, 2002. The remaining funds must be designated to projects listed on any of the Recovery Projects work plan through June 1, 2004. Any funds remaining undesignated after June 1, 2004 should be allocated at the sole discretion of the Recovery Project. Any funds remaining unspent by the Recovery Project by June 1, 2005 might be redirected by Earth Island to another restoration project on the then approved work plan. If any funds remaining unallocated after December 31, 2006, those funds should be released to the California Coastal Conservancy for wetlands restoration projects in Southern California. The parties have agreed to continue the administrative arrangement with Earth Island under the same terms after December 31, 2006 until all funds are allocated. Any disbursement of the funds from Merrill Lynch needs to be approved by the California Coastal Conservancy.

Funds received for Wetland Restoration Trust Fund but not yet spent were recorded as agency obligation. As of December 31, 2011, these funds were invested through Merrill Lynch in municipal bonds, money accounts, government securities, preferred stocks, alternative investments and mutual funds and were stated at fair value of \$1,390,929. Agency fund activities for the year ended December 31, 2011 are as follows:

Agency obligation, January 1, 2011	\$ 1,639,072
Disbursements to projects	(300,011)
Investment return	89,887
Administrative expenses paid	(37,869)
Bank fees	<u>(150)</u>
Agency obligation, December 31, 2011	<u>\$ 1,390,929</u>

EARTH ISLAND INSTITUTE INC.
NOTES TO FINANCIAL STATEMENTS
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(6) GRANTS PAYABLE

The International Marine Mammal Project, a project of Earth Island, executed an agreement with the citizens of Fanalei and Walende Malaita Solomon Islands to end the dolphin hunts and live dolphin trade in the Solomon Islands in exchange for \$300,000 of funding over a two-year period to develop alternatives to dolphin hunts and trade. At December 31, 2011, the International Marine Mammal Project had \$186,000 balance to be disbursed.

(7) LOAN PAYABLE

On May 2011, the Wholly H2O project borrowed \$5,000 from the project's program director. This loan is non-interest bearing and is payable based on funds available. If the loan is not repaid within two years, the loan will be considered a donation and the debt is forgiven. The loan balance at December 31, 2011 was \$5,000.

(8) TEMPORARILY RESTRICTED NET ASSETS

As discussed in the Note 1, Earth Island changed the way it reports the contributions received by its projects. Accordingly, \$5,084,582 was reclassified from unrestricted to temporarily restricted net assets as of January 1, 2011. Starting with 2011, all contributions received by the projects are reported as temporarily restricted. Earth Island categorized its projects into six groups based on the common nature of the projects. The groups are: International/Indigenous Communities, Animal Protection, Energy/Climate Change, Restoration/Preservation, Education/Youth Development and Sustainability.

The following is a summary of the temporarily restriction donations by the groups for 2011:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Releases</u>	<u>End of Year</u>
International/Indigenous Communities	\$ 681,475	\$ 2,313,072	\$(2,060,562)	\$ 933,985
Animal Protection	1,584,866	1,478,862	(1,246,871)	1,816,857
Energy/Climate Change	921,398	3,328,923	(2,894,977)	1,355,344
Restoration/Preservation	2,516	2,098,573	(2,058,494)	42,595
Education/Youth Development	1,865,479	1,402,259	(1,365,272)	1,902,466
Sustainability	<u>368,052</u>	<u>703,226</u>	<u>(766,957)</u>	<u>304,321</u>
Total	<u>\$ 5,423,786</u>	<u>\$11,324,915</u>	<u>\$(10,393,133)</u>	<u>\$ 6,355,568</u>

EARTH ISLAND INSTITUTE INC.
NOTES TO FINANCIAL STATEMENTS
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(9) CONCENTRATION OF CREDIT RISK

Earth Island maintains its cash, cash equivalents, and investments at one bank and one brokerage firm. The cash balances in the banks are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 per customer per bank. In addition, there is no limit on FDIC insurance for qualified non-interest-bearing transaction accounts. The securities in the brokerage accounts are protected by Security Investor Protection Corporation (SIPC) for a maximum of \$500,000; moreover, the brokerage firms usually carry additional insurance to provide further protection for their customers. Neither SIPC nor the additional coverage protects against losses on investments due to market fluctuations.

At times, these balances may exceed the FDIC limits or the SIPC limits; however, Earth Island has not experienced any losses with respect to its bank and brokerage accounts. At December 31, 2011, Earth Island had approximately \$315,000 exceeded the FDIC insurance limit and \$496,000 in the brokerage account that exceeded the SIPC insurance limit.

(10) CONTINGENCIES

Earth Island participates in grant programs assisted by various governmental agencies. Those programs are subject to financial and compliance audits by the grantors or their representatives, the purpose of which is to ensure compliance with condition precedent and subsequent to the granting of funds. According to management, any liability for reimbursements, which may arise as the result of these audits, is believed not to be material.

Earth Island and an employee of Earth Island, along with four other parties, were named as defendants in the following two cases filed with the 11th Circuit Court in Florida. The following first case was also filed with the 17th Circuit Court in Florida.

Ocean World, S.A. v. Earth Island Institute, Inc. et al. – The plaintiff has brought tortious interference claims against an employee of Earth Island and attempts to impute liability to Earth Island for the alleged negligent hiring and retention of the employee. The alleged interference stems from a speech by the employee concerning the drive harvest in Taiji, Japan that results in the slaughter of thousands of dolphins, including the purchase by Ocean World of twelve dolphins captured in the drive harvest and the attempted importation of those dolphins into the Dominican Republic.

Stefan Meister v. Earth Island Institute, Inc. et al. – The Plaintiff who is the Vice President of Ocean World has brought defamation, commercial misappropriation, negligence, fraud and conspiracy claims against Earth Island and one of its employees. The alleged claims stem from the same speech described in the above case.

No trial dates have been set for both cases and Earth Island intends to contest all claims vigorously. The outcome of these cases presently cannot be determined.

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(11) EARTH ISLAND PROJECTS

Earth Island Network Services is the core program of Earth Island aimed at carrying on David Brower's legacy of developing environmental leadership for the conservation, preservation and restoration of the Earth. Project Support provides incubation services to the project network; Public Education publishes *Earth Island Journal*, a quarterly publication on international environmental issues as well as Earth Island's website and monthly Island Wire e-newsletter; the Brower New Leaders Initiative oversees the Brower Youth Awards and emerging leaders; Restoration Initiative supports grassroots environment restoration leadership.

The following are Earth Island's 2011 projects, which are grouped into separate categories by common nature:

ANIMAL PROTECTION

- **Big Wildlife** is a conservation advocacy group working to raise public awareness and gain support for top carnivore and keystone wildlife throughout North America through grassroots organizing and media.
- **Burrowing Owl Conservation Network** focuses on the protection and restoration of burrowing owls and promotes the preservation and careful management of habitat. The project combines hands-on conservation efforts with advocacy, research, landowner cooperation and support, progressive burrowing owl and habitat management policies and laws, outreach and education to prevent loss, foster healthy populations, and maintain intact natural communities for this declining species.
- **International Marine Mammal Project** is leading the international effort to stop the slaughter of dolphins, to end commercial whaling, and to end the use of drift nets and other destructive fishing practices, end commercial exploitation of cetaceans by aquariums and sea parks, and protect key whale and dolphin habitats.
- **Project Coyote** creates innovative solutions that help people and coyotes coexist. The Project accomplishes its mission by increasing awareness and understanding of the essential role coyotes play in maintaining a healthy, natural environment and by supporting and promoting humane and ecologically sound solutions to human-coyote conflicts.
- **WildFutures** (formerly the Wildlife Network) provides essential tools and trainings for wildlife and habitat groups as well as other conservation organizations. Through facilitation, trainings, campaign planning assistance and other services, WildFutures helps organizations, coalitions, and individuals advance their conservation goals.
- **Reef Protection International** educates the public about the marine aquarium trade and promotes consumer behavior that enhances coral reef conservation internationally.
- **SAVE International** (Spoonbill Action Voluntary Echo) seeks to protect the critically endangered Black-faced Spoonbill and its Asian habitat throughout its flyway by promoting alternative economic development and long-term sustainability of the ecosystems and local communities.

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EDUCATION/YOUTH DEVELOPMENT

- **Bay Area Wilderness Training** provides educators with the training and equipment needed to take urban youth on safe and powerful wilderness trips.
- **Brower Fund*** educates the public on David Brower’s legacy of leadership and his message and provides short-term organizational support and small seed grants to innovative campaigns and projects demonstrating bold emerging leadership.
- **Changing Gears Community Bike Shop** provides full service sales and repairs to the general public, job training to formerly homeless individuals, opportunities for low income people to earn bikes and parts, and a community gathering space for nearby residents. The shop receives over 1250 bike donations per year, and is located on a former naval air base in a 4000 square foot repurposed warehouse in Alameda, CA.
- **Children in Nature Collaborative~** is part of a network of regional movements across the country focused on helping people to create healthier lives and more vibrant communities through restoring their relationship with nature and each other.
- **EcoVillage Farm Learning Center** is an “Oasis of Connectivity” promoting environmental education, social justice, youth leadership and community building through its various programs and activities.
- **Kids for the Bay** (formerly Estuary Action Challenge) partners with 4,000 students and 200 teachers in low-income elementary schools in Alameda and Contra Costa counties each year to inspire environmental consciousness and cultivate a love of learning through the seven environmental education programs.
- **Kids vs. Global Warming** is a youth-led organization, dedicated to educating students about the science of climate change and empowering them to take action. This Project educates through youth-created and delivered, inspirational presentations to schools, conferences and events as well as videos, interactive booths, websites and educational resources.
- **Living Laboratories** works with East Bay schools and their communities to create outdoor classroom spaces. This Project works with the communities to envision their ideal schoolyard, full of regenerated habitat, creative play spaces, art, food growing, supporting curriculum, etc; and work with the communities to create a plan and implement it through community work parties.
- **Los Angeles Wilderness Training~** provides training and resources to adults to lead successful outdoor educational and recreational activities in order to get more youth outdoors in the Los Angeles area.
- **Rooted in Community** is a national grassroots network that empowers young people to take leadership in their own communities. It is a diverse movement of youth and adults working together who are committed to fostering healthy communities and food justice through urban and rural agriculture, community gardening, food security, and related environmental justice work.
- **Sustainable World Coalition** (formerly World Sustainability Hearings) is a research and education organization, with the purpose of educating the general public about the essential condition of the planet and the best solutions—individually and collectively—for creating a peaceful human society and a healthy environment.

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- **True Colors Mural Project** supports the development of young artist activists for the improvement of the urban environment through the creation of public murals. The purpose of the murals is to both educate urban dwellers and beautify the urban environment with messages and images that support ecological sustainability, conservation and restoration.
- **WildeBeat**** is an audio journal – like a radio news magazine – presenting news and features to help listeners explore and appreciate America's wild public lands. Each week, the Project publishes a 10-minute informational documentary piece about wild places one can visit, outings one can join, or skills and gear one will need.
- **Yards to Gardens~** lets participants share or find all kind of things related to gardening. Whether having extra space in the yard, extra tools in the garage, extra seeds or seedlings, or just looking for a space to garden, Y2G makes it easy for them to share information.
- **Youth Empowered Action Camp~** is a collection of experienced activists, credentialed teachers, and community leaders committed to a world in which people, animals, and the planet are treated with respect, and where everyone is empowered to take action, and express what matters most to them. YEA Camp promotes youths to have the power to impact the environment, their communities, and the society as a whole.

ENERGY/CLIMATE CHANGE

- **Adaptation Network**** promotes adaptation, in concert with mitigation, to build resilience in the United States changing climate through support of both grassroots and policy level efforts.
- **California Student Sustainability Coalition** is a statewide network of young leaders working together to advance sustainability through education, training, and networking. CSSC is currently collaborating with key decision makers to promote, create and implement university sustainability policies.
- **CarbonfreeDC** is a grassroots initiative dedicated to mobilizing DC area residents on one goal: dramatically reducing local carbon emissions. This is accomplished by bringing together individuals, businesses, organizations, and local government to: learn about local opportunities, increase adoption of renewable energy in the area, cultivate sustainable office initiatives, and galvanize citizens to share knowledge and resources.
- **Climate Wise Women** is a global platform for the promotion of women's leadership on climate change. Through powerful personal narratives, Climate Wise Women gives a human face and voice to an issue that sits squarely at the nexus of the conversation on gender equality, environmental justice, food security, the eradication of extreme poverty, and public health.
- **CoalSwarm** is to assist the movement of grassroots groups fighting Big Coal, and to mobilize support for that movement outside the current framework of environmental groups and outside the boundaries of directly impacted states. To accomplish that mission, CoalSwarm is building a Wikipedia-style information base on coal at <http://coalswarm.org>.
- **Connect the Dots** consults exclusively for the nonprofit community to reduce their environmental impact as they continue to focus on their social missions. The Green Start program concentrates on high impact, minimal effort conservation practices to "jump start" nonprofits towards sustainability. Connect the Dots seeks to "green nonprofits" by enabling nonprofits to easily take action to make an immediate environmental impact; creating an

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- infrastructure that encourages on-going integration of sustainable practices; empowering people of diverse backgrounds to participate in environmental sustainability.
- **Eco-Island Project**** endeavors to make Angel Island a symbol of the Bay Area's environmental leadership by partnering with Angel Island State Park to harness renewable energy, promote sustainable management, and foster environmental education.
 - **EcoEquity** is a research and advocacy organization dedicated to the promotion of a just and adequate solution to the climate crisis. The primary focus is a fair and adequate global climate regime, and preparing the US people for its demands.
 - **Energy Action Coalition** is a coalition of more than 40 organizations from across the US and Canada, founded and led by youth to help support and strengthen the student and youth clean energy movement in North America.
 - **Fired Up Media** is harnessing dynamic advances in digital communications and new media, creative social entrepreneurship, and existing youth media on and off-campus to build a revolutionary media network. This growing network is made up of videographers, photographers, bloggers, and journalists reporting from the front lines of the youth climate movement and disseminating through Fired Up Media online and offline outlets.
 - **Project Survival Media** is a global youth journalism network dedicated to broadcasting stories of survival and ingenuity in the face of climate change.
 - **Renew Missouri~** exists to advance the development of renewable energy in Missouri. The vision is "Missouri: A Clean Energy State." The Mission is for Missouri to be a leading state in Renewable Energy and Energy Efficiency by 2016.
 - **Solar College Initiative** serves as a partner to colleges and universities helping them to navigate the complex process of bringing solar photovoltaic systems to their campuses at virtually no cost to the institution, via innovative third party financing mechanisms, which enable the institution to benefit from the many advantages of solar PV on campus.

INTERNATIONAL/INDIGENOUS COMMUNITIES

- **Altai Project** works to protect the natural and cultural heritage of the Altai – a uniquely diverse, mountainous region of southern Siberia – through small grants, professional exchanges, and joint projects with indigenous partners.
- **Armenia Environmental Network~** has a dual mission: To increase information sharing and distribution among Armenians in Armenia, the Armenian Diaspora and the wider conservation community; and to facilitate partnerships through the responsible involvement of Diaspora.
- **Baikal Watch** promotes international activities for the permanent protection of biologically unique Lake Baikal in Siberia, as well as related initiatives throughout Russia and northern Asia.
- **Borneo Project** works to support indigenous rights, rain forest protection, and community development in Borneo.
- **Center for Safe Energy CSE** works to provide knowledge, American contacts, skills, technical assistance and financial resources to non-profit partners in the former Soviet Union that are strengthening democratic society and improving environmental conditions

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- **China Rivers Project** works to protect China's river heritage for people and wildlife and to foster river-based recreation in China by coordinating education-oriented river trips and providing opportunities for stakeholder dialogue about the value of healthy, free-flowing rivers.
- **Ethical Traveler** is a global community through which tourists and travelers can understand their economic and political power of travel and use it to benefit both the human community and planetary environment.
- **Global Service Corps** provides opportunities for adult volunteer participants to live and work on environmental and social justice projects in Africa and Thailand.
- **Mongol Ecology Center** aims to preserve environment and protect the nomadic way of life in Mongolia by conducting research and training of scientists and experts to be environmental and civil leaders, establishing partnerships with international academic, governmental, and non-governmental organizations. The project increases public awareness and builds the capacity of local NGOs to improve environmental assessment, monitor reclamation work, and influence public policy in Mongolia.
- **Sacred Land Film Project** produces a variety of media and educational materials – films, videos, DVDs, articles, photographs, school curricula materials, and Web site content – to deepen public understanding of sacred places, indigenous cultures, and environmental justice.
- **Serengeti Watch** (formerly Save The Serengeti) builds a strong coalition of support, advocacy, and funding for the Serengeti ecosystem, the people living near it, and adjacent reserves and protected areas. The project seeks lasting protection to the Serengeti ecosystem.
- **Tibetan Plateau Project**** promotes biodiversity conservation and sustainable development of local communities in the Tibetan Plateau region.
- **Viva Sierra Gorda** (formerly Friends of Sierra Gorda) is a support organization to a coalition of local organizations working together for a high impact public—private partnership to guarantee long-term sustainability in a sacred and priority natural sanctuary, the Sierra Gorda Biosphere Reserve, Mexico.
- **Women's Earth Alliance** strengthens and unites grassroots women-led environmental initiatives around the world. WEA's mission is to unite grassroots women environmental advocates around the world and to provide the connections, resources and training they need to enact effective, lasting change in their communities.

RESTORATION/PRESERVATION

- **Center for Ecosystem Restoration** is a non-profit organization dedicated to the restoration of ecosystems and communities. The goal is to improve the quality of the human and natural environment while charting a course for sustainable economic development, helping communities to prosper through work to improve the land, water, air, climate and biodiversity.
- **John Muir Project** ensures ecological management of the National Forests by ending the federal timber sales program and eliminating its system of perverse economic and political incentives that undermine science and threaten native wildlife and forest ecosystems.
- **Nature in the City** is San Francisco's first and only organization wholly dedicated to ecological conservation, restoration and stewardship of the Franciscan bioregion. The

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strategies/program areas are public education, community organizing & stewardship, conservation advocacy & policy, and collaboration.

- **Orella Stewardship Institute** is a catalyst for the advancement of regenerative design and its principles. OSI studies, promotes, and embodies sustainable land use and regenerative agriculture.
- **South Coast Habitat Restoration** works to manage habitat protection, conservation, restoration, and outreach projects in the Santa Barbara and Ventura region.
- **Small Grant Project** is an initiative to assist the protection and restoration of wetlands in Southern California. The program is part of the California Wetlands Recovery Project administered by the California Coastal Conservancy. Earth Island Institute, through its Restoration Program, assists in the identification, review, evaluation, and provides small grants to approximately ten projects per year. Each grants averages approximately \$20,000. and allows for restoration activities such as replanting, invasive vegetation control, and streambed stabilization.
- **Sustainable Alliance of Nature and Design (SAND@OB)** stewards the multi-jurisdictional and multi-stakeholder vision and planning process for Ocean Beach. It facilitates the convergence of visions, desires and agendas in a way that prioritizes and preserves Ocean Beach as not only an invaluable natural open space urban resource for San Francisco and visitors but also as a critical ecosystem bridge between land and sea.
- **Urban Biofilter** leverages waste to improve quality of life in inner cities. A micro-industrial forestry project grown with wastewater on brown fields, Urban Biofilter bioremediates water, soil, and air while shielding residents from industry and transportation routes. By valuing ecosystem services the project enables a green economy that serves environmental justice.

SUSTAINABILITY

- **Bay Localize** builds more livable and self-reliant communities while decreasing dependence on fossil fuel in the nine-county Bay Area.
- **Campaign to Safeguard America's Waters** works to stop industrial water pollution by fighting for strong national and state water quality standards. C-SAW's major foci for the past few years have been "mixing zones" and cruise ship pollution.
- **Center for EcoPerspectives**** (formerly Yggdrasil and Yggdrasil Institute) has as its mission furthering global sustainability. The Center conducts research and disseminates information relating to environmental and ecological issues with the aim of increasing global sustainability.
- **Green Café Network** (formerly Paradigm Café Network) is dedicated to addressing America's over-consumption by reducing the ecological impacts of the coffeehouse industry and harnessing café culture for environmental education.
- **Plastic Pollution Coalition** is a global alliance of individuals, businesses and organizations working together to end plastic pollution and its toxic impacts on people, animals and the environment.
- **Safe Food and Fertilizer** seeks to ban the use of hazardous and other industrial wastes in fertilizer, soil amendments, and animal feeds due to of their potential risk to human health and the environment.

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- **Sustainable Watershed Alliance** (formerly Alliance for a Clean Waterfront) is a coalition of 28 organizations that works to reform the way San Francisco perceives and handles its water resources.
- **Ultimate Civics** defines and takes on the democracy crisis lying at the heart of the climate crisis, globalization, and other societal ills that undermine our sovereign self-governance. Ultimate Civics is the 21st-century civil rights movement: human rights versus corporate rights. The democracy crisis is two-fold: 1) dysfunctional communities from civic dis-engagement; and 2) human rights are being trumped by corporate rights.
- **Wholly H2O's**~ mission is to equip Californians in the residential, commercial, institutional, industrial and agricultural sectors with the information and skills necessary to normalize water conservation and efficiency, as well as rainwater, gray water, storm water and black water reuse/recycling.

*These projects were *inactive* during all or part of fiscal year 2011.

**These projects *separated* from Earth Island during the fiscal year 2011.

~These projects were *new* to Earth Island in fiscal year 2011.

Supplemental Information

EARTH ISLAND INSTITUTE INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Commerce</u>		
Marine Sanctuary Program	11.429	\$ 36,559
Habitat Conservation (ARRA)	11.463	165,035
Pacific Coast Salmon Recovery – Pacific Salmon Treaty Program	11.438	<u>494,384</u>
<i>Total Department of Commerce</i>		<u>695,978</u>
<u>Department of Housing and Urban Development</u>		
Pass through Mayor’s Office of Housing of City and County of San Francisco		
Community Development Block Grant	14.218	<u>12,281</u>
<i>Total Department of Housing and Urban Development</i>		<u>12,281</u>
<u>Department of the Interior</u>		
Research Grants (Generic)	15.650	13,635
Partners for Fish and Wildlife	15.631	<u>44,573</u>
<i>Total Department of the Interior</i>		<u>58,208</u>
		<u>\$ 766,467</u>

Basis of Presentation – The above schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Earth Island Institute Inc. under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Earth Island Institute Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Earth Island Institute Inc.

Summary of Significant Accounting Policies – Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards***

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

We have audited the financial statements of Earth Island Institute Inc. (a nonprofit corporation) as of and for the year ended December 31, 2011, and have issued our report thereon dated July 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Earth Island Institute Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Earth Island Institute Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Earth Island Institute Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Earth Island Institute Inc.'s internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Earth Island Institute Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Le. Ho i Company, LLP

Daly City, California
July 24, 2012



**Report on Compliance with Requirements That Could Have a Direct
and Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited Earth Island Institute Inc.'s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Earth Island Institute Inc.'s major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Earth Island Institute Inc.'s management. Our responsibility is to express an opinion on Earth Island Institute Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Earth Island Institute Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Earth Island Institute Inc.'s compliance with those requirements.

In our opinion, Earth Island Institute Inc., complied in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of Earth Island Institute Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Earth Island Institute Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a

major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Earth Island Institute Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Le. Ho i Company, LLP

Daly City, California
July 24, 2012

EARTH ISLAND INSTITUTE INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 December 31, 2011

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor’s report issued on compliance for major program: unqualified

Any audit findings disclosed that are:

Required to be reported in accordance
 With section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
11.438	Pacific Coast Salmon Recovery – Pacific Salmon Treaty Program

Dollar threshold used to distinguish
 Between type A and type B programs \$300,000

Auditee qualified as low-risk auditee? yes no

Section II—Financial Statement Findings

NONE

Section III—Federal Award Findings and Questioned Costs

NONE