

**EARTH ISLAND INSTITUTE INC.  
AND SUPPORTING ORGANIZATION**

**CONSOLIDATING FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2004**

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
December 31, 2004

**C O N T E N T S**

	<u>Page</u>
Independent Auditors' Report	1
Consolidating Financial Statements	
Consolidating Statements of Financial Position	2
Consolidating Statements of Activities	3
Consolidating Statements of Functional Expenses	4
Consolidating Statements of Cash Flows	5
Notes to Consolidating Financial Statements	6 - 19



**Le, Ho & Company, LLP**  
Certified Public Accountants

1608 Noriega Street, San Francisco, CA 94122  
Tel: 415-665-1222 Fax: 415-665-9777

## Independent Auditors' Report

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

We have audited the accompanying consolidating statements of financial position of Earth Island Institute Inc. (a California nonprofit organization) and supporting organization as of December 31, 2004, and the related consolidating statements of activities, functional expenses and cash flows for the year then ended. These consolidating financial statements are the responsibility of the management of Earth Island Institute Inc. and supporting organization. Our responsibility is to express an opinion on these consolidating financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidating financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the financial position of Earth Island Institute Inc. and supporting organization as of December 31, 2004, and the changes in their net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

*Le, Ho & Company, LLP*

San Francisco, California  
May 12, 2005

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**CONSOLIDATING STATEMENTS OF FINANCIAL POSITION**  
December 31, 2004

	Earth Island Institute	David Brower Center	Consolidating Total
<b><u>Assets</u></b>			
Current Assets			
Cash and cash equivalents	\$ 900,918	\$ 30,721	\$ 931,639
Wetland Restoration Trust Fund (contra)	3,672,039	-	3,672,039
Investments in marketable securities	669,052	-	669,052
Accounts and contributions receivable	339,623	-	339,623
Grants receivable	203,466	-	203,466
Merchandise inventory	2,782	-	2,782
Prepaid expenses and others	74,200	-	74,200
Total Current Assets	5,862,080	30,721	5,892,801
Furniture and equipment,			
net of accumulated depreciation of \$277,886	39,254	-	39,254
Investment in Oxford Street Development, LLC	-	125,382	125,382
Development in process	-	118,251	118,251
Deposits	14,643	-	14,643
Donated land	77,500	-	77,500
<b>Total Assets</b>	<b>\$ 5,993,477</b>	<b>\$ 274,354</b>	<b>\$ 6,267,831</b>
<b><u>Liabilities and Net Assets</u></b>			
Current Liabilities			
Accounts payable and accrued expenses	\$ 157,514	\$ 1,418	\$ 158,932
Agency obligation (contra)	3,672,039	-	3,672,039
Deposits	38,822	-	38,822
Total Current Liabilities	3,868,375	1,418	3,869,793
Net Assets			
Unrestricted net assets			
Designated for investment in net property and equipment	39,254	243,633	282,887
Designated for Brower Legacy Endowment	168,197	-	168,197
Designated for program activities	-	29,303	29,303
Unrestricted	1,562,272	-	1,562,272
Total unrestricted net assets	1,769,723	272,936	2,042,659
Temporarily restricted net assets	355,379	-	355,379
Total Net Assets	2,125,102	272,936	2,398,038
<b>Total Liabilities and Net Assets</b>	<b>\$ 5,993,477</b>	<b>\$ 274,354</b>	<b>\$ 6,267,831</b>

See accompanying notes to consolidating financial statements.

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**CONSOLIDATING STATEMENTS OF ACTIVITIES**  
For the Year Ended December 31, 2004

	Earth Island Institute	David Brower Center	Consolidating Total
<b>Change in Unrestricted Net Assets</b>			
<b>Support and Revenue</b>			
Contributions	\$ 1,074,768	\$ 120,692	\$ 1,195,460
Foundation grants	1,300,494	-	1,300,494
Federal grants	138,679	-	138,679
Membership dues	185,412	-	185,412
Service and consulting revenue	679,631	-	679,631
Merchandise sales, net of cost of sales and gifts of \$9,519	(8,445)	-	(8,445)
Royalty income	18,678	-	18,678
Advertising income	26,829	-	26,829
Investment return	49,324	-	49,324
Administrative fee	53,789	-	53,789
Loss from investment in Oxford Street Development, LLC	-	(1,180)	(1,180)
Miscellaneous	50,404	-	50,404
Total unrestricted support and revenues	<u>3,569,563</u>	<u>119,512</u>	<u>3,689,075</u>
Net assets released from restrictions			
Expiration of time restrictions	485,839	-	485,839
Total net assets released from restrictions	<u>485,839</u>	<u>-</u>	<u>485,839</u>
Total unrestricted support and revenues	<u>4,055,402</u>	<u>119,512</u>	<u>4,174,914</u>
<b>Expenses</b>			
Program services	3,097,357	-	3,097,357
Administrative and general	393,640	29,966	423,606
Fundraising	342,000	-	342,000
Total expenses	<u>3,832,997</u>	<u>29,966</u>	<u>3,862,963</u>
Increase in unrestricted net assets	<u>222,405</u>	<u>89,546</u>	<u>311,951</u>
<b>Change in Temporarily Restricted Net Assets</b>			
Foundation grants	273,898	-	273,898
Net assets released from restrictions	(485,839)	-	(485,839)
Decrease in temporarily restricted net assets	<u>(211,941)</u>	<u>-</u>	<u>(211,941)</u>
<b>Change in Net Assets</b>	10,464	89,546	100,010
<b>Net Assets, beginning of year</b>	<u>2,114,638</u>	<u>183,390</u>	<u>2,298,028</u>
<b>Net Assets, end of year</b>	<u>\$ 2,125,102</u>	<u>\$ 272,936</u>	<u>\$ 2,398,038</u>

See accompanying notes to consolidating financial statements.

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**CONSOLIDATING STATEMENTS OF FUNCTIONAL EXPENSES**

For the Year Ended December 31, 2004

	Earth Island Institute		David Brower Center		Consolidating Total
	Program Services	Administrative and General	Fundraising	Administrative and General	
<b>Expenses</b>					
Salaries and employee benefits	\$ 1,541,041	\$ 220,558	\$ 147,993	\$ -	\$ -
Independent contractors	345,147	49,398	33,146	-	427,691
Printing and publications	116,099	12,218	8,198	163	136,678
Postage and shipping	50,150	6,222	4,176	-	60,548
Travel and meetings	358,635	5,809	3,898	20	368,362
Conferences and training	49,779	895	600	-	51,274
Direct mail costs	4,106	-	66,532	-	70,638
Special appeals	10,687	-	5,683	-	16,370
Grants and allocations	110,394	-	-	-	110,394
Promotion and public education	96,519	-	25,053	-	121,572
Professional fees	18,309	44,626	2,358	28,807	94,100
Occupancy	183,730	26,296	17,644	-	227,670
Insurance	22,225	3,181	2,134	-	27,540
Supplies	56,339	8,064	5,411	258	70,072
Telephone	46,759	6,692	4,491	314	58,256
Depreciation	18,734	2,681	1,799	-	23,214
Equipment rental and maintenance	29,203	4,179	2,804	-	36,186
Miscellaneous	39,501	2,821	10,080	404	52,806
<b>Total Expenses</b>	<b>\$ 3,097,357</b>	<b>\$ 393,640</b>	<b>\$ 342,000</b>	<b>\$ 29,966</b>	<b>\$ 3,862,963</b>

See accompanying notes to consolidating financial statements.

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**CONSOLIDATING STATEMENTS OF CASH FLOWS**  
For the Year Ended December 31, 2004

	<u>Earth Island Institute</u>	<u>David Brower Center</u>	<u>Consolidating Total</u>
<b>Cash Flows from Operating Activities</b>			
Change in net assets	\$ 10,464	\$ 89,546	\$ 100,010
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation	23,214	-	23,214
Loss from investment in Oxford Street Development, LLC	-	1,180	1,180
Loss on disposal of fixed asset	213	-	213
Net unrealized gain on investment in marketable securities	(22,939)	-	(22,939)
Net realized loss on sales of marketable securities	3,678	-	3,678
(Increase) decrease in:			
Accounts and contributions receivable	32,938	-	32,938
Grants receivable	69,491	-	69,491
Merchandise inventory	2,727	-	2,727
Prepaid expenses and others	(34,616)	-	(34,616)
Deposits	292	-	292
Increase (decrease) in:			
Accounts payable and accrued expenses	39,909	(6,109)	33,800
Deposits	(8,227)	-	(8,227)
Net Cash Provided by Operating Activities	<u>117,144</u>	<u>84,617</u>	<u>201,761</u>
<b>Cash Flows from Investing Activities</b>			
Purchase of furniture and equipment	(22,112)	-	(22,112)
Capital contributions to Oxford Street Development, LLC	-	(67,200)	(67,200)
Proceeds from sales of investment in marketable securities	385,736	-	385,736
Investment in marketable securities	(340,293)	-	(340,293)
Payments for development in process	-	(40,713)	(40,713)
Net Cash Provided by (Used in) Investing Activities	<u>23,331</u>	<u>(107,913)</u>	<u>(84,582)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	140,475	(23,296)	117,179
<b>Cash and Cash Equivalents, beginning of year</b>	<u>760,443</u>	<u>54,017</u>	<u>814,460</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 900,918</u>	<u>\$ 30,721</u>	<u>\$ 931,639</u>

See accompanying notes to consolidating financial statements.

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
December 31, 2004

(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 sponsoring a number of projects (Earth Island Projects) that provide various program services worldwide under the administration of Earth Island Network Services (see Note 13). Many of those programs are run by various organizations that use Earth Island as fiscal sponsor. Most of Earth Island's revenues come from contributions from the general public, foundation grants, and membership dues.

David Brower Center was incorporated in the state of California on January 24, 2001, and qualifies within the meaning of Section 509(a)(3) of the Internal Revenue Code as a supporting organization with respect to Earth Island as a publicly supported organization. The officers of Earth Island are authorized to designate and appoint not less than a majority of the directors of David Brower Center. The specific and primary purpose of David Brower Center is to develop and operate a complex which will provide work and meeting space, facilities and information to organizations engaged in efforts to protect the natural world and promote sustainable human communities, as well as to educate the general public concerning the natural world and sustainable human communities. It is expected that the complex will house the administrative office of Earth Island after developed. As of December 31, 2004, David Brower Center was still in the predevelopment stage (see Notes 9 and 10).

Since David Brower Center is a supporting organization and meets the criteria for consolidation under generally accepted accounting principles, the accompanying financial statements incorporate the financial activities of David Brower Center with those of Earth Island. Despite the formal governance relationship between the two organizations, their financial operations during 2004 were entirely independent, reflecting their distinct and separate missions.

**Consolidation** – The accompanying consolidating financial statements include the accounts of Earth Island Institute, Inc. and its supporting organization – David Brower Center, hereafter, collectively referred as Earth Island. There were no intercompany transactions in year 2004.

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



**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
December 31, 2004

***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 consolidating 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 consolidating statements of financial position at fair value with realized and unrealized gains and losses included in the consolidating statements 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, 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 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. 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 ranging from three to five years.

***Contributions*** – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions received by Earth Island are usually related to specific programs. These contributions are considered unrestricted and are reported as

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
December 31, 2004

unrestricted support by the related program. Contributions received that have further restrictions placed by the donors within the specific programs or are designated for future periods are reported as temporarily restricted or permanently restricted support that increases those net asset classes. If a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. 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.

***Donated Services*** – Earth Island receives various volunteer services throughout the year. No amount has been recognized in the consolidating statements of activities because the criteria for recognition under Statement of Financial Accounting Standards (SFAS) No. 116 have not been satisfied.

***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. The list of Earth Island projects as described in Note 13 does not include a description of activities supported by these grants. Unconditional grants made by Earth Island to unrelated nonprofit organizations are recorded as expense and payable 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 consolidating statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

***Income Taxes*** – Earth Island and David Brower Center are 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. As such, no provision for income taxes has been provided in these consolidating financial statements.

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.

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
December 31, 2004

(2) TEMPORARILY RESTRICTED NET ASSETS

As discussed in the Note 1, Earth Island records contributions which have time restrictions or further purpose restrictions within a specific program as temporarily restricted net assets. Temporarily restricted net assets at December 31, 2004 were available for the following purposes or periods:

Programs / projects:

Time-restricted:

Alliance for Clean Water Front	\$ 18,333
Borneo Project	13,564
EcoVillage Farm Center	4,167
Hydro Nova	13,750
International Marine Mammal Project	31,009
Kids for the Bay	13,750
Mangrove Action Project	56,685
Ma'at Youth Academy	99,583
Reef Protection International	9,167
Sacred Land Film Project	52,667
Safe Food and Fertilizer	3,500
Tomales Bay Institute	10,000

Purpose-restricted:

Marine Education Program	<u>29,204</u>
--------------------------	---------------

Total	<u>\$ 355,379</u>
-------	-------------------

(3) INVESTMENTS IN MARKETABLE SECURITIES

Investment in marketable securities are stated at fair market value and consisted of the following as of December 31, 2004:

Mutual Funds	\$ 395,335
Bonds	<u>273,717</u>

Total	<u>\$ 669,052</u>
-------	-------------------

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
December 31, 2004

The investment return for year 2004 consisted of the following:

Interest and dividend from banks and brokerage firm	\$ 30,063
Net realized loss on sales of marketable securities	(3,678)
Net unrealized gain on investment in marketable securities	<u>22,939</u>
Total	<u>\$ 49,324</u>

(4) LEASES

Earth Island leases its main office space in San Francisco under a four-year agreement expiring in May 2006. Per lease agreement, Earth Island had an option to terminate the lease of the final year after 36 months provided that the landlord had to be notified in writing by November 2004. Earth Island did not exercise the option and thus is obligated to continue the lease until the expiration of the lease. The monthly rent ranges from \$10,189 in 2002 to \$15,367 in 2006.

Earth Island also leases several offices primarily on a one-time or month-to-month basis throughout the U.S. and worldwide in order to carry out its programs. In addition, Earth Island also paid project directors for additional rental units including the usage of their home offices totaling \$16,800 in 2004.

In addition to the cancelable sublease to SGS/Faultzone, Inc. (Note 5), Earth Island has a non-cancelable sublease agreement with a third party for use of space at Earth Island's main office. The current monthly rent for this lease is \$1,800 and this sublease is expiring on May 31, 2005. Earth Island also subleased out an additional office unit on a month-to-month basis.

The total rent and occupancy costs incurred in 2004 for all the leases amounted to \$227,670 net of \$35,373 sublease rental income.

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

<u>Year Ending</u> <u>December 31,</u>	<u>Lease</u> <u>Payment</u>	<u>Sublease</u> <u>Income</u>
2005	\$ 165,344	\$ (9,000)
2006	76,835	

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**

December 31, 2004

(5) RELATED PARTY TRANSACTIONS

In 2003, Earth Island entered into a technical support service agreement with SGS/Faultzone, Inc. (contractor) effective from January 1, 2003 to May 31, 2005. Either party may terminate the agreement upon six months written notice. A board member of Earth Island is a principal with the contractor. According to the agreement, the contractor will provide computer consulting to Earth Island for a monthly fees of: (i) \$1,022 from January 1, 2003 to May 31, 2003, (ii) \$1,102 from June 1, 2003 to May 31, 2004, and (iii) \$1,176 from June 1, 2004 to May 31, 2005. The contractor also enters into a sublease agreement with Earth Island to sublease certain office space from Earth Island with monthly rental payments of same amount as the technical support service agreement. This sublease agreement will automatically terminate if the technical support service agreement is terminated. The total value of the above exchanged transaction was \$13,742 for 2004 and was reflected as independent contractor expense and a reduction of occupancy cost of Earth Island on the statement of functional expenses. These transactions were approved by Earth Island's Board of Directors.

(6) CONCENTRATION OF CREDIT RISK

Earth Island maintains its cash and investments at one bank and one brokerage firm. Accounts at the bank are insured by Federal Deposit Insurance Corporation (FDIC) for up to \$100,000. The securities in the brokerage accounts are protected by Security Investor Protection Corporation (SIPC) for up to a maximum of \$500,000 including \$100,000 in claims on cash. Moreover, the brokerage firms usually carry additional insurance to provide further protection for their customers. The balances at the bank, at times throughout the year, may exceed the FDIC insured limit. At December 31, 2004 the balance at brokerage firm exceeded SIPC insurance limit by approximately \$4,001,884. Neither SIPC nor the additional coverage protects against losses on investments due to market fluctuations.

(7) 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 currently 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 INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
December 31, 2004

Earth Island shall designate which projects are to be recipients of these funds before the 2001-2002 Work Plan expires 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 shall be allocated at the sole discretion of the Recovery Project. Any funds remaining unspent by the Recovery Project by June 1, 2005 may 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 shall be released to the California Coastal Conservancy for wetlands restoration projects in Southern California. Any disbursement of the funds from Merrill Lynch needs to be approved by the California Coastal Conservancy.

In 2002, Earth Island Institute designated \$1,034,000 to the Small Grants Program of the Southern California Wetland Recovery Projects. A total of \$517,908 was disbursed from 2002 to 2003 and there was no disbursement made to these projects in 2004. As of December 31, 2004, the remaining balance of the \$1,304,000 designated amount was \$516,092.

In 2003, Earth Island selected three additional projects to receive funding. The total allocation for these projects approximated \$1,300,000.

Funds received for Wetland Restoration Trust Fund but not yet spent were recorded as agency obligation. As of December 31, 2004, the funds were invested through Merrill Lynch in money accounts, certificate of deposits, government securities, corporate bonds and mutual funds and were stated at fair value of \$3,672,039. Agency fund activities for the year ended December 31, 2004 are as follows:

Agency obligation, January 1, 2004	\$ 3,642,642
Investment return	83,336
Administrative expenses	(53,789)
Wire transfer fee	<u>(150)</u>
 Agency obligation, December 31, 2004	 <u>\$ 3,672,039</u>

(8) DONATED LAND

In 2000, Earth Island became the beneficiary and owner of a plot of land in Montana with a value at date of death of \$77,500. Management intends to sell the land in the future.

(9) COMMITMENT OF FINANCIAL SUPPORT

On September 1, 2001, an individual made a commitment of \$2 million to the David Brower Center for the acquisition and renovation/remodeling costs of a real property in

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
December 31, 2004

Berkeley, California. The commitment is contingent upon the David Brower Center securing sufficient additional funding to assure that the property will be developed as outlined by a plan. Furthermore, up to \$200,000 of the \$2 million commitment may be applied toward initial start-up and fund-raising expenses without requiring that other financial commitments be in place. As of December 31, 2004, David Brower Center received \$339,717 in contribution directly and indirectly from the individual for start-up and predevelopment expenditures.

(10) DEVELOPMENT OF DAVID BROWER CENTER

On April 1, 2003, David Brower Center (DBC) entered into an operating agreement with Resources for Community Development (RCD), a nonprofit corporation, to form Oxford Street Development, LLC (Oxford Street LLC) for the purpose of developing and operating a mixed-used project consisting of an apartment project, an underground parking garage, certain retail and community space and the David Brower Center located in the City of Berkeley. It is intended that Oxford Street LLC will ultimately convey the project in separate parcels to its members. According to the agreement, DBC and RCD each owns 50% of ownership interest in Oxford Street LLC. As of December 31, 2004, the project was still in the preliminary stage of the development.

DBC records its investment in Oxford Street, LLC using the equity method of accounting and the balance of its investment as of December 31, 2004 was as follows:

Balance, January 1, 2004	\$	59,362
DBC's capital contribution in 2004		67,200
Share of loss		<u>(1,180)</u>
 Balance, December 31, 2004	 \$	 <u>125,382</u>

In addition, DBC has incurred other predevelopment costs in the development of the David Brower Center. In 2004, DBC entered into a development management agreement with a developer and agreed to pay a maximum \$360,000 fee for its service, payable according to the development phases of the project. Total development in process cost as of December 31, 2004 was \$118,251.

(11) PROMISE TO GIVE

Included in the "grant receivable" at December 31, 2004 are the following promises to give:

Pledge and grants		
Net unconditional promises to give	\$	<u>203,466</u>

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
December 31, 2004

Amounts due in:

Less than one year	\$ 203,466
One to five years	-
Total	<u>\$ 203,466</u>

(12) CONTINGENCIES

Earth Island has participated 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 not believed to be material.

In addition, Earth Island has engaged an attorney for dolphin-related lawsuit against the U.S. Government. The attorney agreed to provide legal service on a pro bono basis, but it will be reimbursed for its costs under the terms of the engagement. As of December 31, 2004, there were approximately \$64,000 reimbursable costs, which payments are being deferred until the end of the legal proceeding, at which time the attorney will first seek reimbursement from the U.S. Government. If the U.S. Government does not pay such costs in full, the attorney would then look to Earth Island for recovery of any unpaid portion of the costs. The case is still pending.

(13) EARTH ISLAND PROJECTS

Earth Island had the following programs and projects in 2004:

- **Earth Island Network Services** is the core of Earth Island with programs aimed at carrying on Dave Brower's legacy of developing environmental leadership for the conservation, preservation and restoration of the Earth. The Brower New Leaders Initiative oversees the Brower Youth Awards and emerging leaders, Project Support provides incubation services to project network and *Earth Island Journal* is a quarterly publication on international environmental issues.
- **Alliance for a Clean Waterfront\*\*\*** is a coalition of twenty-two environmental and community organizations whose mission is to promote the protection and sustainability of San Francisco's water resources.
- **The Aral Sea Environmental Alliance\*\*** promotes local and international initiatives to ensure the survival of the Aral Sea and the people living in its basin.



**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**

December 31, 2004

- **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.
- **Bay Area International Development Organizations (BAIDO)\*\*** is a network of San Francisco Bay Area non-profit organizations doing international development work. BAIDO's goals are to strengthen the community of local nonprofits and educate the public and press about grassroots international development.
- **Bay Area Wilderness Training** provides educators with the training and equipment needed to take urban youth on safe, powerful wilderness trips.
- **Boreal Footprint Project\*\*** aims to promote education about the ecological and human rights issues involved in the unsustainable use of resources from the boreal zone.
- **Borneo Project** works to support indigenous rights, rain forest protection and community development on the island of Borneo.
- **The Brower Fund** educates the public on David Brower's life and his message, provides short-term organizational support, and small seed grants to innovative new campaigns and projects that provide CPR for the Earth.
- **C-SAW (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 focuses for the past few years have been "mixing zones" and cruise ship pollution.
- **Center for Safe Energy** supports the development of independent non-profit citizen's organizations in the former Soviet Union. The Center staff conducts training sessions for NGO leaders, collaborates in organizing international conferences on environmental issues, sponsors publications on environmental problems, and manages exchanges between NGO leaders in America and the former USSR.
- **City Talk\*\*** organizes local and international discussions on topical issues in sustainable development through the Internet, meetings, newspapers, and radio.
- **EcoVillage Farm Learning** is a 5.6-acre urban oasis where local and regional residents learn the art of organic farming and how to protect the land, air, and water. EcoVillage inspires people to live in harmony with the earth, each other and to gain respect for all living things.
- **Ethical Traveler** is a global community through which tourists and travelers can understand their economic and political power and use it to benefit both the human community and planetary environment.

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
December 31, 2004

- **Faultline, California's Environmental Magazine\*** covers all of California, providing broad and balanced coverage of environmental interest, from urban pollution and designing livable cities, to sustainable agriculture and farm labor issues, to ranching, mining, wilderness and more.
- **Friends of Sierra Gorda\*\*\*** is the outreach and advocacy partner for the Sierra Gorda bioregion of central Mexico. Seventeen years of cultivating sustainable culture with reforestation and forestry management, environmental education, community organizing and sanitation-recycling and economic development; and the only Biosphere Reserve in Mexico to be declared with region-wide consensus and grassroots leadership.
- **Global Service Corps** provides opportunities for adult volunteer participants to live and work on environmental and social justice projects in Africa and Thailand.
- **Grassroots Globalization Network\*\*** promotes locally based, participatory economic institutions and practices that empower people to create sustainable and equitable communities.
- **Hydro Nova** (Formerly Treatment Wetlands Organization) seeks to facilitate the introduction of alternative wastewater treatment systems into California – systems that would help to alleviate groundwater pollution attributable to existing septic systems, and to help develop sensible regulatory processes that support water conservation and water recycling.
- **ISA-NET (Industrial Shrimp Action Network)** supports controlled shrimp farming on coastal resources and discourages destructive industrial shrimp production practices.
- **International Marine Mammal Project (IMMP)** is leading the effort to stop the slaughter of dolphins, to end commercial whaling, to end the use of drift nets and other destructive fishing practices, to end commercial exploitation of cetaceans by aquariums and sea parks, and to protect key whale and dolphin habitats.
- **John Muir Project (JMP)** seeks to protect mature and old growth forests on federal public lands from the destructive effects of commercial logging. JMP believes that science and sound ecological principles in forest management will continue to be undermined until timber sales are banned on national forests.
- **Kids for the Bay (Formerly Estuary Action Challenge)** collaborates with teachers to inspire environmental consciousness in children and cultivates a love of learning while being committed to education through action.
- **The LEEP Project\*\*** empowers educators and students worldwide to take an active role in local community restoration projects by bringing Costa Rican OSA Peninsula Rainforest conservation efforts into the classroom.

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**

December 31, 2004

- **Ma'at Youth Academy** works to improve public and environmental health in urban areas by developing and modeling multicultural environmental education, promoting economic opportunities for at-risk youth and increasing community involvement in environmental protection.
- **Mangrove Action Project** works with mangrove forest communities, grassroots NGOs, researchers and local governments to conserve and restore mangrove forests and related coastal ecosystems, while promoting community-based, sustainable management of coastal resources.
- **Mountain Alliance Fund\*** supports efforts for sustainable planning in California's Sierra Nevada Foothills.
- **Northeast Alliance to Protect James Bay\*** focuses on the threats to the environment and indigenous cultures posed by Hydro-Quebec's plans for large-scale hydroelectric development in Northern Canada.
- **Reef Protection International\*\*\*** educates the public about the marine aquarium trade and promotes consumer behavior that enhances coral reef conservation.
- **ReThink Paper (RTP)** works to convince paper producers, consumers, suppliers, distributors, and others to rethink – then replace – current paper production and consumption practices with more ecologically sound alternatives. RTP works to reduce the demand for virgin wood fiber by stimulating interest in, and demand for, tree-free and high post-consumer recycled, chlorine-free paper, and encouraging strategies that reduce paper consumption and increase paper use efficiency.
- **Rooted in Community\*\*\*** is a national grassroots network that empowers young people to take leadership in their own communities. This 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.
- **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. Our mission is to use journalism, organizing and activism to rekindle reverence for land, increase respect for cultural diversity, stimulate dialogue about connections between nature and culture, and protect sacred lands and diverse spiritual practices.
- **Safe Food and Fertilizer** is working to raise awareness about the disposal of hazardous and other solid wastes as fertilizer, soil amendments and animal feeds; the affects they have on human health and the environment, and ultimately, a ban on their use.

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**

December 31, 2004

- **SAVE International (Spoonbill Action Voluntary Echo International)** seeks to protect the critically endangered Black-faced Spoonbill and its habitat throughout its flyway by promoting alternative economic development and long-term sustainability of the ecosystems and local communities.
- **Southern Rockies Watershed Network\*\*** works to foster sustainable management of watershed resources in the Southern Rockies Ecoregion of Colorado and northern New Mexico, through the monitoring and support of community-based watershed initiatives and the provision of training and ongoing support to citizen activists participating in local watershed management organizations.
- **Sustainable World Coalition** (formerly World Sustainability Hearing Project) produces the Sustainable World Symposium every two years in San Francisco. SWC also produces other sustainability resources (in print, video, and web).
- **Tibetan Plateau Project\*** promotes biodiversity conservation and sustainable development of local communities in the Tibetan Plateau region.
- **Tomales Bay Institute** aims to revive the concept of the commons in American public life and debate, and to propose new ways to advance and protect it in all its many forms.
- **True Food Network\*\*\*** is a national consumer network of over 40,000 members dedicated to ending the genetic engineering of our food, and promoting a socially just, democratic and sustainable food system.
- **UniversitArea Protegida** creates opportunities for Nicaraguan University students to conduct scientific research, participate in community based conservation projects, and implement environmental awareness classes in rural schools. The program serves as a foundation for careers in conservation and supports local schools and non-governmental organizations managing Nicaragua's natural reserves.
- **West Africa Rainforest Network – US (WARN-US)** supports the protection of forests and forest peoples' rights in West Africa. Working in solidarity with local communities and organizations, WARN builds local capacity and international support for the protection and sustainable management of forest resources.
- **WildFutures** (formerly the Wildlife Network) works to bridge the gap between science and conservation while promoting the protection of large carnivores and their habitat. By providing services and essential trainings to groups and scientists, WildFutures helps NGO's and scientists more effectively reach their conservation goals.
- **Yggdrasil Institute** is a small project with the aim of furthering global sustainability; in particular, at present, by working on nuclear issues and eastern old-growth forests.

**EARTH ISLAND INSTITUTE INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
December 31, 2004

- **Yosemite Guardian\*\*** works to protect Yosemite National Park and to assure access without unreasonable restrictions.

\* These projects were inactive during all or part of fiscal year 2004.

\*\* These projects separated from Earth Island during the fiscal year 2004.

\*\*\* These projects were new to Earth Island in fiscal year 2004.