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NOV 21 2013

Financial Statements with Supplementary Information (and Report of Independent Certified Public Accountants)

Sierra Club

December 31, 2012 and 2011

Contents

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Report of Independent Certified Public Accountants

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To the Board of Directors
Sierra Club

We have audited the accompanying financial statements of Sierra Club, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sierra Club as of December 31, 2012 and 2011, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on the Functional Expense Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Functional Expense Information is presented for purposes of additional analysis 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Grant Thornton LLP

San Francisco, California
July 12, 2013

Balance sheets

	As of December 31	
	2012	2011
Assets		
Cash and cash equivalents	$ 25,777,200	$ 18,917,800
Operating investments (note 2)	14,203,000	16,420,500
Receivables:		
Trade accounts, less allowance for losses of $55,600 in 2012 and $65,900 in 2011	229,400	272,700
Grants	6,358,300	6,893,600
Other	1,659,700	2,524,200
Inventories	270,000	189,900
Prepaid expenses	2,383,500	2,489,400
Royalty and other advances, less allowance for losses of $183,500 in 2012 and $174,500 in 2011	334,500	372,500
Management-designated and donor restricted investments (note 2)	23,719,900	21,514,200
Property and equipment, net (note 4)	5,014,800	5,609,500
Total assets	$ 79,950,300	$ 75,204,300
Liabilities and net assets		
Accounts payable	$ 6,090,700	$ 5,501,600
Accrued expenses	5,241,400	4,991,900
Deferred revenue	1,806,200	1,831,300
Deferred lease liability	3,087,600	3,375,300
Pension liability (note 7)	6,671,200	7,167,500
Total liabilities	22,897,100	22,867,600
Net assets:		
Unrestricted	25,702,000	24,607,900
Temporarily restricted (note 6)	8,799,300	5,795,600
Permanently restricted (note 6):		
Life memberships	22,149,800	21,531,100
Other activities	402,100	402,100
Total permanently restricted	22,551,900	21,933,200
Total net assets	57,053,200	52,336,700
Total liabilities and net assets	$ 79,950,300	$ 75,204,300

See accompanying notes to financial statements.

Statements of activities

	2012				2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:								
Membership dues:								
Annual dues	$ 16,477,000	$ -	$ -	$ 16,477,000	$ 18,218,800	$ -	$ -	$ 18,218,800
Life memberships	174,100	-	618,700	792,800	144,900	-	613,400	758,300
Contributions and grants (note 8)	17,755,000	63,108,500	-	80,863,500	16,835,000	52,976,500	600	69,812,100
Outings and lodge reservations and fees	7,632,500	-	-	7,632,500	7,327,300	-	-	7,327,300
Books and other retail sales	928,400	-	-	928,400	891,000	-	-	891,000
Royalties	977,000	-	-	977,000	2,519,400	-	-	2,519,400
Net realized and unrealized gains (losses) on investments and interest	2,338,100	-	-	2,338,100	(1,421,300)	(14,400)	-	(1,435,700)
Advertising and other income	2,301,000	-	-	2,301,000	2,030,300	-	-	2,030,300
Public interest litigation award fees	2,664,900	-	-	2,664,900	1,064,300	-	-	1,064,300
Reimbursement: Major Giving Program (note 8)	4,790,000	-	-	4,790,000	4,200,000	-	-	4,200,000
	56,038,000	63,108,500	618,700	119,765,200	51,809,700	52,962,100	614,000	105,385,800
Net assets released from restrictions	60,104,800	(60,104,800)	-	-	50,109,800	(50,109,800)	-	-
Total revenues, gains, and other support	116,142,800	3,003,700	618,700	119,765,200	101,919,500	2,852,300	614,000	105,385,800
Expenses:								
Program services:								
Studying and influencing public policy	53,530,200	-	-	53,530,200	49,174,900	-	-	49,174,900
Information and education	18,761,000	-	-	18,761,000	10,465,400	-	-	10,465,400
Outdoor activities	7,866,200	-	-	7,866,200	7,746,300	-	-	7,746,300
Chapter activities	715,900	-	-	715,900	694,100	-	-	694,100
Total program services expenses	80,873,300	-	-	80,873,300	68,100,700	-	-	68,100,700
Support services:								
General and administrative	5,509,500	-	-	5,509,500	5,156,100	-	-	5,156,100
Membership	18,972,400	-	-	18,972,400	18,861,800	-	-	18,861,800
Fundraising:								
Sierra Club	4,343,500	-	-	4,343,500	4,047,500	-	-	4,047,500
Affiliates	5,196,600	-	-	5,196,600	4,863,800	-	-	4,863,800
Total support services expenses	34,022,000	-	-	34,022,000	32,929,200	-	-	32,929,200
Total expenses	114,895,300	-	-	114,895,300	101,029,900	-	-	101,029,900
Loss on disposal of assets	189,600	-	-	189,600	1,700	-	-	1,700
Pension related changes	(36,200)	-	-	(36,200)	2,467,600	-	-	2,467,600
Total expenses and losses	115,048,700	-	-	115,048,700	103,499,200	-	-	103,499,200
Change in net assets	1,094,100	3,003,700	618,700	4,716,500	(1,579,700)	2,852,300	614,000	1,886,600
Net assets at beginning of year	24,607,900	5,795,600	21,933,200	52,336,700	26,187,600	2,943,300	21,319,200	50,450,100
Net assets at end of year	$ 25,702,000	$ 8,799,300	$ 22,551,900	$ 57,053,200	$ 24,607,900	$ 5,795,600	$ 21,933,200	$ 52,336,700

See accompanying notes to financial statements.

Statements of cash flows

	Years ended December 31, 2012	2011
Cash flows from operating activities:		
Change in net assets	$ 4,716,500	$ 1,886,600
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	981,600	803,100
Net realized and unrealized (gains) losses on investment	(1,635,400)	2,049,900
Advisory fees paid from investments	62,500	44,600
Loss on disposal of assets	189,600	1,700
Adjustment for minimum pension liability	(36,200)	2,467,600
Life membership contributions restricted for long-term investment	(618,700)	(613,400)
Changes in operating assets and liabilities:		
Trade accounts receivable	43,300	107,000
Grants receivable	535,300	(2,327,600)
Other receivables	864,500	(887,800)
Inventories	(80,100)	95,500
Prepaid expenses	105,900	129,800
Royalties and other advances	38,000	91,900
Accounts payable	589,100	1,279,700
Accrued expenses	249,500	(214,300)
Deferred revenue	(25,100)	(396,300)
Pension liability	(460,100)	(901,200)
Deferred lease liability	(287,700)	2,388,200
Net cash provided by operating activities	5,232,500	6,005,000
Cash flows from investing asctivities:		
Acquisition of property and equipment	(576,500)	(3,836,400)
Purchases of investments	(6,630,600)	(8,199,600)
Proceeds from maturity and sale of investments	8,626,700	4,865,000
Reinvestment of interest and dividend income	(411,400)	(466,400)
Net cash provided by (used in) investing activities	1,008,200	(7,637,400)
Cash flows provided by financing activities:		
Life membership contributions restricted for long-term investment	618,700	613,400
Increase (decrease) in cash and cash equivalents	6,859,400	(1,019,000)
Cash and cash equivalents at beginning of year	18,917,800	19,936,800
Cash and cash equivalents at end of year	$ 25,777,200	$ 18,917,800
Supplemental disclosures of cash flows information;		
Cash paid during the year for income taxes	$ 11,200	$ 399,200

See accompanying notes to financial statements.

Notes to financial statements

Note 1 – Summary of significant accounting policies

Organization

The Sierra Club (the "Club") is a nonprofit voluntary membership organization established to explore, enjoy, and protect the wild places of the earth; to practice and promote the responsible use of the earth's ecosystems and resources; to educate and enlist humanity to protect and restore the quality of the natural and human environment; and to use all lawful means to carry out these objectives. The Sierra Club operates many environmentally conscious programs which benefit the public interest. The studying and influencing public policy program consists of staff and volunteers engaged in legislative and nonlegislative activities, including research, education, lobbying, legal, and policy development. Information and education include the literary programs of Sierra Club books and *Sierra*, the Sierra Club's magazine. Outdoor activities include national and international outing programs consisting of 296 trips during the year ended December 31, 2012. The membership program includes support for 63 volunteer led chapters, 372 groups, and the development of a broad-based volunteer membership. There were approximately 583,900 members as of December 31, 2012 and 601,900 members as of December 31, 2011.

Basis of presentation

The accompanying financial statements, which are presented on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been prepared to focus on the Club as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of balances and transactions into the following classes of net assets:

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Club. The income from these assets is available for either general operations or specific programs as specified by the donor.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Club and/or the passage of time. In addition, net assets of donor-restricted endowment funds not classified as permanently restricted are classified as temporarily restricted until appropriated for expenditure.

Unrestricted net assets – Net assets not subject to donor-imposed stipulations. This category includes net assets which have been designated by the board.

Note 1 – Summary of significant accounting policies (continued)

Basis of presentation, continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions received with donor-imposed restrictions that are met in the same year as received are initially reported as temporarily restricted revenues and subsequently reclassified to unrestricted net assets upon fulfillment of the donor-imposed restrictions.

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, grants and other receivable, accounts payable and accrued liabilities and other liabilities approximate fair value because of the short term maturity of these financial instruments.

Cash and cash equivalents

Cash equivalents consist primarily of checking, savings, money market accounts, and other investments with an original maturity of 90 days or less, not held with external managers as part of the Club's investment strategy. Of the cash and cash equivalents at December 31, 2012, $12,725,200 represents cash held at various financial institutions and $13,052,000 was held in money market accounts. Of the cash and cash equivalents at December 31, 2011, $13,685,500 represents cash held at various financial institutions and $5,232,300 was held in money market accounts. Cash and money market accounts are held at various financial institutions that are FDIC insured up to $250,000 at each institution.

Investments

Investments are reported at fair value with realized and unrealized gains and losses included as a component of the change in net assets.

Management-designated and donor-restricted investments consist primarily of the Club's permanently restricted life memberships as well as investments directed by management for long-term investment.

Royalties and other advances

Royalties are advanced to authors of the Club's publications. An allowance for losses is provided against such advances for estimated losses resulting from unearned royalties based upon historical experience and specific identification.

Note 1 – Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are stated at cost at the date of acquisition or estimated fair value at the date of donation. Depreciation and amortization expense is provided on a straight-line basis over the estimated useful lives of the related assets, generally 3 to 31.5 years, or the related lease term, whichever is shorter. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Deferred revenue

The Club defers revenue from outings and advertising until the period in which the trip is completed or the magazine is published.

Membership dues

Annual membership dues are recognized as revenue when received as the Club views these as contributions.

The Club solicits membership dues for a "life membership" fund. The Club's bylaws state: "All money received for life memberships and such other funds as may be received or appropriated by the Board of Directors for permanent investment, shall be separately and securely invested as an Endowment Fund, of which only the income may be appropriated for expenditures provided, however, the Fund may be used as collateral to borrow money for limited periods of time to advance the purposes of the Club when such a policy is approved by a majority of the Board." Accordingly, these funds are characterized as permanently restricted net assets in the accompanying financial statements.

Allocation of expenses

The Club's expenses are presented on a functional basis, showing basic program activities and support services. The Club allocates expenses to program and support services based on the organizational cost centers (functional units) in which expenses are incurred. In certain instances, expenses are allocated between support functions and program services based upon a systematic allocation methodology.

The Club's activities of fundraising and membership in some cases include purposes or contents related to a program service. ASC Topic 958 states that joint costs of informational materials or activities should be allocated between fundraising and the appropriate program or general function if the purpose, audience, and content criteria, as defined by ASC Topic 958 are met. Although most fundraising materials include educational content, the criteria of this standard are only met by a few insignificant activities, and therefore, the Club does not allocate joint costs from its fundraising and membership activities to program services.

Note 1 – Summary of significant accounting policies (continued)

Donated services

Contributed services are reflected in the financial statements at the fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Accordingly, the Club recognized $5,048,500 and $4,466,900 for legal services donated by the Earthjustice Legal Defense Fund for the years ended December 31, 2012 and 2011, respectively. The amount is included as a component of contributions and grants revenue and program services expenses in the accompanying financial statements.

Collection items

The Club does not capitalize donated paintings, photographs, and rare books, as these items are held for public exhibition, education, or research in furtherance of public service and are protected and cared for by the Club throughout the life of the assets.

Income tax status

Based on recognition by the Internal Revenue Service and California Franchise Tax Board, respectively, the Club's related sources of revenue are exempt from federal income and California franchise taxes under Internal Revenue Code Section 501(c)(4) and California Revenue and Taxation Code Section 23701f, respectively. However, the Club is subject to income tax on its unrelated business income and certain political activities, of which there was $256,000 and $11,200 for the years ended December 31, 2012 and 2011, respectively.

As required by U.S. GAAP, the Club has identified and evaluated its significant tax positions for which the statute of limitations remain open and determined there is no material unrecognized tax benefit or liability to be recorded.

The open tax years are the years ended December 31, 2009 through December 31, 2012 for federal tax purposes and the years ended December 31, 2008 through December 31, 2012 for California tax purposes (except to the extent of the net operating loss carryover for which the tax years from December 31, 2004 are open). There have been no material changes in unrecognized benefits at December 31, 2012 or 2011, nor are any material changes anticipated in the twelve months following December 31, 2012, and there have no related tax penalties or interest, which would be classified as a tax expense in the statement of activities.

The club has an operating loss carryover of $993,557 as of January 1, 2012, however, no deferred tax asset has been recognized due to the uncertainty of whether the benefit will be realized.

Contributions to the Club are not deductible by the donor as a charitable contribution for tax purposes.

Use of estimates

Management of the Club has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. GAAP. Actual results could differ from those estimates.

Note 2 – Investments

The fair values of the Club's investment portfolio consist of the following as of December 31:

	2012	2011
Operating:		
Cash and cash equivalents	$ 2,715,600	$ 1,105,300
Certificates of deposit	3,664,500	2,908,800
Money market mutual funds	1,228,800	4,409,800
Equity securities	2,325,300	1,188,800
U.S. government and agency securities	-	2,200,100
Bond mutual funds	1,114,200	1,003,000
Corporate fixed income	1,879,600	2,577,300
Equities mutual fund	224,600	178,100
Alternative investments	1,050,400	849,300
Total operating investments	$ 14,203,000	$ 16,420,500
Management-designated and donor restricted:		
Cash and cash equivalents	$ 2,770,000	$ 1,579,600
Certificates of deposit	94,100	676,400
Equity securities	5,642,800	5,027,400
U.S. government and agency securities	3,919,900	6,023,500
Corporate fixed income	3,520,800	2,894,300
Equities mutual fund	3,207,800	1,256,300
Alternative investments	4,564,500	4,056,700
Total board-designated and restricted investments	$ 23,719,900	$ 21,514,200

Interest and dividend income amounted to $702,700 and $584,500 in 2012 and 2011, respectively, and is included in net realized and unrealized gains (losses) on investments and interest income in the statements of activities. Investment advisory expense was $90,100 in 2012 and $60,600 in 2011.

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical investments that the Club has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs from the investments.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Club's policy is to recognize the transfers between Levels 1 and 2 assets at the beginning of each reporting period, and there are no transfers to disclose.

Note 2 – Investments (continued)

The following table presents the investments at fair value, based on a hierarchical level at December 31, 2012:

	Fair value measurements at reporting date using			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 5,485,600	$ 5,485,600	$	$
Certificates of deposit	3,758,600		3,758,600	
Money market mutual funds	1,228,800	1,228,800		
Equity securities	7,968,100	7,968,100		
U.S. government and government agency securities	3,919,900		3,919,900	
Corporate fixed income	5,400,400		5,400,400	
Equities mutual fund	3,432,400	3,432,400		
Bond mutual funds	1,114,200	1,114,200		
Alternative investments:				
Hedge fund	347,300		347,300	
Venture capital fund	318,400			318,400
Private global equities funds	4,949,200		4,949,200	
Total	$ 37,922,900	$ 19,229,100	$ 18,375,400	$ 318,400

The following table presents the investments at fair value, based on a hierarchical level at December 31, 2011:

	Fair value measurements at reporting date using			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 2,684,900	$ 2,684,900	$ -	$ -
Certificates of deposit	3,585,200	-	3,585,200	-
Money market mutual funds	4,409,800	4,409,800	-	-
Equity securities	6,216,200	6,216,200	-	-
U.S. government and government agency securities	8,223,600	-	8,223,600	-
Corporate fixed income	3,833,600	-	3,833,600	-
Equities mutual fund	3,072,400	3,072,400	-	-
Bond mutual funds	1,003,000	1,003,000	-	-
Alternative investments:				
Hedge fund	397,400	-	397,400	-
Venture capital fund	356,400	-	-	356,400
Private global equities funds	4,152,200	-	4,152,200	-
Total	$ 37,934,700	$ 17,386,300	$ 20,192,000	$ 356,400

The following methods and assumptions were used to estimate the fair value of each class of investments:

Cash and cash equivalents: The carrying amount at face value approximates fair value because of the short maturity of these instruments.

Certificates of deposit: These are discounted at prevailing interest rates for similar investments.

Note 2 – Investments (continued)

Equity securities and mutual funds: These are valued using quoted prices in principal active markets for identical assets as of the valuation date.

U.S. government and agency securities and corporate fixed income: For the valuation of these investments, the Club used significant other observable inputs, particularly dealer and market prices for comparable investments as of the valuation date.

Hedge funds and private global equity funds: For the valuation of these investments, the Club used net asset value as a practical expedient to estimate fair value.

Venture capital funds and private equities: For the valuation of these investments, the Club used net asset value as a practical expedient to estimate fair value.

The following tables presents the Club's activity for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2012 and 2011, respectively:

	Venture capital fund	Private equity	Total
Balances at January 1, 2012	$ 356,400	$ -	$ 356,400
Total gains or losses (realized/unrealized):			
Included in changes in net assets	(68,000)	-	(68,000)
Purchases	30,000	-	30,000
Total	$ 318,400	$ -	$ 318,400
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses, related to assets still held at reporting date	$ (68,000)	$ -	$ (68,000)

	Venture capital fund	Private equity	Total
Balances at January 1, 2011	$ 351,900	$ 57,400	$ 409,300
Total gains or losses (realized/unrealized):			
Included in changes in net assets	(26,700)	(57,400)	(84,100)
Purchases	31,200	-	31,200
Total	$ 356,400	$ -	$ 356,400
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses, related to assets still held at reporting date	$ (26,700)	$ (57,400)	$ (84,100)

Note 2 – Investments (continued)

The following table presents the fair value measurements of the Club's alternative investments calculated at net asset value, unfunded commitments and redemption restrictions as of December 31, 2012:

	Fair value	Unfunded commitments	Redemption frequency	Reception notification period
Hedge fund (a)	$ 347,300	$ -	Monthly	None
Venture capital fund (b)	318,400	76,200	Upon approval of general partner	N/A
Private global equities funds (c)	3,898,800	-	Quarterly, not to exceed 10% of fund's net assets	30 days
Private Asian equities funds (d)	1,050,400	-	Quarterly, not to exceed 20% of fund's net assets	90 days
Total	$ 5,614,900	$ 76,200		

(a) Fund engaged primarily in future contracts, options, and forward contracts in global currency markets.
(b) Investment in a portfolio of private equity funds that focus on clean technologies.
(c) Private investment funds with an emphasis on global equities with sustainable practices.
(d) Private investment funds with an emphasis on Asian focused equities with sustainable practices

The following table presents the fair value measurements of the Club's alternative investments calculated at net asset value, unfunded commitments and redemption restrictions as of December 31, 2011:

	Fair value	Unfunded commitments	Redemption frequency	Reception notification period
Hedge fund (a)	$ 397,400	$ -	Monthly	None
Venture capital fund (b)	356,400	106,250	Upon approval of general partner	N/A
Private global equities funds (c)	3,302,900	-	Quarterly, not to exceed 10% of fund's net assets	30 days
Private Asian equities funds (d)	849,300	-	Quarterly, not to exceed 20% of fund's net assets	90 days
Total	$ 4,906,000	$ 106,250		

(a) Fund engaged primarily in future contracts, options, and forward contracts in global currency markets.
(b) Investment in a portfolio of private equity funds that focus on clean technologies.
(c) Private investment funds with an emphasis on global equities with sustainable practices.
(d) Private investment funds with an emphasis on Asian focused equities with sustainable practices

Note 3 – Endowments

Effective January 1, 2009, the State of California has enacted the California Uniform Prudent Management Act of Institutional Funds Act ("CUPMIFA"), the provisions of which apply to funds existing on or established after that date. Based on its interpretation of the provisions of CUPMIFA, the Club determined that retaining its existing policies regarding net asset classification of its donor-restricted endowment funds is appropriate based on accounting standards in effect.

The Board of Directors of the Sierra Club has interpreted the CUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Club classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted (if the endowment supports unrestricted programs) or temporarily restricted net assets (if the endowment is for a specified program) until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the CUPMIFA.

Beginning, January 1, 2009, the Club has a policy of appropriating for distribution each year up to 5% of its endowment fund's average fair value over the prior three years. In establishing this policy, the Club considered the long-term expected return on its endowment. Accordingly, over the long term, the Club expects the current spending policy to allow its endowment to grow at a rate exceeding expected inflation. This is consistent with the Club's objective to maintain the fair value of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. However, in fiscal years ending in December 31, 2012 and 2011, the Club elected not to make any appropriations from the endowment funds because of the overall investment performance from 2008 through 2012.

The Club has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the fair value of endowment assets. Endowment assets include those assets of donor-restricted funds that the Club must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to provide investment growth in excess of annual Board designated appropriations. Actual returns in any given year may vary from this goal. To satisfy its long-term rate-of-return objectives, the Club relies on a strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends), while making a distribution decision each year that represents a reasonable program expenditure rate, given investment performance, present and reasonably anticipated resources, general economic conditions, and the reasonable expectations of a prudent investor. The Club targets a diversified asset allocation that places a greater emphasis on equity based investments to achieve its long-term return objectives within prudent risk constraints.

Note 3 – Endowments (continued)

The Club's endowment consists of a Life Member Fund and a donor-restricted fund established to further the mission of the Club. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Changes in endowment net assets for the year ended December 31, 2012 and 2011:

	As of December 31, 2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets beginning of year, 2012	$ (3,871,300)	$ 86,100	$ 21,933,200	$ 18,148,000
Investment return:				
Investment income	435,000	-	-	435,000
Net appreciation (realized/unrealized)	1,316,800	-	-	1,316,800
Total investment return	1,751,800	-	-	1,751,800
Contributions	-	-	618,600	618,600
Appropriation of endowment assets for expenditure	-	-	-	-
Reclassification of temporarily restricted assets	86,100	(86,100)	-	-
Endowments net assets, end of year, 2012	(2,033,400)	-	22,551,800	20,518,400
Management designation of unrestricted assets	2,883,100	-	-	2,883,100
Endowment and management designation, end of year, 2012	$ 849,700	$ -	$ 22,551,800	$ 23,401,500

	As of December 31, 2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets beginning of year, 2011	$ (3,018,900)	$ 100,500	$ 21,319,200	$ 18,400,800
Investment return:				
Investment income	310,200	5,300	-	315,500
Net depreciation (realized/unrealized)	(1,162,600)	(19,700)	-	(1,182,300)
Total investment return	(852,400)	(14,400)	-	(866,800)
Contributions	-	-	614,000	614,000
Appropriation of endowment assets for expenditure	-	-	-	-
Endowments net assets, end of year, 2011	(3,871,300)	86,100	21,933,200	18,148,000
Management designation of unrestricted assets	3,009,800	-	-	3,009,800
Endowment and management designation, end of year, 2011	$ (861,500)	$ 86,100	$ 21,933,200	$ 21,157,800

Note 3 – Endowments (continued)

From time to time, the fair value of assets associated with individual donor-restricted and Life Member endowment funds may fall below the level that the donor or CUPMIFA requires the Club to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $2,033,400 and $3,871,300 as of December 31, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market conditions and the Club's decision to not appropriate any portion of the endowment.

Note 4 – Property and equipment

Property and equipment consist of the following as of December 31:

	2012	2011
Land	$ 562,700	$ 562,700
Buildings and leasehold improvements	6,440,000	6,920,100
Furniture, computer, and equipment	5,843,400	5,839,000
Subtotal	12,846,100	13,321,800
Less accumulated depreciation and amortization	(7,831,300)	(7,712,300)
Property and equipment, net	$ 5,014,800	$ 5,609,500

Included in property and equipment is an office building from which the Club has vacated. In January 2013, the Club listed this property for sale and expects to complete the sale in 2013. The office building and land has a net book value of $851,800 as of December 31, 2012.

Note 5 – Leases

The Club has leases for office facilities and equipment. Future minimum payments under all noncancelable operating leases with terms greater than one year as of December 31, 2012 are as follows:

	As of December 31, 2012
Year ending December 31,	
2013	$ 4,079,500
2014	3,655,900
2015	3,630,400
2016	2,422,300
2017	1,479,300
2018 through 2022	5,932,600
Total lease payments	$ 21,200,000

Rent and utilities expense for operating leases was $4,553,600 in 2012 and $4,466,300 in 2011. Rental income for subleases was $32,200 in 2012 and $60,200 in 2011.

Note 6 – Restricted net assets

Temporarily restricted net assets are available for the following purposes:

	As of December 31,			
		2012		2011
Studying and influencing public policy:				
Beyond Coal campaign	$	7,237,400	$	3,318,700
Other		1,521,300		2,350,200
Outdoor activities		40,600		40,600
Endowment assets		-		86,100
	$	8,799,300	$	5,795,600

The Club's permanently restricted net assets consist primarily of Life Memberships. Income from the Club's permanently restricted net assets is available for general operations. The balance of the Club's permanently restricted net assets was $22,551,900 and $21,933,200 as of December 31, 2012 and 2011, respectively.

Note 7 – Benefit plans

Pension plan

The Club has a defined benefit plan (the "Plan") and a defined contribution pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation. The defined benefit formula of this Plan is no longer offered to new participants.

The following table sets forth the Plan's benefit obligations, fair value of plan assets, and funded status at December 31:

		2012		2011
Benefit obligation	$	(28,790,000)	$	(25,918,900)
Fair value of Plan assets		22,118,800		18,751,400
Funded status	$	(6,671,200)	$	(7,167,500)
Accrued benefit cost recognized in the balance sheets	$	(6,671,200)	$	(7,167,500)

Amounts not yet recognized as a component of net periodic pension cost:

	As of December 31,			
		2012		2011
Net loss	$	(8,144,200)	$	8,180,000

A current year net loss amortization of $836,100 is included in current year net periodic pension cost.

The net loss that is expected to be amortized from unrestricted net assets into net periodic pension cost over the next fiscal year is estimated to be $691,700.

Note 7 – Benefit plans (continued)

Weighted-average assumptions used to determine pension obligations were as follows at December 31:

	2012	2011
Discount rate	3.44%	4.26%
Rate of compensation increase	2.0%	3.00%

Weighted- average assumptions used to determine net pension cost were as follows at December 31:

	2012	2011
Discount rate	4.26%	5.10%
Expected long-term rate of return on Plan assets	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%
Benefit cost	$ 1,479,000	$ 1,149,700
Employer contribution	$ 1,939,100	$ 2,128,300
Benefits paid	$ (645,000)	$ (1,097,500)

Plan asset investment strategy and allocation

The asset allocations for the Plan as of December 31, 2012 and 2011 were:

Asset category	Pension committee approved asset allocation	Actual percentage of plan asset allocation 2012	2011
Equities	25% - 70%	59%	60%
Fixed income	35% - 75%	39%	38%
Cash	-	2%	2%

The Plan invests primarily in asset categories with sufficient size, liquidity, and cost efficiency to permit investments of reasonable size. The Plan holds only Level 1 and Level 2 investments. The Plan invests in asset categories that provide diversification benefits and are easily measured. Maximum and minimum holding ranges for each of these asset categories are set by the Sierra Club Pension Committee; however, the Plan investment managers have been given the discretion to liquidate equity and security holdings in the event of anticipated catastrophic loss. Actual asset allocations within these approved ranges are based on a variety of economic and market conditions and consideration of specific asset category risk.

To assess the Plan's investment performance, a long-term asset allocation policy benchmark has been established as follows: 17% Russell 1000 Value Index, 16% S&P 500 Index, 7% Russell 2000 Index, 8% Russell 2000 Value Index, 8% MSCI EAFE Value Index, 4% MSCI EAFE Small Cap Index, 2% U.S. 30-Day Treasury Bill Index, and 38% Lehman Bros., Govt/Corp Bond Index.

Note 7 – Benefit plans (continued)

The following table presents the fair values of the Plan assets, based on a hierarchical level:

	Fair values of the Plan assets		
	December 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Cash and cash equivalents	$ 521,300	$ 521,300	$ -
Common collective funds:			
Intermediate Government Bond Index fund (a)	7,846,500	-	7,846,500
U.S. Large Cap Value Index fund (b)	3,732,000	-	3,732,000
U.S. Russell 2000 Index fund (c)	1,545,300	-	1,545,300
Equities mutual funds:			
International Stock fund (d)	3,116,400	3,116,400	-
U.S. Large Cap S&P Index fund (e)	3,658,400	3,658,400	-
U.S. Russell 2000 Value Index EFT fund (f)	1,698,900	1,698,900	-
Total	$ 22,118,800	$ 8,995,000	$ 13,123,800

(a) This category's objective is to approximate total returns of the government intermediate bond market using stratified sampling designed to select a single bond to represent several bonds with similar attributes such as maturity, quality, and coupon.
(b) This category seeks investment results that correspond to the price and yield performance, before fees and expenses, of the large cap sector of U.S. equity market as measured by the Russell 1000 Value.
(c) This category seeks investment results that correspond to the price, growth, and yield performance, before fees and expenses of the small cap U.S. equity market at 50% growth and 50% value oriented.
(d) This category seeks long-term growth of principal and income by investing in a diversified portfolio of large and medium cap equity securities of non U.S. companies from at least three different countries whose economic and political systems appear stable.
(e) This category represents a low cost equity index not actively managed that seeks to replicate the total rate of return of the S&P Index before fees and expenses.
(f) This category seeks investment results that correspond to the price and yield performance, before fees and expenses, of the small cap value sector of U.S. equity market, which characteristics include lower price-to-book and forecasted growth than the other components of the Russell 2000 Index.

The following methods and assumptions were used to estimate the fair value of each class of investments:

Cash and cash equivalents: The carrying amount at face value approximates fair value because of the short maturity of these instruments.

Common collective funds: These are valued using net assets as a practical expedient to estimate fair value.

Equity mutual funds: These are valued using quoted prices in principal active markets for identical assets as of the valuation date.

U.S. Russell 2000 Value Index ETF: This is valued using quoted prices in principal active markets for identical assets as of the valuation date.

Future contributions

Sierra Club expects to contribute $2,073,800 to the Plan during the fiscal year ending December 31, 2013.

Note 7 – Benefit plans (continued)

Estimated future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

		As of December 31,
Year ending December 31,		
2013	$	2,376,500
2014		2,702,200
2015		1,827,800
2016		2,779,800
2017		2,150,600
2018 - 2022		14,912,600

401(k) plan

The Club offers a 401(k) plan for its eligible employees. The plan provides an employer contribution for eligible employees who complete six months of service. The Club's contribution to the plan totaled $431,700 and $361,700 in 2012 and 2011, respectively, which is included in salaries and employee benefits expense.

Note 8 – Transactions with affiliates

The Sierra Club Foundation (the "Foundation") is a separate legal entity. As the Club does not have control of the Foundation, it is not included in the Club's financial statements.

The Club provides fundraising and other services for the Foundation. Reimbursed costs related to these services and the Major Giving Program totaled $4,790,000 and $4,200,000 in 2012 and 2011, respectively. Of the preceding amounts, $390,000 and $533,300 was included in other receivables as of December 31, 2012 and 2011, respectively. The Club receives direct grants from the Foundation in support of various programs that totaled $49,882,100 and $44,058,000 in 2012 and 2011, respectively. Of the preceding amounts, $6,358,300 and $6,893,600 were included in grants receivable as of December 31, 2012 and 2011, respectively. Accounts payable to the Foundation totaled $291,900 and $240,300 as of December 31, 2012 and 2011, respectively.

Note 9 – Related- party transactions

In 2012, the Club made payments that totaled $41,600 to a member of the Board of Directors for legal services provided to the Club.

Note 10 – Commitments and contingencies

The Club is involved in a number of lawsuits resulting from the operations of its programs and other litigation arising during the normal course of operations. Management, in consultation with legal counsel, does not believe such lawsuits will have a material adverse effect on the financial position of the Club.

Note 11 – Line of credit note

The Club has available, until September 1, 2013, a revolving line of credit with a commercial bank which permits borrowings of up to $6,000,000 at interest rates ranging from LIBOR plus 2.00% to prime. The line is secured by a portion of board-designated investments which are held in a collateral account. The fair value, based on a formula determined by the bank, of the investments in the collateral account must at all times exceed the outstanding principal balance. Under the terms of the note, the Club is obligated to pay one-quarter percent (.25%) per annum on the average unused amount of the note, beginning Aug. 1, 2011. There were no borrowings on the revolving line of credit at December 31, 2012 and 2011, respectively.

Note 12 – Conditional contributions

Conditional promises to give are recognized as revenue when conditions on which they depend are substantially met. In 2011, the Club received a grant of approximately $9,700,000 of which approximately $3,800,000 was recognized as revenue in 2011. Conditions of the grant, based on a payment schedule and achievements of milestones, were fulfilled in 2012 and the remaining $5,900,000 was recognized as revenue in 2012.

Note 13 – Subsequent events

The Club has evaluated subsequent events through July 12, 2013, the date at which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Sierra Club
Supplementary Information
December 31, 2012 and 2011

Schedule 1

Functional Expense Information

Year ended December 31, 2012

	Program services					Support services					
								Fundraising			
	Studying and influencing public policy	Information and education	Outdoor activities	Chapter activities	Subtotal	General and administrative	Membership	Sierra Club	Affiliates	Subtotal	Total
Salaries and employee benefits	$ 21,915,100	$ 7,468,200	$ 557,900	$ 430,800	$ 30,372,000	$ 1,155,600	$ 1,887,300	$ 157,600	$ 3,837,700	$ 7,038,200	$ 37,410,200
Outside services	3,725,300	6,089,700	3,575,900	164,600	13,555,500	465,800	6,135,500	1,677,200	242,600	8,521,100	22,076,600
Cost of sales, books, and Sierra magazine	15,000	1,114,600	174,100	-	1,303,700	-	-	-	-	-	1,303,700
Mailing and office supplies	305,800	637,400	163,900	1,600	1,108,700	67,200	3,894,100	777,700	125,600	4,864,600	5,973,300
Legal services	10,086,500	18,200	5,000	8,700	10,118,400	142,000	3,500	-	14,700	160,200	10,278,600
Travel and meetings	2,645,500	409,300	562,400	89,100	3,706,300	228,200	42,600	1,300	269,500	541,600	4,247,900
Copying and printing	322,200	124,500	12,300	1,000	460,000	75,800	4,411,100	434,000	109,300	5,030,200	5,490,200
Rent and occupancy	2,802,900	760,800	173,900	500	3,738,100	289,200	129,600	-	406,600	825,400	4,563,500
Telephone	519,800	32,200	31,600	17,600	601,200	12,200	8,800	100	30,300	51,400	652,600
Royalties	800	325,800	16,600	-	343,200	-	-	-	-	-	343,200
Advertising and promotion	111,600	138,000	42,900	100	292,600	38,600	1,424,000	153,200	71,400	1,687,200	1,979,800
Depreciation and amortization	522,700	134,300	38,200	-	695,200	30,500	20,600	-	51,400	102,500	797,700
Lodge and outings field expense	-	-	410,200	-	410,200	-	-	-	-	-	410,200
Contributions and donations	1,201,900	-	-	-	1,201,900	6,500	-	-	-	6,500	1,208,400
Insurance	188,700	93,700	173,600	-	456,000	8,900	7,800	-	9,400	26,100	482,100
Other	584,500	163,800	118,200	1,900	868,400	19,900	784,900	-	28,100	812,900	1,681,300
Subtotal	44,948,300	17,510,500	6,056,700	715,900	69,231,400	2,540,400	18,729,800	3,201,100	5,196,600	29,667,900	98,899,300
Chapter expenses	8,581,900	1,250,500	1,809,500	-	11,641,900	2,969,100	242,600	1,142,400	-	4,354,100	15,996,000
Total	$ 53,530,200	$ 18,761,000	$ 7,866,200	$ 715,900	$ 80,873,300	$ 5,509,500	$ 18,972,400	$ 4,343,500	$ 5,196,600	$ 34,022,000	$ 114,895,300

See accompanying independent auditors' report.

Schedule 2

Functional Expense Information

Year ended December 31, 2011

	Program services					Support services					
								Fundraising			
	Studying and influencing public policy	Information and education	Outdoor activities	Chapter activities	Subtotal	General and administrative	Membership	Sierra Club	Affiliates	Subtotal	Total
Salaries and employee benefits	$ 19,771,800	$ 4,732,500	$ 890,400	$ 448,500	$ 25,843,200	$ 1,287,600	$ 2,029,600	$ 171,700	$ 3,447,800	$ 6,936,700	$ 32,779,900
Outside services	4,033,300	1,026,800	3,233,800	133,700	8,427,600	377,500	5,684,500	1,538,600	232,000	7,832,600	16,260,200
Cost of sales, books, and Sierra magazine	31,900	1,008,800	171,400	-	1,212,100	-	-	-	-	-	1,212,100
Mailing and office supplies	325,700	569,500	167,100	1,700	1,064,000	77,300	3,903,400	667,900	114,700	4,763,300	5,827,300
Legal services	9,439,400	53,700	5,600	8,500	9,507,200	5,700	7,600	200	63,100	76,600	9,583,800
Travel and meetings	2,467,200	248,700	554,000	85,200	3,355,100	210,600	35,700	-	320,200	566,500	3,921,600
Copying and printing	530,400	14,800	23,700	2,000	570,900	76,200	4,491,100	321,400	73,200	4,961,900	5,532,800
Rent and occupancy	2,618,000	594,600	220,800	500	3,433,900	310,200	249,100	-	407,900	967,200	4,401,100
Telephone	475,000	28,700	34,700	12,600	551,000	17,800	7,900	100	26,100	51,900	602,900
Royalties	4,400	340,900	16,000	-	361,300	-	-	-	-	-	361,300
Advertising and promotion	94,600	187,300	29,400	-	311,300	45,900	1,381,800	157,400	77,700	1,662,800	1,974,100
Depreciation and amortization	389,900	99,300	44,000	-	533,200	30,600	30,900	-	47,900	109,400	642,600
Lodge and outings field expense	-	-	434,800	-	434,800	-	-	-	-	-	434,800
Contributions and donations	630,900	-	-	-	630,900	600	-	-	-	600	631,500
Insurance	140,800	86,400	209,300	-	436,500	16,900	8,300	-	9,800	35,000	471,500
Other	315,700	36,000	57,400	1,400	410,500	48,700	779,400	-	43,400	871,500	1,282,000
Subtotal	41,269,000	9,028,000	6,092,400	694,100	57,083,500	2,505,600	18,609,300	2,857,300	4,863,800	28,836,000	85,919,500
Chapter expenses	7,905,900	1,457,400	1,653,900	-	11,017,200	2,650,500	252,500	1,190,200	-	4,093,200	15,110,400
Total	$ 49,174,900	$ 10,485,400	$ 7,746,300	$ 694,100	$ 68,100,700	$ 5,156,100	$ 18,861,800	$ 4,047,500	$ 4,863,800	$ 32,929,200	$ 101,029,900

See accompanying independent auditors' report.

Sierra Club
Board of Directors and Executives
(as of July 12, 2013)

Sierra Club Board of Directors

- David A. Scott, President
- Spencer Black, Vice President
- Lane E. Boldman, Secretary
- Donna Buell, Treasurer
- Susana Reyes, Fifth Officer
- Loren Blackford
- Jim Dougherty
- Larry Fahn
- Charles Frank
- Jessica Helm
- Aaron Mair
- Robin Mann
- Liz Walsh
- Chris Warshaw
- Rob Wilder

Sierra Club Executives

- Michael Brune, Executive Director
- Louis Barnes, Chief Financial Executive
- Hamilton Leong, Corporate Controller

Grant Thornton