

FINANCIAL STATEMENTS

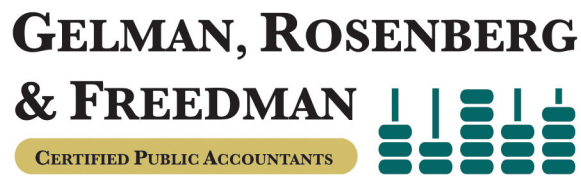


**FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2011**

ENVIRONMENTAL INVESTIGATION AGENCY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Environmental Investigation Agency
Washington, D.C.

We have audited the accompanying financial statements of the Environmental Investigation Agency (EIA) (a non-profit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and change in net assets, functional expenses and cash flows for the year 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 audit. We conducted our audit 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.

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 EIA as of December 31, 2012, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · FAX (301) 951-3570 · WWW.GRFCPA.COM

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Report on Summarized Comparative Information

We have previously audited EIA's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 6, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Friedman".

Bethesda, Maryland
April 30, 2013

ENVIRONMENTAL INVESTIGATION AGENCY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,406,041	\$ 1,230,726
Investments (Notes 2 and 9)	184,206	167,637
Grants and other receivables (Notes 3 and 8)	292,718	690,379
Prepaid expenses	<u>11,036</u>	<u>20,667</u>
Total current assets	<u>1,894,001</u>	<u>2,109,409</u>
FIXED ASSETS		
Furniture	18,411	3,203
Less: Accumulated depreciation	<u>(6,209)</u>	<u>(3,159)</u>
Net fixed assets	<u>12,202</u>	<u>44</u>
OTHER ASSETS		
Deposits	14,368	2,500
Grants receivable, net of current portion (Note 3)	<u>97,277</u>	<u>25,000</u>
Total other assets	<u>111,645</u>	<u>27,500</u>
TOTAL ASSETS	<u>\$ 2,017,848</u>	<u>\$ 2,136,953</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 8)	\$ 92,939	\$ 121,608
Grants payable	<u>153,380</u>	<u>-</u>
Total current liabilities	<u>246,319</u>	<u>121,608</u>
NET ASSETS		
Unrestricted:		
Undesignated	490,476	457,623
Board designated (Note 4)	<u>184,206</u>	<u>167,637</u>
Total unrestricted	674,682	625,260
Temporarily restricted (Note 5)	<u>1,096,847</u>	<u>1,390,085</u>
Total net assets	<u>1,771,529</u>	<u>2,015,345</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,017,848</u>	<u>\$ 2,136,953</u>

ENVIRONMENTAL INVESTIGATION AGENCY
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

	<u>2012</u>			<u>2011</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE				
Contributions and grants	\$ 690,523	\$ 2,433,925	\$ 3,124,448	\$ 3,265,760
Investment income (loss) (Note 2)	17,586	689	18,275	(824)
In-kind contributions	339,535	-	339,535	-
Net assets released from donor restrictions (Note 5)	<u>2,727,852</u>	<u>(2,727,852)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>3,775,496</u>	<u>(293,238)</u>	<u>3,482,258</u>	<u>3,264,936</u>
EXPENSES				
Program Services:				
Global Climate Campaign	1,157,627	-	1,157,627	497,614
Cetaceans Campaign	234,783	-	234,783	100,772
Elephants Campaign	111,062	-	111,062	52,398
Forest Campaign	<u>2,048,722</u>	<u>-</u>	<u>2,048,722</u>	<u>1,361,200</u>
Total program services	<u>3,552,194</u>	<u>-</u>	<u>3,552,194</u>	<u>2,011,984</u>
Supporting Services:				
Management and General	109,561	-	109,561	176,402
Fundraising	<u>64,319</u>	<u>-</u>	<u>64,319</u>	<u>80,443</u>
Total supporting services	<u>173,880</u>	<u>-</u>	<u>173,880</u>	<u>256,845</u>
Total expenses	<u>3,726,074</u>	<u>-</u>	<u>3,726,074</u>	<u>2,268,829</u>
Change in net assets	49,422	(293,238)	(243,816)	996,107
Net assets at beginning of year	<u>625,260</u>	<u>1,390,085</u>	<u>2,015,345</u>	<u>1,019,238</u>
NET ASSETS AT END OF YEAR	<u>\$ 674,682</u>	<u>\$ 1,096,847</u>	<u>\$ 1,771,529</u>	<u>\$ 2,015,345</u>

See accompanying notes to financial statements.

ENVIRONMENTAL INVESTIGATION AGENCY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

	2012				
	Program Services				
	Global Climate Campaign	Cetaceans Campaign	Elephants Campaign	Forest Campaign	Total Program Services
Salaries	\$ 332,582	\$ 26,292	\$ 10,696	\$ 594,450	\$ 964,020
Benefits (Note 7)	24,485	3,394	1,272	30,609	59,760
Payroll taxes/fees	23,953	1,911	780	46,428	73,072
Contract labor	59,790	1,146	5,000	404,449	470,385
Media and communications	18,859	2,810	60	46,646	68,375
Workshops, conferences and training	-	-	-	9,868	9,868
Office expenses	4,546	11	11	19,850	24,418
Audit and accounting fees	48	-	-	7,480	7,528
Travel	62,883	3,600	3,214	191,704	261,401
Subgrants	186,810	1,935	-	270,785	459,530
Occupancy (Note 6)	-	-	-	-	-
Depreciation	-	-	-	-	-
EIA UK subgrants (Note 8)	356,794	185,687	65,635	228,972	837,088
Insurance	-	-	-	-	-
Partner fees, contributions and dues	-	-	21,035	9,485	30,520
Legal and incorporation fees	-	-	-	-	-
Bank service charges	204	97	40	441	782
Other	-	-	-	3,390	3,390
Subtotal	1,070,954	226,883	107,743	1,864,557	3,270,137
Overhead allocation	86,673	7,900	3,319	184,165	282,057
TOTAL	<u>\$ 1,157,627</u>	<u>\$ 234,783</u>	<u>\$ 111,062</u>	<u>\$ 2,048,722</u>	<u>\$ 3,552,194</u>

See accompanying notes to financial statements.

					2011
<u>Supporting Services</u>					
<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	<u>Total Expenses</u>	<u>Total Expenses</u>	
\$ 190,614	\$ 44,426	\$ 235,040	\$ 1,199,060	\$ 1,083,985	
13,518	3,343	16,861	76,621	67,248	
22,171	3,541	25,712	98,784	88,327	
7,149	-	7,149	477,534	154,686	
1,363	68	1,431	69,806	67,932	
865	-	865	10,733	44,929	
17,824	-	17,824	42,242	23,207	
18,115	-	18,115	25,643	83,399	
7,694	-	7,694	269,095	172,104	
-	-	-	459,530	52,861	
63,952	-	63,952	63,952	51,258	
3,050	-	3,050	3,050	1,068	
-	-	-	837,088	356,770	
40,045	-	40,045	40,045	16,667	
-	500	500	31,020	835	
11,456	-	11,456	11,456	955	
590	-	590	1,372	2,598	
5,653	-	5,653	9,043	-	
404,059	51,878	455,937	3,726,074	2,268,829	
(294,498)	12,441	(282,057)	-	-	
\$ 109,561	\$ 64,319	\$ 173,880	\$ 3,726,074	\$ 2,268,829	

See accompanying notes to financial statements.

ENVIRONMENTAL INVESTIGATION AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (243,816)	\$ 996,107
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,050	1,068
Unrealized (gain) loss	(12,001)	7,108
(Increase) decrease in:		
Grants and other receivables	325,384	(601,432)
Prepaid expenses	9,631	(20,667)
Deposits	(11,868)	(2,500)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(28,669)	36,273
Refundable advance	-	(67,518)
Grants payable	<u>153,380</u>	<u>-</u>
Net cash provided by operating activities	<u>195,091</u>	<u>348,439</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(15,208)	-
Net purchases and sales of investments	<u>(4,568)</u>	<u>(33,949)</u>
Net cash used by investing activities	<u>(19,776)</u>	<u>(33,949)</u>
Net increase in cash and cash equivalents	175,315	314,490
Cash and cash equivalents at beginning of year	<u>1,230,726</u>	<u>916,236</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,406,041</u>	<u>\$ 1,230,726</u>

See accompanying notes to financial statements.

ENVIRONMENTAL INVESTIGATION AGENCY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Environmental Investigation Agency (EIA) is a non-profit organization, incorporated in the District of Columbia on September 8, 1989 to establish and promote programs to preserve wildlife, ecosystems and the global environment. EIA has directly brought about changes in international laws and the policies of governments, saving the lives of millions of rare and endangered animals and putting a stop to the devastating effects of environmental criminals.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with EIA's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Cash and cash equivalents -

EIA considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provided temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). EIA maintained a portion of its cash balance at a financial institution in a non-interest bearing account; thereby, all of this cash balance was protected by the FDIC under this Act. Beginning January 1, 2013, funds deposited in non-interest bearing accounts will no longer receive unlimited deposit insurance coverage. Bank deposit accounts at one institution will be insured by the FDIC up to a limit of \$250,000.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the Statement of Activities and Change in Net Assets.

Grants and other receivables -

Grants and other receivables approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Fixed assets -

Fixed assets in excess of \$2,500 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to seven years. The cost of maintenance and repairs is recorded as expenses are incurred.

ENVIRONMENTAL INVESTIGATION AGENCY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Income taxes -

EIA is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. EIA is not a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the year ended December 31, 2012, EIA has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of EIA and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of EIA and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by EIA. As of December 31, 2012, there were no permanently restricted net assets.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Temporarily restricted contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

EIA receives funding under grants and contracts from the U.S. and foreign governments, international organizations and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

ENVIRONMENTAL INVESTIGATION AGENCY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Contributions and grants (continued) -

Grants receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements.

In-kind contributions -

In-kind contributions consist of donated skilled labor and materials, primarily donated legal services. In-kind contributions are recorded at their fair market value as of the date of the gift.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

EIA invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

EIA adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. EIA accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

2. INVESTMENTS

Investments consisted of the following at December 31, 2012:

	<u>Fair Value</u>
Equities	\$ 61,631
Certificates of deposit	<u>122,575</u>
TOTAL INVESTMENTS	<u>\$ 184,206</u>

ENVIRONMENTAL INVESTIGATION AGENCY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

2. INVESTMENTS (Continued)

Included in investment income are the following at December 31, 2012:

Interest and dividends	\$ 6,274
Unrealized gain	<u>12,001</u>
TOTAL INVESTMENT INCOME	<u>\$ 18,275</u>

3. GRANTS AND OTHER RECEIVABLES

Grants and other receivables that are expected to be collected within one year are recorded at their net realizable value. Grants that are expected to be collected in future years are recorded at their fair value, measured as the present value of their estimated future cash flow.

The discount on those amounts are computed using risk-free interest rates applicable to the years in which the grants are received; any discount amortization is included in grants revenue. Management is of the opinion that all grants receivable are collectible.

Grants and other receivables are due as follows at December 31, 2012:

Less than one year	\$ 292,718
One to five years	<u>100,000</u>
Total	392,718
Less: Allowance to discount balance to present value	<u>(2,723)</u>
TOTAL GRANTS AND OTHER RECEIVABLES	<u>\$ 389,995</u>

4. BOARD DESIGNATED NET ASSETS

As of December 31, 2012, net assets have been designated by the Board of Directors for the following purposes:

Operating Reserve	<u>\$ 184,206</u>
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5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2012:

Global Climate Campaign	\$ 264,028
Cetaceans Campaign	20,879
Elephants Campaign	66,753
Forest Campaign	<u>745,187</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$1,096,847</u>

ENVIRONMENTAL INVESTIGATION AGENCY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

5. TEMPORARILY RESTRICTED NET ASSETS (Continued)

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time), which satisfied the restricted purposes specified by the donors:

Global Climate Campaign	\$1,157,627
Cetaceans Campaign	234,717
Elephants Campaign	9,434
Forest Campaign	<u>1,326,074</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$2,727,852</u>

6. LEASE COMMITMENTS

EIA leases office space, which originated in May 2008. During March 2012, EIA extended its lease agreement through April 30, 2013. Base rent is \$48,060 per year plus fees for various tenant services, which are determined by use and on a monthly basis. The base rent increases by 4% each year commencing May 1.

The following is a schedule of the future minimum lease payments as of December 31, 2012:

Year Ending December 31, 2013	<u>\$ 16,661</u>
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Rent expense for the year ended December 31, 2012 totaled \$55,862, and it is included in occupancy expense in the accompanying Statement of Functional Expenses.

7. RETIREMENT PLAN

EIA has adopted a defined contribution plan for all eligible employees. Matching employer contributions to the plan are on a discretionary basis. During the year ended December 31, 2012, no matching contributions were made.

8. RELATED PARTY

EIA cooperates with the Environmental Investigation Agency Trust, a United Kingdom charitable organization and the Environmental Investigation Agency (UK) Limited, a United Kingdom not-for-profit organization, both of which have a common mission with EIA. While there is no controlling interest, one Director of EIA is also a Trustee or a Director of the cooperating agencies. EIA grants funds to the Environmental Investigation Agency (UK) Limited in order to carry out certain projects. Also, from time-to-time, each organization may incur expenses on behalf of another, which are reimbursed. As of December 31, 2012, EIA was owed \$5,434 from the Environmental Investigation Agency (UK) Limited which was included in other receivables in the accompanying Statement of Financial Position.

ENVIRONMENTAL INVESTIGATION AGENCY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012

9. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, EIA has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market EIA has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2012.

- Equities - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Certificates of deposit* - Generally valued at original cost plus accrued interest, which approximates fair value.

The table below summarizes, by level within the fair value hierarchy, EIA's investments as of December 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Equities	\$ 61,631	\$ -	\$ -	\$ 61,631
Certificates of deposit	<u>-</u>	<u>122,575</u>	<u>-</u>	<u>122,575</u>
TOTAL	<u>\$ 61,631</u>	<u>\$ 122,575</u>	<u>\$ -</u>	<u>\$ 184,206</u>

10. SUBSEQUENT EVENTS

In preparing these financial statements, EIA has evaluated events and transactions for potential recognition or disclosure through April 30, 2013, the date the financial statements were issued.