Southern Environmental Law Center

Financial Report

Year Ended March 31, 2011

SOUTHERN ENVIRONMENTAL LAW CENTER

FINANCIAL REPORT

YEAR ENDED MARCH 31, 2011

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INDEPENDENT AUDITORS' REPORT

BOARD OF TRUSTEES
SOUTHERN ENVIRONMENTAL LAW CENTER
CHARLOTTESVILLE, VIRGINIA

We have audited the accompanying statement of financial position of Southern Environmental Law Center (a nonprofit organization) as of March 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Center's 2010 financial statements, and in our report dated September 8, 2010, we expressed an unqualified opinion on those financial statements.

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 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 the 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 financial statements referred to above present fairly, in all material respects, the financial position of Southern Environmental Law Center as of March 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
August 26, 2011

- Financial Statements -

Southern Environmental Law Center

Statement of Financial Position
At March 31, 2011
(With Comparative Totals for 2010)

		2011		2010
ASSETS				
Cash and cash equivalents (Notes 2 & 3)	$	4,003,329	$	1,672,367
Investments (Note 3)		25,698,668		20,042,513
Grants receivable (Note 4)		125,000		335,000
Pledges receivable (Note 5)		220,012		624,647
Prepaid expenses		60,058		108,234
Deposits		20,663		29,434
Charitable Remainder Annuity Trust		92,766		98,580
Property and equipment, less accumulated depreciation of $1,488,271 and $1,411,795 (Note 6)		787,040		147,338
Total assets	$	31,007,536	$	23,058,113
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	$	118,257	$	110,028
Payroll taxes withholdings and payable		67,334		28,911
Salaries payable		422,880		66,074
Retirement payable		35,979		4,705
Accrued leave		170,341		159,940
Charitable remainder trust liability		92,766		98,580
Total liabilities	$	907,557	$	468,238
Net assets (Note 13):				
Unrestricted:				
Operating	$	20,144,586	$	14,877,630
Fixed assets		787,040		147,338
Total unrestricted	$	20,931,626	$	15,024,968
Temporarily restricted (Note 10)		5,068,353		3,464,907
Permanently restricted (Note 10)		4,100,000		4,100,000
Total net assets	$	30,099,979	$	22,589,875
Total liabilities and net assets	$	31,007,536	$	23,058,113

The accompanying notes to financial statements are an integral part of this statement.

Southern Environmental Law Center

Statement of Activities
Year Ended March 31, 2011
(With Comparative Totals for 2010)

	Un- restricted	Temporarily Restricted	Permanently Restricted	Totals 2011	Totals 2010
Revenues, gains and other support:					
Contributions	$ 4,563,527	$ 6,661,550	$ -	$ 11,225,077	$ 7,776,824
Grants	466,000	3,881,498	-	4,347,498	4,787,950
Contributed services	124,646	-	-	124,646	144,490
Investment return	1,913,474	291,842	-	2,205,316	3,396,718
Attorney fees	116,211	-	-	116,211	477
Miscellaneous	306,156	-	-	306,156	146,600
Net assets released from restrictions:					
Satisfaction of program restrictions	9,231,444	(9,231,444)	-	-	-
Total revenues, gains and other support	$ 16,721,458	$ 1,603,446	$ -	$ 18,324,904	$ 16,253,059
Expenses:					
Program services	$ 8,984,795	$ -	$ -	$ 8,984,795	$ 8,292,761
Administration and general	810,892	-	-	810,892	764,321
Fundraising	1,019,113	-	-	1,019,113	1,014,567
Total expenses	$ 10,814,800	$ -	$ -	$ 10,814,800	$ 10,071,649
Change in net assets	$ 5,906,658	$ 1,603,446	$ -	$ 7,510,104	$ 6,181,410
Net assets, beginning of year	15,024,968	3,464,907	4,100,000	22,589,875	16,408,465
Net assets, end of year	$ 20,931,626	$ 5,068,353	$ 4,100,000	$ 30,099,979	$ 22,589,875

The accompanying notes to financial statements are an integral part of this statement.

Southern Environmental Law Center

Statement of Functional Expenses
For the Year Ended March 31, 2011

	Program Services	Admini-stration	Fundraising	Total
Salaries & Related Expenses:				
Staff salaries	$ 5,209,809	$ 547,817	$ 626,945	$ 6,384,571
Payroll taxes	364,664	36,199	42,331	443,194
Employee benefits	824,222	96,185	98,119	1,018,526
Total salaries and related expenses	$ 6,398,695	$ 680,201	$ 767,395	$ 7,846,291
Conferences & meetings	$ 121,298	$ 4,490	$ 8,790	$ 134,578
Contributed services	180,490	-	-	180,490
Depreciation & equipment maintenance	167,008	15,304	15,794	198,106
Grants to other organizations	42,000	-	-	42,000
Insurance	44,811	1,640	1,850	48,301
Internet marketing and website	15,797	-	-	15,797
Miscellaneous	118,706	1,812	11,430	131,948
Office supplies & expenses	68,500	5,856	3,788	78,144
Postage & shipping	49,277	3,477	6,537	59,291
Printing & publications	163,448	4,103	15,318	182,869
Professional development	25,712	2,061	2,895	30,668
Professional dues & fees	37,823	1,113	1,980	40,916
Professional services	442,799	4,725	58,861	506,385
Rent & occupancy expenses	688,601	60,989	44,920	794,510
Subscriptions & reference materials	29,958	218	14,753	44,929
Telephone	149,362	11,198	13,519	174,079
Travel	240,510	13,705	51,283	305,498
Total expenses	$ 8,984,795	$ 810,892	$ 1,019,113	$ 10,814,800

The accompanying notes to financial statements are an integral part of this statement.

Southern Environmental Law Center

Statement of Cash Flows
For the Year Ended March 31, 2011
(With Comparative Totals for 2010)

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ 7,510,104	$ 6,181,410
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	76,475	40,815
Investment fees	92,582	64,292
Net realized and unrealized (gain) loss on securities	(1,757,041)	(2,994,938)
Endowment contributions	(407,922)	(2,198,368)
(Increase) decrease in:		
Grants receivable	210,000	2,440,000
Pledges receivable	404,635	123,368
Prepaid expenses	48,176	22,505
Deposits	8,771	(2,792)
Increase (decrease) in:		
Accounts payable and accrued expenses	8,229	80,975
Payroll taxes withholdings and payable	38,423	24,188
Salaries payable	356,806	(193,260)
Retirement payable	31,274	(12,096)
Accrued leave	10,401	24,864
Net cash provided by (used in) operating activities	$ 6,630,913	$ 3,600,963
Cash flows from financing activities:		
Endowment contributions	$ 407,922	$ 2,198,368
Net cash provided by (used in) financing activities	$ 407,922	$ 2,198,368
Cash flows from investing activities:		
Purchase of fixed assets	$ (716,177)	$ (98,235)
Purchase of investments	(15,772,800)	(10,489,948)
Proceeds from sale of investments	11,781,104	5,202,097
Net cash provided by (used in) investing activities	$ (4,707,873)	$ (5,386,086)
Net increase (decrease) in cash and cash equivalents	$ 2,330,962	$ 413,245
Cash and cash equivalents, beginning of year	1,672,367	1,259,122
Cash and cash equivalents, end of year	$ 4,003,329	$ 1,672,367

The accompanying notes to financial statements are an integral part of this statement.

NOTE 1 – DESCRIPTION OF ORGANIZATION:

The Southern Environmental Law Center ("SELC"), a not-for-profit organization, was incorporated in the State of North Carolina in November, 1985. SELC's mission is to protect the natural resources of the Southeast through legal advocacy, assistance to state and local environmental groups, and regional leadership on key Southeastern environmental issues.

The Organization is classified as a public interest law firm and is exempt from Federal income taxes under Section 501 (c)(3) of the Internal Revenue Code, and comparable state law. Contributions to the Organization are tax deductible within the limitation prescribed by the code. The Organization has been classified as a publicly supported organization that is not a private foundation under Section 509 (a) of the code.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The financial statements of SELC have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Contributions:

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Receivables are all deemed to be collectible and no allowance for uncollectible accounts is deemed necessary.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents:

The Organization considers all cash in banks, certificates of deposits, and highly liquid temporary cash investments with maturities generally of three months or less to be cash equivalents.

Property and Equipment:

The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of $5,000. The fair value of donated fixed assets is similarly capitalized. Depreciation of property and equipment is provided using the straight line method of accounting based on estimated useful lives of the assets which range from 5 to 7 years. Total accumulated depreciation contains fully depreciated assets that were previously expensed using both the straight line and the double-declining balance methods.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES: (continued)

Split Interest Agreements:

SELC serves as trustee of a charitable remainder unitrust. The donor retains the right to amend the remainder beneficiary of the trust. Accordingly, a liability is recorded in an amount equal to the fair value of the assets. The fair value of the assets held under split interest agreements at March 31, 2011 and 2010 consists of the following:

	March 31, 2011	March 31, 2010
Cash and cash equivalents	$ 4,863	$ 2,159
Fixed income	20,954	15,286
Equities and equity funds	48,800	56,713
Other	18,149	24,422
Total	$ 92,766	$ 98,580

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated Materials and Services:

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. No amounts, other than those described in Note 7, have been reflected in the statements for donated services because they did not meet the criteria for recognition. Nevertheless, a substantial number of volunteers have donated significant amounts of their time in the Organization's program services and fundraising activities.

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS:

At March 31, 2011 SELC had cash in the bank that exceeded federally insured amounts. The amount of this excess totaled $49,007.

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash and cash equivalents:			
Cash	$ 519,546	$ 519,546	$ -
Money market mutual fund	3,333,783	3,333,783	-
Certificates of Deposit	150,000	150,000	-
Total cash and cash equivalents	$ 4,003,329	$ 4,003,329	$ -
Investments:			
Fixed income securities	$ 13,475,036	$ 13,658,448	$ 183,412
Investment in debt and equity securities	9,746,025	12,036,935	2,290,910
Other investments	3,285	3,285	-
Total investments	$ 23,224,346	$ 25,698,668	$ 2,474,322
Total cash, cash equivalents & investments	$ 27,227,675	$ 29,701,997	$ 2,474,322

Investments are stated at fair value.

Investment return is summarized as follows:

	Year Ended March 31, 2011	2010
Interest and dividend income	$ 541,052	$ 466,072
Net unrealized and realized gains/losses	1,756,847	2,994,938
Investment advisory and custodial fees	(92,583)	(64,292)
Total investment income	$ 2,205,316	$ 3,396,718

NOTE 4 – GRANTS RECEIVABLE:

In accordance with non-profit accounting principles, SELC is obligated to determine which awarded grants that were not paid as of the end of the fiscal year were unconditional or conditional promises to give. If a grant is determined to be an unconditional promise to give, it is recorded as a grant receivable. If determined to be a conditional promise to give, the award is disclosed, but not recognized as income.

NOTE 4 – GRANTS RECEIVABLE: (continued)

The Organization had unconditional promises of $125,000 and $335,000 at March 31, 2011 and 2010, and therefore corresponding grants receivable for these dates. The Organization had conditional promises of $678,000 and $1,576,000 at March 31, 2011 and 2010, representing grants contingent upon matching funds and/or approval of progress reports.

Conditional promises are summarized as follows:

	Year Ended March 31, 2011	Year Ended March 31, 2010
Benwood Foundation	$ 100,000	-
Gaylord and Dorothy Donnelly Foundation	95,000	$ 160,000
Virginia Environmental Endowment	30,000	66,000
Kresge Foundation	-	350,000
Munson Foundation	25,000	-
Pew Charitable Trusts	33,000	-
Educational Foundation of America	40,000	-
Robertson Foundation	-	1,000,000
WestWind Foundation	80,000	-
Z. Smith Reynolds	275,000	-
Total conditional promises to give	$ 678,000	$ 1,576,000

NOTE 5 – PLEDGES RECEIVABLE:

Pledges receivable are scheduled to be collected as follows:

	Amount
Less than one year	$ 221,446
Less: Discount to net present value (5% discount rate)	(1,434)
Total pledges receivable, net	$ 220,012

NOTE 6 – PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

		2011		2010
Furniture and fixtures	$	318,035	$	291,407
Office equipment		1,048,731		1,038,043
Leasehold improvements		908,545		229,683
Total	$	2,275,311	$	1,559,133
Accumulated depreciation		(1,488,271)		(1,411,795)
Total	$	787,040	$	147,338

Depreciation expense was $76,475 and $40,815 for the years ended March 31, 2011 and 2010.

NOTE 7 – CONTRIBUTED SERVICES:

The Organization recognized contribution revenue of $176,451 for the year ended March 31, 2011 and $144,490 for the year ended March 31, 2010 for contributed legal services and advertising. Contribution revenue from services was measured based on the difference between the fair value of those services and the discounted rate that the organization was charged. The amounts recognized were as follows:

		2011		2010
Fair value of legal services	$	131,185	$	144,419
Fair value of advertising		5,000		5,000
Less:				
Actual charge for legal services		11,539		4,929
Contributed services	$	124,646	$	144,490

NOTE 8 – RETIREMENT PLAN:

The Organization has a defined contribution retirement plan under Section 403 (b) of the Internal Revenue Code. All full-time employees are eligible to participate in the plan on the first day of employment. Participants can make tax deferred voluntary contributions to the plan subject to limits of the law on that first day. However, the employer contribution does not begin until two years of service has been reached. Total retirement expense amounted to $477,017 and $401,007 which is based on 9% of participants' salaries for the year ended March 31, 2011 and 9% for the year ended March 31, 2010. Total covered payroll for the retirement plan was $5,300,189 and $4,455,633 and the total payroll for the Organization was $6,384,571 and $5,846,680 for the years ended March 31, 2011 and 2010.

NOTE 9 – OPERATING LEASE COMMITMENTS:

The Organization rents office facilities pursuant to leases with varying terms and conditions. The following is a schedule by year of the approximate future minimum rental payments required by such operating leases:

	2011
2011/2012	587,745
2012/2013	648,322
2013/2014	677,625
2014/2015	637,360
2015/2016	560,455
Total	$ 3,111,507

Total rental expense was $588,735 for the year ended March 31, 2011 and $578,367 for the year ended March 31, 2010.

NOTE 10 – RESTRICTED / DESIGNATED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	2011	2010
Program activities:		
North Carolina	$ 1,553,960	$ 669,408
Washington D.C./Governmental Relations	257,007	171,104
Coast & Wetlands	314,675	151,856
Air/Energy	786,582	895,594
Forests	12,500	-
Land & Community/Transportation	498,125	236,283
Water	13,000	-
Endowment earnings not appropriated for expenditure	1,632,504	1,340,662
Total	$ 5,068,353	$ 3,464,907

Permanently restricted net assets are available for the following purposes:

	2011	2010
Endowment Funds	$ 4,100,000	$ 4,100,000

NOTE 11 – ENDOWMENT:

SELC's endowment consists of an individual fund established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of SELC has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the retention (preservation) of the 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, SELC 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) accumulation 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 temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors, in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization.

Endowment Net Asset Composition by Type of Fund as of March 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,632,504	$ 4,100,000	$ 5,732,504
Total Funds	$ -	$ 1,632,504	$ 4,100,000	$ 5,732,504

Endowment Net Asset Composition by Type of Fund as of March 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,340,662	$ 4,100,000	$ 5,440,662
Total Funds	$ -	$ 1,340,662	$ 4,100,000	$ 5,440,662

NOTE 11 – ENDOWMENT: (continued)

Changes in Endowment Net Assets for the Year Ended March 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 1,340,662	$ 4,100,000	$ 5,440,662
Investment return	$ -	$ 291,842	$ -	$ 291,842
Endowment net assets, end of year	$ -	$ 1,632,504	$ 4,100,000	$ 5,732,504

Changes in Endowment Net Assets for the Year Ended March 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 4,100,000	$ 4,100,000
Investment return	$ -	$ 1,340,662	$ -	$ 1,340,662
Endowment net assets, end of year	$ -	$ 1,340,662	$ 4,100,000	$ 5,440,662

Description of Amounts Classified as Permanently Restricted Net Assets (Endowment only)

	2011	2010
Permanently Restricted Net Assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$ 4,100,000	$ 4,100,000
Total endowment funds classified as permanently restricted net assets	$ 4,100,000	$ 4,100,000

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of March 31, 2011 and 2010.

NOTE 11 – ENDOWMENT: (continued)

Return Objectives and Risk Parameters

SELC's Board of Trustees has charged the Investment Committee to consider 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 purchasing power of the endowment assets. Endowment assets include those assets that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. The endowment assets will be invested in a manner that is intended to accommodate investment styles and strategies that are considered reasonable and prudent, while providing long-term growth.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, SELC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Management of SELC intends to reinvest earnings of the endowment fund until the total endowment reaches $10 million. The spending rate will be determined annually by the Board of Trustees as part of the budgeting process.

NOTE 12 – FAIR VALUE MEASUREMENTS:

Fair value for investments are determined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three-level fair value hierarchy prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

NOTE 12 – FAIR VALUE MEASUREMENTS: (continued)

SELC is providing the following information related to its investments:

		Fair Value Measurements at Reporting Date Using		
	3/31/2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income securities	$ 13,658,448	$ 13,658,448	$ -	$ -
Investment in debt and equity securities	12,036,935	12,036,935	-	-
Other investments	3,285	3,285	-	-
Total	$ 25,698,668	$ 25,698,668	$ -	$ -

		Fair Value Measurements at Reporting Date Using		
	3/31/2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income securities	$ 10,449,495	$ 10,449,495	$ -	$ -
Investment in debt and equity securities	9,589,733	9,589,733	-	-
Other investments	3,285	3,285	-	-
Total	$ 20,042,513	$ 20,042,513	$ -	$ -

NOTE 13 – CAPITAL CAMPAIGN:

The year ending March 31, 2011 followed the third year of SELC's 3-year fund raising campaign. The purpose of the campaign was to implement a new strategic action plan to expand reach and capacity and an endowment. The 3-year campaign began January 1, 2008 and ended December 31, 2010. The campaign allowed for the creation of a new significant endowment fund and provided a temporary large increase in net assets. SELC will continue to hire additional legal staff and open additional office locations over the next few years with these assets.