



Southern Environmental Law Center

Financial Report

**Year Ended
March 31, 2012**

SOUTHERN ENVIRONMENTAL LAW CENTER
FINANCIAL REPORT
YEAR ENDED MARCH 31, 2012

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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, 2012, 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 2011 financial statements, and in our report dated August 26, 2011, 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, 2012, 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
September 19, 2012

- Financial Statements -

Southern Environmental Law Center

Statement of Financial Position At March 31, 2012 (With Comparative Totals for 2011)

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents (Notes 2 & 3) | \$ 2,273,470 | \$ 4,003,329 |
| Investments (Note 3) | 29,390,813 | 25,698,668 |
| Accounts receivable | 62,910 | - |
| Grants receivable (Note 4) | 175,000 | 125,000 |
| Pledges receivable (Note 5) | 5,000 | 220,012 |
| Prepaid expenses | 114,036 | 60,058 |
| Deposits | 28,474 | 20,663 |
| Charitable Remainder Annuity Trust | 81,958 | 92,766 |
| Property and equipment, less accumulated depreciation of \$1,448,357 and \$1,488,271 (Note 6) | <u>611,587</u> | <u>787,040</u> |
| Total assets | <u>\$ 32,743,248</u> | <u>\$ 31,007,536</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 127,483 | \$ 118,257 |
| Payroll taxes withholdings and payable | 75,430 | 67,334 |
| Salaries payable | 134,230 | 422,880 |
| Retirement payable | 9,197 | 35,979 |
| Accrued leave | 179,816 | 170,341 |
| Charitable remainder trust liability | <u>81,958</u> | <u>92,766</u> |
| Total liabilities | <u>\$ 608,114</u> | <u>\$ 907,557</u> |
| Net assets (Note 13): | | |
| Unrestricted: | | |
| Operating | \$ 22,982,985 | \$ 20,144,586 |
| Fixed assets | 611,587 | 787,040 |
| Total unrestricted | <u>\$ 23,594,572</u> | <u>\$ 20,931,626</u> |
| Temporarily restricted (Note 10) | 4,440,562 | 5,068,353 |
| Permanently restricted (Note 10) | <u>4,100,000</u> | <u>4,100,000</u> |
| Total net assets | <u>\$ 32,135,134</u> | <u>\$ 30,099,979</u> |
| Total liabilities and net assets | <u>\$ 32,743,248</u> | <u>\$ 31,007,536</u> |

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

Southern Environmental Law Center

Statement of Activities
Year Ended March 31, 2012
(With Comparative Totals for 2011)

| | <u>Un- restricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Totals</u> | |
|---|---------------------------|-----------------------------------|-----------------------------------|--------------------------|--------------------------|
| | | | | <u>2012</u> | <u>2011</u> |
| Revenues, gains and other support: | | | | | |
| Contributions | \$ 2,498,807 | \$ 5,072,376 | \$ - | \$ 7,571,183 | \$ 11,225,077 |
| Grants | 570,000 | 4,406,500 | - | 4,976,500 | 4,347,498 |
| Contributed services | 47,911 | - | - | 47,911 | 124,646 |
| Investment return | 776,615 | 215,211 | - | 991,826 | 2,205,316 |
| Attorney fees | 358,877 | - | - | 358,877 | 116,211 |
| Miscellaneous | 114,739 | - | - | 114,739 | 306,156 |
| Net assets released from restrictions: | | | | | |
| Satisfaction of program restrictions | <u>10,321,878</u> | <u>(10,321,878)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total revenues, gains and other support | \$ <u>14,688,827</u> | \$ <u>(627,791)</u> | \$ <u>-</u> | \$ <u>14,061,036</u> | \$ <u>18,324,904</u> |
| Expenses: | | | | | |
| Program services | \$ 10,165,163 | \$ - | \$ - | \$ 10,165,163 | \$ 8,984,795 |
| Administration and general | 871,209 | - | - | 871,209 | 810,892 |
| Fundraising | <u>989,509</u> | <u>-</u> | <u>-</u> | <u>989,509</u> | <u>1,019,113</u> |
| Total expenses | \$ <u>12,025,881</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>12,025,881</u> | \$ <u>10,814,800</u> |
| Change in net assets | \$ 2,662,946 | \$ (627,791) | \$ - | \$ 2,035,155 | \$ 7,510,104 |
| Net assets, beginning of year | <u>20,931,626</u> | <u>5,068,353</u> | <u>4,100,000</u> | <u>30,099,979</u> | <u>22,589,875</u> |
| Net assets, end of year | <u>\$ 23,594,572</u> | <u>\$ 4,440,562</u> | <u>\$ 4,100,000</u> | <u>\$ 32,135,134</u> | <u>\$ 30,099,979</u> |

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, 2012

| | <u>Program Services</u> | <u>Admini- stration</u> | <u>Fundraising</u> | <u>Total</u> |
|--------------------------------------|-----------------------------|-----------------------------|--------------------------|-----------------------------|
| Salaries & Related Expenses: | | | | |
| Staff salaries | \$ 5,626,086 | \$ 592,015 | \$ 559,246 | \$ 6,777,347 |
| Payroll taxes | 427,755 | 42,500 | 42,499 | 512,754 |
| Employee benefits | <u>952,839</u> | <u>95,415</u> | <u>95,650</u> | <u>1,143,904</u> |
| Total salaries and related expenses | \$ <u>7,006,680</u> | \$ <u>729,930</u> | \$ <u>697,395</u> | \$ <u>8,434,005</u> |
| Conferences & meetings | \$ 205,224 | \$ 8,812 | \$ 14,674 | \$ 228,710 |
| Contributed services | 58,555 | - | - | 58,555 |
| Depreciation & equipment maintenance | 225,890 | 15,200 | 13,824 | 254,914 |
| Grants to other organizations | 210,750 | - | - | 210,750 |
| Insurance | 46,717 | 2,088 | 1,994 | 50,799 |
| Internet marketing and website | 16,717 | - | - | 16,717 |
| Miscellaneous | 82,735 | 581 | 16,747 | 100,063 |
| Office supplies & expenses | 86,546 | 4,945 | 3,906 | 95,397 |
| Postage & shipping | 56,532 | 3,659 | 8,889 | 69,080 |
| Printing & publications | 150,800 | 5,484 | 4,300 | 160,584 |
| Professional development | 66,551 | 3,244 | 2,856 | 72,651 |
| Professional dues & fees | 53,218 | 1,025 | 2,009 | 56,252 |
| Professional services | 310,368 | 4,035 | 92,543 | 406,946 |
| Program communications/education | 289,996 | - | - | 289,996 |
| Rent & occupancy expenses | 786,719 | 64,016 | 40,414 | 891,149 |
| Subscriptions & reference materials | 45,556 | 229 | 9,513 | 55,298 |
| Telephone | 186,512 | 13,236 | 16,416 | 216,164 |
| Travel | <u>279,097</u> | <u>14,725</u> | <u>64,029</u> | <u>357,851</u> |
| Total expenses | \$ <u><u>10,165,163</u></u> | \$ <u><u>871,209</u></u> | \$ <u><u>989,509</u></u> | \$ <u><u>12,025,881</u></u> |

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, 2012 (With Comparative Totals for 2011)

| | <u>2012</u> | <u>2011</u> |
|--|----------------------------|----------------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 2,035,155 | \$ 7,510,104 |
| Adjustments to reconcile change in net assets to cash provided by (used in) operating activities: | | |
| Depreciation | 113,233 | 76,475 |
| Investment fees | 106,380 | 92,582 |
| Net realized and unrealized (gain) loss on securities | (558,787) | (1,757,041) |
| Endowment contributions | (81,446) | (407,922) |
| (Increase) decrease in: | | |
| Accounts receivable | (62,910) | - |
| Grants receivable | (50,000) | 210,000 |
| Pledges receivable | 215,012 | 404,635 |
| Prepaid expenses | (53,978) | 48,176 |
| Deposits | (7,811) | 8,771 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 9,226 | 8,229 |
| Payroll taxes withholdings and payable | 8,096 | 38,423 |
| Salaries payable | (288,650) | 356,806 |
| Retirement payable | (26,782) | 31,274 |
| Accrued leave | 9,475 | 10,401 |
| Net cash provided by (used in) operating activities | \$ <u>1,366,213</u> | \$ <u>6,630,913</u> |
| Cash flows from financing activities: | | |
| Endowment contributions | \$ <u>81,446</u> | \$ <u>407,922</u> |
| Net cash provided by (used in) financing activities | \$ <u>81,446</u> | \$ <u>407,922</u> |
| Cash flows from investing activities: | | |
| Purchase of fixed assets | \$ (143,180) | \$ (716,177) |
| Disposal of fixed assets | 205,400 | - |
| Purchase of investments | (18,563,794) | (15,772,800) |
| Proceeds from sale of investments | <u>15,324,056</u> | <u>11,781,104</u> |
| Net cash provided by (used in) investing activities | \$ <u>(3,177,518)</u> | \$ <u>(4,707,873)</u> |
| Net increase (decrease) in cash and cash equivalents | \$ (1,729,859) | \$ 2,330,962 |
| Cash and cash equivalents, beginning of year | <u>4,003,329</u> | <u>1,672,367</u> |
| Cash and cash equivalents, end of year | \$ <u><u>2,273,470</u></u> | \$ <u><u>4,003,329</u></u> |

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

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements As of March 31, 2012

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.

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2012 (continued)

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, 2012 and 2011 consists of the following:

| | March 31, | |
|---------------------------|-----------|-----------|
| | 2012 | 2011 |
| Cash and cash equivalents | \$ 4,104 | \$ 4,863 |
| Fixed income | 22,125 | 20,954 |
| Equities and equity funds | 38,032 | 48,800 |
| Other | 17,697 | 18,149 |
| Total | \$ 81,958 | \$ 92,766 |

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.

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2012 (continued)

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS:

At March 31, 2012 SELC had cash in the bank that exceeded federally insured amounts. The amount of this excess totaled \$89,553.

| | Cost | Fair Value | Unrealized Appreciation (Depreciation) |
|--|---------------|---------------|--|
| <u>Cash and cash equivalents:</u> | | | |
| Cash | \$ 403,530 | \$ 403,530 | \$ - |
| Money market mutual fund | 1,719,940 | 1,719,940 | - |
| Certificates of Deposit | 150,000 | 150,000 | - |
| Total cash and cash equivalents | \$ 2,273,470 | \$ 2,273,470 | \$ - |
| <u>Investments:</u> | | | |
| Fixed income securities | \$ 15,153,715 | \$ 15,130,057 | \$ (23,658) |
| Investment in debt and equity securities | 11,594,369 | 14,257,471 | 2,663,102 |
| Other investments | 3,285 | 3,285 | - |
| Total investments | \$ 26,751,369 | \$ 29,390,813 | \$ 2,639,444 |
| Total cash, cash equivalents & investments | \$ 29,024,839 | \$ 31,664,283 | \$ 2,639,444 |

Investments are stated at fair value.

Investment return is summarized as follows:

| | Year Ended March 31, | |
|--|----------------------|--------------|
| | 2012 | 2011 |
| Interest and dividend income | \$ 539,419 | \$ 541,052 |
| Net unrealized and realized gains/losses | 558,787 | 1,756,847 |
| Investment advisory and custodial fees | (106,380) | (92,583) |
| Total investment income | \$ 991,826 | \$ 2,205,316 |

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.

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2012 (continued)

NOTE 4 – GRANTS RECEIVABLE: (continued)

The Organization had unconditional promises of \$175,000 and \$125,000 at March 31, 2012 and 2011, and therefore corresponding grants receivable for these dates. The Organization had conditional promises of \$4,031,000 and \$678,000 at March 31, 2012 and 2011, representing grants contingent upon matching funds and/or approval of progress reports.

Conditional promises are summarized as follows:

| | Year Ended March 31, | |
|---|----------------------|------------|
| | 2012 | 2011 |
| Benwood Foundation | \$ - | \$ 100,000 |
| Gaylord and Dorothy Donnelly Foundation | 95,000 | 95,000 |
| Educational Foundation of America | 676,000 | 40,000 |
| Merck Family Fund | 150,000 | - |
| Charles Stewart Mott Foundation | 50,000 | - |
| Munson Foundation | 25,000 | 25,000 |
| Pew Charitable Trusts | - | 33,000 |
| Robertson Foundation | 3,000,000 | - |
| Virginia Environmental Endowment | 35,000 | 30,000 |
| WestWind Foundation | - | 80,000 |
| Z. Smith Reynolds | - | 275,000 |
| | <hr/> | <hr/> |
| Total conditional promises to give | \$ 4,031,000 | \$ 678,000 |

NOTE 5 – PLEDGES RECEIVABLE:

Pledges receivable are scheduled to be collected as follows:

| | Amount |
|-------------------------------|----------|
| Less than one year | \$ 5,000 |
| | <hr/> |
| Total pledges receivable, net | \$ 5,000 |

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2012 (continued)

NOTE 6 – PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

| | | <u>2012</u> | | <u>2011</u> |
|--------------------------|----|-----------------------|----|-----------------------|
| Furniture and fixtures | \$ | 318,035 | \$ | 318,035 |
| Office equipment | | 1,158,543 | | 1,048,731 |
| Leasehold improvements | | <u>583,366</u> | | <u>908,545</u> |
| Total | \$ | 2,059,944 | \$ | 2,275,311 |
| Accumulated depreciation | | <u>(1,448,357)</u> | | <u>(1,488,271)</u> |
| Total | \$ | <u><u>611,587</u></u> | \$ | <u><u>787,040</u></u> |

Depreciation expense was \$113,233 and \$76,475 for the years ended March 31, 2012 and 2011.

NOTE 7 – CONTRIBUTED SERVICES:

The Organization recognized contribution revenue of \$47,911 for the year ended March 31, 2012 and \$124,646 for the year ended March 31, 2011 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:

| | | <u>2012</u> | | <u>2011</u> |
|----------------------------------|----|----------------------|----|-----------------------|
| Fair value of legal services | \$ | 41,911 | \$ | 131,185 |
| Fair value of advertising | | 6,000 | | 5,000 |
| Less: | | | | |
| Actual charge for legal services | | <u>-</u> | | <u>11,539</u> |
| Contributed services | \$ | <u><u>47,911</u></u> | \$ | <u><u>124,646</u></u> |

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 \$487,809 and \$477,017 which is based on 9% of participants' salaries for the year ended March 31, 2012 and 9% for the year ended March 31, 2011. Total covered payroll for the retirement plan was \$5,420,100 and \$5,300,189 and the total payroll for the Organization was \$6,777,347 and \$6,384,571 for the years ended March 31, 2012 and 2011.

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2012 (continued)

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:

| | <u>2012</u> |
|-----------|---------------------|
| 2012/2013 | 725,351 |
| 2013/2014 | 711,590 |
| 2014/2015 | 672,258 |
| 2015/2016 | 567,710 |
| | <hr/> |
| Total | <u>\$ 2,676,909</u> |

Total rental expense was \$667,975 for the year ended March 31, 2012 and \$588,735 for the year ended March 31, 2011.

NOTE 10 – RESTRICTED / DESIGNATED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Program activities: | | |
| North Carolina | \$ 1,378,211 | \$ 1,553,960 |
| Washington D.C./Governmental Relations | - | 257,007 |
| Coast & Wetlands | 61,817 | 314,675 |
| Energy/Air | 1,098,699 | 786,582 |
| Forests | - | 12,500 |
| Land & Community/Transportation | 54,120 | 498,125 |
| Water | - | 13,000 |
| Endowment earnings not appropriated for expenditure | <u>1,847,715</u> | <u>1,632,504</u> |
| Total | <u>\$ 4,440,562</u> | <u>\$ 5,068,353</u> |

Permanently restricted net assets are available for the following purposes:

| | | |
|-----------------|---------------------|---------------------|
| Endowment Funds | <u>\$ 4,100,000</u> | <u>\$ 4,100,000</u> |
|-----------------|---------------------|---------------------|

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2012 (continued)

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, 2012

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------|
| Donor-restricted endowment funds | \$ - | \$ 1,847,715 | \$ 4,100,000 | \$ 5,947,715 |
| Total Funds | \$ - | \$ 1,847,715 | \$ 4,100,000 | \$ 5,947,715 |

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

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------|
| Donor-restricted endowment funds | \$ - | \$ 1,632,504 | \$ 4,100,000 | \$ 5,732,504 |
| Total Funds | \$ - | \$ 1,632,504 | \$ 4,100,000 | \$ 5,732,504 |

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2012 (continued)

NOTE 11 – ENDOWMENT: (continued)

Endowment Net Asset Composition by Type of Fund as of March 31, 2012

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ - | \$ 1,632,504 | \$ 4,100,000 | \$ 5,732,504 |
| Investment return | \$ - | \$ 215,211 | \$ - | \$ 215,211 |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ 1,847,715</u> | <u>\$ 4,100,000</u> | <u>\$ 5,947,715</u> |

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

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| 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 | <u>\$ -</u> | <u>\$ 1,632,504</u> | <u>\$ 4,100,000</u> | <u>\$ 5,732,504</u> |

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

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| 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 | <u>\$ 4,100,000</u> | <u>\$ 4,100,000</u> |

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, 2012 and 2011.

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2012 (continued)

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

The Board of Trustees annually reviews the endowment fund and determines payout 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.

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Notes to Financial Statements
As of March 31, 2012 (continued)

NOTE 12 – FAIR VALUE MEASUREMENTS: (continued)

SELC is providing the following information related to its investments:

| Fair Value Measurements at Reporting Date Using | | | | |
|---|----------------------|---|---|--|
| | <u>3/31/2012</u> | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Fixed income securities | \$ 15,130,057 | \$ 15,130,057 | \$ - | \$ - |
| Investment in debt and equity securities | 14,257,471 | 14,257,471 | - | - |
| Other investments | 3,285 | 3,285 | - | - |
| Total | <u>\$ 29,390,813</u> | <u>\$ 29,390,813</u> | <u>\$ -</u> | <u>\$ -</u> |

| Fair Value Measurements at Reporting Date Using | | | | |
|---|----------------------|---|---|--|
| | <u>3/31/2011</u> | 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 | <u>\$ 25,698,668</u> | <u>\$ 25,698,668</u> | <u>\$ -</u> | <u>\$ -</u> |

NOTE 13 – CAPITAL CAMPAIGN:

SELC concluded a 3-year fund raising campaign (January 1, 2008 through December 31, 2010), and fulfillment of pledges continued through March 31, 2012. The purpose of the campaign was to implement a new strategic action plan to expand reach and capacity and also to establish an endowment. The campaign resulted in a temporary large increase in net assets to be used for staff expansion. The staff expansion and expenditure of campaign funds will continue through approximately March 31, 2015.

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Notes to Financial Statements
As of March 31, 2012 (continued)

NOTE 14 – SUBSEQUENT EVENTS:

In preparing these financial statements, management of SELC has evaluated events and transactions for potential recognition or disclosure through September 19, 2012, the date the financial statements were available to be issued.