
Southern Environmental Law Center
FINANCIAL REPORT
Year Ended March 31, 2019

SOUTHERN ENVIRONMENTAL LAW CENTER
FINANCIAL REPORT
YEAR ENDED MARCH 31, 2019

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Independent Auditors' Report

**Board of Trustees
Southern Environmental Law Center
Charlottesville, Virginia**

We have audited the accompanying financial statements of Southern Environmental Law Center (a nonprofit organization) which comprise the statement of financial position as of March 31, 2019, and the related statements of activities, 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.

Auditors' 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 auditors' 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 Southern Environmental Law Center as of March 31, 2019, and the changes 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.

Change in Accounting Principle

As described in Note 15 to the financial statements, in 2019, Southern Environmental Law Center adopted new accounting guidance, FASB ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Southern Environmental Law Center's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Robinson, Farnell, Cox Associates

Charlottesville, Virginia

October 24, 2019

FINANCIAL STATEMENTS

Southern Environmental Law Center

Statement of Financial Position
At March 31, 2019
(With Comparative Totals for 2018)

	2019	2018
<u>ASSETS</u>		
Cash and cash equivalents (Notes 2 & 3)	\$ 8,116,595	\$ 4,963,474
Investments (Note 3)	122,056,767	111,689,748
Accounts receivable	-	156,040
Grants receivable (Note 4)	525,000	958,500
Pledges receivable	-	25,000
Prepaid expenses	267,658	240,223
Deposits	81,053	74,145
Deferred compensation investment (Note 7)	169,349	118,299
Property and equipment, net of accumulated depreciation (Note 5)	772,512	869,849
 Total assets	 \$ 131,988,934	 \$ 119,095,278
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 357,156	\$ 293,545
Payroll taxes withholdings and payable	38,280	5,936
Deferred compensation payable	169,349	118,299
Compensated absences payable	370,147	353,237
 Total liabilities	 \$ 934,932	 \$ 771,017
Net assets:		
Without donor restrictions:		
Operating	\$ 30,342,198	\$ 21,914,786
Property and equipment	772,512	869,849
Board-designated:		
Endowment funds	44,026,423	38,784,729
Subsequent year's expenses	7,885,614	6,875,293
Total without donor restrictions	\$ 83,026,747	\$ 68,444,657
With donor restrictions (Note 10)	48,027,255	49,879,604
 Total net assets	 \$ 131,054,002	 \$ 118,324,261
 Total liabilities and net assets	 \$ 131,988,934	 \$ 119,095,278

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

Southern Environmental Law Center

Statement of Activities
For the Year Ended March 31, 2019
(With Comparative Totals for 2018)

	<u>Without Donor</u>	<u>With Donor</u>	<u>Totals</u>	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>2019</u>	<u>2018</u>
Revenues, gains and other support:				
Contributions	\$ 16,766,127	\$ 15,399,102	\$ 32,165,229	\$ 38,613,244
Foundations	216,300	3,778,608	3,994,908	4,829,737
Bequests	143,607	-	143,607	1,368,229
Contributed services	47,385	-	47,385	15,205
Investment return	4,451,352	396,043	4,847,395	6,253,758
Attorney Fees (court awards/settlements)	646,735	-	646,735	135,598
Miscellaneous	1,000	-	1,000	250
Net assets released from restrictions:				
Satisfaction of program/time restrictions	<u>21,426,102</u>	<u>(21,426,102)</u>	<u>-</u>	<u>-</u>
 Total revenues, gains and other support	 <u>\$ 43,698,608</u>	 <u>\$ (1,852,349)</u>	 <u>\$ 41,846,259</u>	 <u>\$ 51,216,021</u>
Expenses:				
Program services	\$ 25,118,381	\$ -	\$ 25,118,381	\$ 24,164,008
Administration and general	2,150,030	-	2,150,030	1,921,991
Fundraising	<u>1,848,107</u>	<u>-</u>	<u>1,848,107</u>	<u>1,523,696</u>
 Total expenses	 <u>\$ 29,116,518</u>	 <u>\$ -</u>	 <u>\$ 29,116,518</u>	 <u>\$ 27,609,695</u>
 Change in net assets	 <u>\$ 14,582,090</u>	 <u>\$ (1,852,349)</u>	 <u>\$ 12,729,741</u>	 <u>\$ 23,606,326</u>
Net assets, beginning of year	<u>68,444,657</u>	<u>49,879,604</u>	<u>118,324,261</u>	<u>94,717,935</u>
Net assets, end of year	<u>\$ 83,026,747</u>	<u>\$ 48,027,255</u>	<u>\$ 131,054,002</u>	<u>\$ 118,324,261</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, 2019

	<u>Program Services</u>	<u>Administration and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries & Related Expenses:				
Staff salaries	\$ 12,370,892	\$ 1,434,558	\$ 1,143,080	\$ 14,948,530
Payroll taxes	878,061	91,483	78,094	1,047,638
Employee benefits	<u>1,908,280</u>	<u>263,844</u>	<u>174,429</u>	<u>2,346,553</u>
 Total salaries & related expenses	 <u>\$ 15,157,233</u>	 <u>\$ 1,789,885</u>	 <u>\$ 1,395,603</u>	 <u>\$ 18,342,721</u>
 Conferences & meetings	 406,589	 20,442	 39,601	 466,632
Contributed services	39,156	4,624	3,605	47,385
Contracted services	303,446	-	-	303,446
Capital purchases & depreciation	787,932	75,520	102,674	966,126
Grants to other organizations	103,682	-	-	103,682
Insurance	122,516	10,816	8,433	141,765
Marketing & development services	651,868	-	22,012	673,880
Miscellaneous	34,627	5,032	3,044	42,703
Office supplies & expenses	214,823	17,736	11,763	244,322
Postage & shipping	60,265	4,508	8,673	73,446
Printing & publications	180,738	6,799	19,150	206,687
Professional development	114,667	6,120	8,838	129,625
Professional dues & fees	93,230	2,585	2,016	97,831
Litigation fund expenses	2,173,670	-	-	2,173,670
Program communications/education	1,754,313	-	-	1,754,313
Rent & occupancy expenses	1,855,285	147,263	68,586	2,071,134
Subscriptions & reference materials	126,082	1,005	4,195	131,282
Telephone	407,091	32,359	20,892	460,342
Travel	<u>531,168</u>	<u>25,336</u>	<u>129,022</u>	<u>685,526</u>
 Total expenses	 <u>\$ 25,118,381</u>	 <u>\$ 2,150,030</u>	 <u>\$ 1,848,107</u>	 <u>\$ 29,116,518</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, 2019 (With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 12,729,741	\$ 23,606,326
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	306,679	388,492
Investment fees	49,885	174,019
Interest on CDs	(5,676)	(1,126)
Net realized and unrealized (gain) loss on securities	(2,183,417)	(4,363,318)
(Increase) decrease in:		
Accounts receivable	156,040	(156,040)
Grants receivable	433,500	171,500
Pledges receivable	25,000	1,175,000
Prepaid expenses	(27,435)	54,628
Deposits	(6,908)	(14,118)
Increase (decrease) in:		
Accounts payable and accrued expenses	63,611	26,349
Payroll taxes withholdings and payable	32,344	1,179
Compensated absences payable	16,910	40,575
Net cash provided by (used in) operating activities	\$ 11,590,274	\$ 21,103,466
Cash flows from investing activities:		
Purchase of fixed assets	\$ (209,342)	\$ (373,734)
Purchase of investments	(123,472,265)	(54,564,678)
Proceeds from sale of investments	115,244,454	35,620,205
Net cash provided by (used in) investing activities	\$ (8,437,153)	\$ (19,318,207)
Net increase (decrease) in cash and cash equivalents	\$ 3,153,121	\$ 1,785,259
Cash and cash equivalents, beginning of year	4,963,474	3,178,215
Cash and cash equivalents, end of year	\$ 8,116,595	\$ 4,963,474

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, 2019

NOTE 1 – DESCRIPTION OF ORGANIZATION:

The Southern Environmental Law Center is a legal and policy nonprofit working to protect the environment of the Southeast and the people who depend on it. Incorporated in the State of North Carolina in November 1985, SELC now has a team of over 80 attorneys working in 9 offices throughout Virginia, North Carolina, South Carolina, Georgia, Alabama, Tennessee, and Washington, D.C., making it the largest environmental advocacy organization in the South.

SELC focuses on issues of climate change and energy, air and water quality, transportation and land use, the coast and wetlands, and mountains and forests by using a broad array of legal and policy approaches. Collaborating with more than 200 local partner groups, SELC works at the national, state, and local level. It helps regulatory agencies to implement effective policies. And when necessary, it goes to court to stop environmental abuses and set far-reaching precedents.

SELC is classified as a public interest law firm, exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and comparable state law. SELC has been classified as a publicly supported organization that is not a private foundation under section 509 (a) of the code. SELC does not charge for professional services, relying instead on charitable gifts from foundations, families, and individuals. Contributions to SELC are tax deductible within the limitation prescribed by the code.

NOTE 2 – SUMMARY OF 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.

Financial Statement Presentation

SELC is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations. At March 31, 2019, SELC had \$83,026,747 of net assets without restrictions comprised of categories: operating; property and equipment; designated for subsequent year's expenditures and designated for long-term investment.

Net assets with donor restrictions: Net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of SELC and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. At March 31, 2019, SELC had \$48,027,255 of net assets with donor restrictions. See Note 10.

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2019 (continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Contributions:

SELC 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, net assets with restrictions are reclassified to net assets without restrictions 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.

SELC 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, SELC reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents:

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

Property and Equipment:

SELC follows the practice of capitalizing all expenditures for property and equipment in excess of \$5,000. Purchased fixed assets are capitalized at cost. 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.

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 6, 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 SELC's program services and fundraising activities.

Court Awarded Attorney Fees and Costs:

Revenue from Attorney fees is recognized when the court has approved payment and the opposing side to the case has no further avenues of appeal, or when a settlement becomes enforceable.

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2019 (continued)

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS:

At March 31, 2019 SELC had no cash in the bank exceeding federally insured limits.

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
<u>Cash and cash equivalents:</u>			
Cash	\$ 1,212,951	\$ 1,212,951	\$ -
Money market mutual fund	6,706,074	6,706,074	-
Restricted cash	197,570	197,570	-
	<u>8,116,595</u>	<u>8,116,595</u>	<u>-</u>
<u>Investments:</u>			
Fixed income securities	\$ 60,562,469	\$ 61,564,994	\$ 1,002,525
Equity securities	62,186,815	60,224,967	(1,961,848)
Certificates of deposit with maturities over 3 months	263,521	263,521	-
Other investments	3,285	3,285	-
	<u>123,016,090</u>	<u>122,056,767</u>	<u>(959,323)</u>
Total cash, cash equivalents, and investments	<u>\$ 131,132,685</u>	<u>\$ 130,173,362</u>	<u>\$ (959,323)</u>

Investments are stated at fair value.

Investment return is summarized as follows:

	<u>Year Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 2,713,863	\$ 2,064,459
Net unrealized and realized gains/losses	2,183,417	4,363,318
Investment advisory and custodial fees	<u>(49,885)</u>	<u>(174,019)</u>
Total investment return	<u>\$ 4,847,395</u>	<u>\$ 6,253,758</u>

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2019 (continued)

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.

SELC had unconditional promises of \$525,000 and \$958,500 at March 31, 2019 and 2018, and therefore corresponding grants receivable for these dates. SELC had conditional promises of \$1,958,500 and \$2,111,858 at March 31, 2019 and 2018, representing grants contingent upon matching funds and/or approval of progress reports.

NOTE 5 – PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	<u>2019</u>	<u>2018</u>
Furniture and fixtures	\$ 569,179	\$ 565,326
Office equipment	993,141	828,384
Leasehold improvements	<u>1,464,472</u>	<u>1,423,740</u>
Total	\$ 3,026,792	\$ 2,817,450
Accumulated depreciation	<u>(2,254,280)</u>	<u>(1,947,601)</u>
Total	<u>\$ 772,512</u>	<u>\$ 869,849</u>

Depreciation expense was \$306,679 and \$388,492 for the years ended March 31, 2019 and 2018.

NOTE 6 – CONTRIBUTED SERVICES:

SELC recognized contribution revenue of \$47,385 for the year ended March 31, 2019 and \$15,205 for the year ended March 31, 2018 for contributed services. Contribution revenue from services was measured based on the difference between the fair value of those services and the discounted rate that SELC was charged. The amounts recognized were as follows:

	<u>2019</u>	<u>2018</u>
Fair value of consulting services	\$ <u>47,385</u>	\$ <u>15,205</u>
Contributed services	<u>\$ 47,385</u>	<u>\$ 15,205</u>

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2019 (continued)

NOTE 7 – RETIREMENT PLAN:

SELC 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 \$1,034,990 and \$926,286 which is based on 9% of participants' salaries for the year ended March 31, 2019 and 9% for the year ended March 31, 2018. Total covered payroll for the retirement plan was \$11,499,889 and \$10,292,067 and the total payroll for SELC was \$14,948,530 and \$13,387,641 for the years ended March 31, 2019 and 2018.

SELC has established a defined contribution plan under Section 457(b) of the Internal Revenue Code. Contributions to this plan can be made by both the employer and the employee. All assets contributed to the plan are considered assets of the employer. Total contributions to the plan were \$169,349 and \$118,299 at March 31, 2019 and March 31, 2018, respectively.

NOTE 8 – OPERATING LEASE COMMITMENTS:

SELC 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>2019</u>
2019/2020	\$ 300,588
2020/2021	151,151
2021/2022	154,181
2022/2023	<u>104,157</u>
Total	<u>\$ 710,077</u>

Total rental expense was \$1,668,848 for the year ended March 31, 2019 and \$1,464,504 for the year ended March 31, 2018.

NOTE 9 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

SELC monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. SELC has the following financial assets that could readily be made available within one year of the balance sheet to fund expenses without limitations:

Cash and cash equivalents	\$ 8,116,595
Investments	122,056,767
Less Endowment funds	(54,791,304)
Grants receivable	<u>525,000</u>
Total	<u>\$ 75,907,058</u>

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2019 (continued)

NOTE 10 – RESTRICTED / DESIGNATED NET ASSETS:

Net assets without donor restrictions include Board designated amounts as follows:

	<u>2019</u>	<u>2018</u>
Board-designated endowment funds	\$ 44,026,423	\$ 38,784,729
Designated for subsequent year's expenses	<u>7,885,614</u>	<u>6,875,293</u>
Total	<u>\$ 51,912,037</u>	<u>\$ 45,660,022</u>

Net assets with donor restrictions are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Subject to the Passage of Time or Expenditure for Specified Purpose:		
Program activities:		
North Carolina	\$ 17,621,274	\$ 18,014,773
Virginia	15,000	1,184,672
Tennessee	146,650	145,000
Georgia	1,250	-
South Carolina	190,000	212,500
Alabama	3,750	5,000
Coast & Wetlands	170,000	257,500
Energy/Air	690,720	795,000
Forests	76,179	62,500
Land & Community/Transportation	27,813	14,688
Water	235,000	109,688
Regional	<u>18,084,738</u>	<u>18,709,445</u>
Total	<u>\$ 37,262,374</u>	<u>\$ 39,510,766</u>
Endowment Funds:		
Endowment earnings not appropriated for expenditure	\$ 6,664,881	\$ 6,268,838
Endowment funds required to be held in perpetuity by donor	<u>4,100,000</u>	<u>4,100,000</u>
Total	<u>\$ 10,764,881</u>	<u>\$ 10,368,838</u>
Total Net Assets with Donor Restrictions	<u>\$ 48,027,255</u>	<u>\$ 49,879,604</u>

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2019 (continued)

NOTE 11 – ENDOWMENT:

SELC’s endowment fund provides a source of long-term operating revenue. The endowment fund includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments and the earnings from these funds. As required by generally accepted accounting principles, 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 net assets with restrictions (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 required to be held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by SELC in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, SELC 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, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds			
Endowment funds required to be held in perpetuity by donor	\$ -	\$ 4,100,000	\$ 4,100,000
Subject to appropriation and expenditure when a specified event occurs	-	6,664,881	6,664,881
Board-designated endowment funds	<u>44,026,423</u>	<u>-</u>	<u>44,026,423</u>
Total Funds	<u>\$ 44,026,423</u>	<u>\$ 10,764,881</u>	<u>\$ 54,791,304</u>

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2019 (continued)

NOTE 11 – ENDOWMENT: (continued)

Endowment Net Asset Composition by Type of Fund as of March 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds			
Endowment funds required to be held in perpetuity by donor	\$ -	\$ 4,100,000	\$ 4,100,000
Subject to appropriation and expenditure when a specified event occurs	-	6,268,838	6,268,838
Board-designated endowment funds	<u>38,784,729</u>	<u>-</u>	<u>38,784,729</u>
Total Funds	<u>\$ 38,784,729</u>	<u>\$ 10,368,838</u>	<u>\$ 49,153,567</u>

Endowment Net Asset Composition as of March 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>38,784,729</u>	\$ <u>10,368,838</u>	\$ <u>49,153,567</u>
Investment return	\$ <u>4,451,352</u>	\$ <u>396,043</u>	\$ <u>4,847,395</u>
Contributions	\$ <u>790,342</u>	\$ <u>-</u>	\$ <u>790,342</u>
Endowment net assets, end of year	<u>\$ 44,026,423</u>	<u>\$ 10,764,881</u>	<u>\$ 54,791,304</u>

Endowment Net Asset Composition as of March 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>24,732,786</u>	\$ <u>9,379,467</u>	\$ <u>34,112,253</u>
Investment return	\$ <u>5,264,387</u>	\$ <u>989,371</u>	\$ <u>6,253,758</u>
Contributions	\$ <u>8,787,556</u>	\$ <u>-</u>	\$ <u>8,787,556</u>
Endowment net assets, end of year	<u>\$ 38,784,729</u>	<u>\$ 10,368,838</u>	<u>\$ 49,153,567</u>

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2019 (continued)

NOTE 11 – ENDOWMENT: (continued)

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 SELC to retain as a fund of perpetual duration. There were no such deficiencies as of March 31, 2019 and 2018.

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 SELC must hold in perpetuity or for a donor-specified period. 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).

Spending Policy

The Board of Trustees annually reviews the endowment fund and determines payout as part of the budgeting process.

NOTE 12 – INVESTMENT 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.

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2019 (continued)

NOTE 12 – INVESTMENT FAIR VALUE MEASUREMENTS: (continued)

SELC is providing the following information related to its investments:

Fair Value Measurements at Reporting Date Using

	3/31/2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income securities	\$ 61,564,994	\$ 61,564,994	\$ -	\$ -
Equity securities	60,224,967	60,224,967	-	-
Other investments	<u>3,285</u>	<u>3,285</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 121,793,246</u>	<u>\$ 121,793,246</u>	<u>\$ -</u>	<u>\$ -</u>

Fair Value Measurements at Reporting Date Using

	3/31/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income securities	\$ 55,303,992	\$ 55,303,992	\$ -	\$ -
Equity securities	56,124,626	56,124,626	-	-
Other investments	<u>3,285</u>	<u>3,285</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 111,431,903</u>	<u>\$ 111,431,903</u>	<u>\$ -</u>	<u>\$ -</u>

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2019 (continued)

NOTE 13 – STRATEGIC ACTION FUND:

In addition to annual revenues for core operating expenses, the Southern Environmental Law Center has received special grants to address immediate, strategic opportunities, including:

- Protecting the South’s air, water, and lands in the face of attacks on environmental regulation and enforcement by the Trump Administration.
- Strengthening SELC’s litigation capacity.
- Minimizing the environmental impacts of energy use and climate change, especially by implementing solar energy throughout the Southeast.

The Strategic Action Fund is a short-term fund composed primarily of assets with donor restrictions, to be expended over the next four to five years.

NOTE 14 – FUNCTIONAL ALLOCATION OF EXPENSES:

Functional expenses are apportioned between program and supporting services based on personnel time and space utilized for the related activities. Some expense apportionments are estimates because of the overlap of activities and the difficulty of record keeping for usage. Specific identifiable expenses are directly allocated.

NOTE 15 – ADOPTION OF ACCOUNTING PRONOUNCEMENT

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. SELC has changed the presentation of its financial statements accordingly. The new ASU changes the following aspects of SELC’s financial statements:

- The temporarily restricted and permanently restricted net asset classes have been reduced to a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been changed to net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources.

SOUTHERN ENVIRONMENTAL LAW CENTER

Notes to Financial Statements
As of March 31, 2019 (continued)

NOTE 15 – ADOPTION OF ACCOUNTING PRONOUNCEMENT: (continued)

The following table shows the reclassifications made to the 2018 net assets as a result of the Adoption of the ASU:

	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted Net Assets:		
Operating	\$ 21,914,786	\$ -
Board-designated endowment funds	38,784,729	-
Property and equipment	869,849	-
Net assets without donor restrictions:		
Operating	-	21,914,786
Property and equipment	-	869,849
Board-designated endowment funds	-	38,784,729
Designated for Subsequent year's expenses	-	6,875,293
Total	<u>\$ 61,569,364</u>	<u>\$ 68,444,657</u>
Temporary restricted Net Assets	\$ 52,654,897	\$ -
Permanently restricted Net Assets	4,100,000	-
With donor restrictions	-	49,879,604
Total	<u>\$ 56,754,897</u>	<u>\$ 49,879,604</u>
Grand Total	<u>\$ 118,324,261</u>	<u>\$ 118,324,261</u>

NOTE 16 – SUBSEQUENT EVENTS:

In preparing these financial statements, management of SELC has evaluated subsequent events and transactions for potential recognition or disclosure through October 24, 2019, the date the financial statements were available to be issued.