



ENVIRONMENTAL LAW & POLICY CENTER

Protecting the Midwest's Environment and Natural Heritage

TO: Foundation Supporters – Environmental Law & Policy Center

FROM: Howard A. Learner, Executive Director

RE: FY 2019 Audit (July 1, 2018 – June 30, 2019)

DATE: January 30, 2020

Enclosed for your review are the Environmental Law & Policy Center's (ELPC) audited financial statements for our Fiscal Year 2019 (July 1, 2018 through June 30, 2019). As in past years, ELPC has received a clean, unqualified audit report and opinion letter.

ELPC is in strong overall financial shape in challenging times. ELPC ended FY 2019 with "real" revenues of \$8,945,000 and expenses of \$7,312,629. ELPC is hiring talented additional public interest attorneys, analysts and other program staff to address environmental challenges in these extraordinary times. We expect that ELPC's expenses will grow accordingly in FY 2020 and the following year.

The Financial Accounting Standards Board (FASB) Standard 116 requires not-for-profit organizations to recognize all revenue from a multi-year grant in the year that the grant is committed, regardless of the time period over which the grantor intends the funds to be used. Thus, for example, if ELPC receives a grant commitment of \$600,000 to be paid out over two years to support our Energy Project, then ELPC is required to recognize as income the entire \$600,000 in the year when the grant commitment letter is issued. For internal management purposes, however, we treat this grant as \$300,000 of "real" income in each of two years to cover Energy Project expenses. (If ELPC were to spend all \$600,000 in the first year, then how would we pay for the project expenses in the second year?)

Under FASB 116, the audit shows ELPC's FY 2019 income to be \$8,233,123 compared to expenses of \$7,312,629 (see page 4 of the audit). The audit shows a surplus of \$1,673,321 after taking into account \$752,827 in unrealized gain on investments. These unrealized gains (and sometimes losses) fluctuate from year to year and simply reflect a snapshot of the stock market on June 30, 2019.

Our auditors recognize this FASB 116 complication in ELPC's financial reporting and thus Note 1 on page 9 of the audit clarifies the situation as follows:

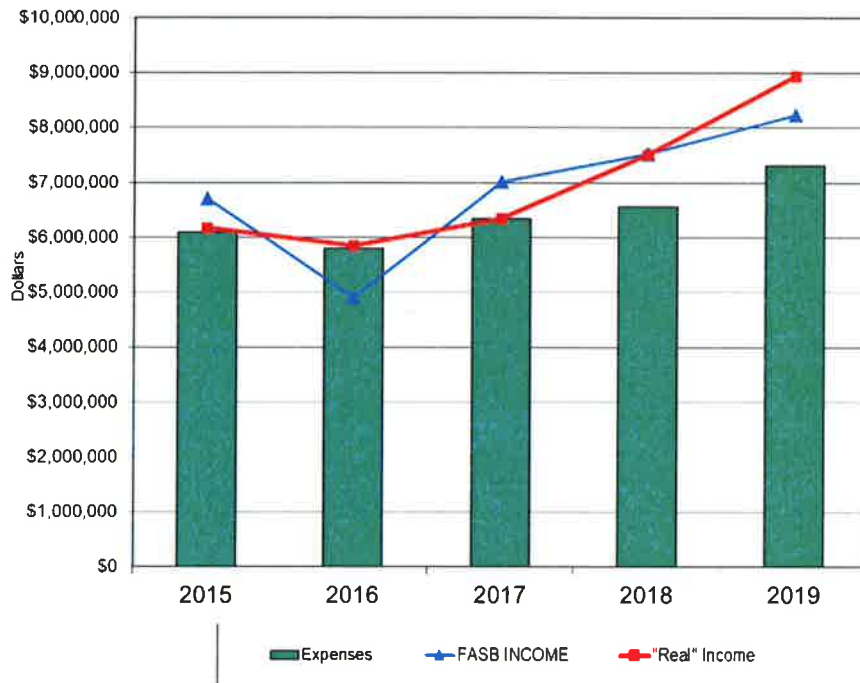
Management maintains internal accounting records for the Center which track contribution and grant revenue according to the year for which its expenditure or

35 East Wacker Drive, Suite 1600 • Chicago, Illinois 60601
(312) 673-6500 • www.ELPC.org

Harry Drucker, Chairperson • Howard A. Learner, Executive Director
Chicago, IL • Columbus, OH • Des Moines, IA • Grand Rapids, MI • Indianapolis, IN
Minneapolis, MN • Madison, WI • North Dakota • South Dakota • Washington, D.C.

use was intended by the donor...Total revenue intended for use in 2019 per management's internal accounting records was approximately \$8,945,000 as opposed to the approximate \$8,233,000 of total revenue reflected in the schedule of activities under U.S. GAAP. Although revenue levels may fluctuate significantly by fiscal year, the total revenue intended for a particular year typically corresponds more closely with annual expense levels.” (emphasis added)

These fluctuations in FASB-defined income can be seen graphically below. Although ELPC's "FASB" income fluctuates significantly – often due to the timing of large, multi-year grants – ELPC's "real" income is much more stable and has exceeded expenses every year under our fairly conservative approach to financial management.



Please call me if you have any questions regarding the FY 2019 audit or ELPC's overall finances. Thank you for your support of ELPC's success.



Environmental Law and Policy Center of the Midwest

Financial Report
June 30, 2019

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Consolidated statement of financial position	3
Consolidated statement of activities	4
Consolidated statement of functional expenses	5-6
Consolidated statement of cash flows	7
Notes to consolidated financial statements	8-14
<hr/>	
Supplementary information	
Consolidating schedule of activities	15



RSM US LLP

Independent Auditor's Report

Board of Directors
Environmental Law and Policy Center of the Midwest

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Environmental Law and Policy Center of the Midwest, which comprise the consolidated statement of financial position as of June 30, 2019, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Environmental Law and Policy Center of the Midwest as of June 30, 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.

Emphasis of Matter

Environmental Law and Policy Center of the Midwest adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2019. The adoption of the standard resulted in additional footnote disclosures and changes to classification of net assets and the disclosures related to net assets. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Environmental Law and Policy Center of the Midwest's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 28, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, changes in net assets and cash flows of the individual entities and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Chicago, Illinois
January 30, 2020

Environmental Law and Policy Center of the Midwest

**Consolidated Statement of Financial Position
June 30, 2019 (with Comparative Totals for 2018)**

	2019	2018
Assets		
Cash	\$ 829,322	\$ 932,695
Investments	17,659,576	15,495,378
Foundation grants receivable, net	2,096,889	2,353,336
Prepaid expenses	30,421	71,617
Property and equipment, net	<u>319,324</u>	<u>438,933</u>
	<u>\$ 20,935,532</u>	<u>\$ 19,291,959</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 500,955	\$ 412,501
Deferred rent	<u>325,112</u>	<u>443,314</u>
	<u>826,067</u>	<u>855,815</u>
Net assets:		
Without donor restrictions:		
Undesignated	13,059,838	10,966,594
Board designated (Midwest Advocates Fund)	<u>3,555,405</u>	<u>3,555,405</u>
	<u>16,615,243</u>	<u>14,521,999</u>
With donor restrictions	<u>3,494,222</u>	<u>3,914,145</u>
	<u>20,109,465</u>	<u>18,436,144</u>
	<u>\$ 20,935,532</u>	<u>\$ 19,291,959</u>

See notes to consolidated financial statements.

Environmental Law and Policy Center of the Midwest

**Consolidated Statement of Activities
Year Ended June 30, 2019 (with Comparative Totals for 2018)**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue:				
Contributions	\$ 462,087	\$ 54,264	\$ 516,351	\$ 407,125
Foundation grants	2,534,647	3,829,010	6,363,657	5,246,827
Special events, net of costs of direct benefit to donors of \$145,449 in 2019	315,225	-	315,225	549,581
Investment income	643,102	3,302	646,404	1,007,212
Other income	90,492	300,994	391,486	315,853
Transfer of net assets arising from satisfaction of program restrictions	4,607,493	(4,607,493)	-	-
	<u>8,653,046</u>	<u>(419,923)</u>	<u>8,233,123</u>	<u>7,526,598</u>
Expenses:				
Program service expenses	6,163,411	-	6,163,411	5,439,765
General and administrative	469,701	-	469,701	446,808
Marketing	145,867	-	145,867	165,243
Fundraising	533,650	-	533,650	516,880
	<u>7,312,629</u>	<u>-</u>	<u>7,312,629</u>	<u>6,568,696</u>
Increase (decrease) in net assets before other item	1,340,417	(419,923)	920,494	957,902
Unrealized gain on investments	752,827	-	752,827	112,143
Increase (decrease) in net assets	2,093,244	(419,923)	1,673,321	1,070,045
Net assets:				
Beginning of year	14,521,999	3,914,145	18,436,144	17,366,099
End of year	<u>\$ 16,615,243</u>	<u>\$ 3,494,222</u>	<u>\$ 20,109,465</u>	<u>\$ 18,436,144</u>

See notes to consolidated financial statements.

Environmental Law and Policy Center of the Midwest

**Consolidated Statement of Functional Expenses
Year Ended June 30, 2019 (with Comparative Totals for 2018)**

	Program Services					Total
	Energy	Transportation	Forest/ Land Use	Global Warming	Other Projects	
Salaries, benefits and payroll taxes	\$ 2,076,269	\$ 605,620	\$ 1,195,660	\$ 466,612	\$ 111,775	\$ 4,455,936
Consultants	219,926	104,450	255,435	170,002	5,892	755,705
Equipment and furniture	3,388	2,821	1,892	740	411	9,252
Training/recruitment	1,218	7,553	104	3,171	4,665	16,711
Travel	90,630	20,161	33,697	7,344	9,657	161,489
Conferences and meetings	11,727	5,284	10,734	2,792	20,383	50,920
Outside services	7,153	1,628	2,623	2,725	2,849	16,978
Subscriptions and publications	23,286	7,646	13,377	4,826	1,616	50,751
Dues, licenses and fees	34,916	1,887	9,427	5,332	787	52,349
Telephone	14,808	5,537	7,957	3,135	779	32,216
Photocopy and printing	9,909	1,770	8,480	984	537	21,680
Postage and deliveries	2,893	755	1,214	420	1,080	6,362
Public awareness	7,694	5,187	2,569	6,196	16,635	38,281
Occupancy	191,662	55,742	110,081	43,024	10,308	410,817
General insurance	6,461	1,885	3,723	1,455	348	13,872
Supplies	9,354	11,623	5,206	2,029	775	28,987
Miscellaneous	1,000	-	-	-	67	1,067
Grants	2,000	-	-	-	-	2,000
	2,714,294	839,549	1,662,179	720,787	188,564	6,125,373
Depreciation and amortization	17,715	5,169	10,208	3,990	956	38,038
	<u>\$ 2,732,009</u>	<u>\$ 844,718</u>	<u>\$ 1,672,387</u>	<u>\$ 724,777</u>	<u>\$ 189,520</u>	<u>\$ 6,163,411</u>

(Continued)

Environmental Law and Policy Center of the Midwest

Consolidated Statement of Functional Expenses (Continued)
Year Ended June 30, 2019 (with Comparative Totals for 2018)

	Supporting Services				2019 Total	2018 Total
	General and Administrative	Marketing	Fundraising	Total		
Salaries, benefits and payroll taxes	\$ 331,028	\$ 107,060	\$ 431,751	\$ 869,839	\$ 5,325,775	\$ 4,802,637
Consultants	16,757	2,346	6,137	25,240	780,945	549,997
Equipment and furniture	3,221	708	684	4,613	13,865	13,307
Training/recruitment	2,774	8,328	1,833	12,935	29,646	27,943
Travel	3,535	2,627	9,156	15,318	176,807	184,457
Conferences and meetings	14,992	3,411	1,211	19,614	70,534	88,270
Outside services	1,265	4,705	1,849	7,819	24,797	39,257
Subscriptions and publications	3,509	2,222	13,638	19,369	70,120	63,426
Dues, licenses and fees	51,240	983	437	52,660	105,009	97,026
Telephone	2,213	775	3,084	6,072	38,288	40,777
Photocopy and printing	697	266	11,324	12,287	33,967	34,532
Postage and deliveries	1,934	71	3,368	5,373	11,735	8,482
Public awareness	-	-	103	103	38,384	42,262
Occupancy	30,435	9,870	39,810	80,115	490,932	474,812
General insurance	1,030	334	1,346	2,710	16,582	16,515
Supplies	1,452	1,096	4,227	6,775	35,762	40,961
Miscellaneous	797	150	-	947	2,014	417
Grants	-	-	-	-	2,000	-
	466,879	144,952	529,958	1,141,789	7,267,162	6,525,078
Depreciation and amortization	2,822	915	3,692	7,429	45,467	43,618
	\$ 469,701	\$ 145,867	\$ 533,650	\$ 1,149,218	\$ 7,312,629	\$ 6,568,696

See notes to consolidated financial statements.

Environmental Law and Policy Center of the Midwest

**Consolidated Statement of Cash Flows
Year Ended June 30, 2019 (with Comparative Totals for 2018)**

	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 1,673,321	\$ 1,070,045
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	45,467	43,618
Deferred rent including landlord improvements	(32,396)	(25,818)
Unrealized gain on investments	(752,827)	(112,143)
Realized gain on investments	(285,312)	(717,162)
Changes in:		
Foundation grants receivable	256,447	812,006
Prepaid expenses	41,196	28,255
Accounts payable and accrued expenses	88,454	28,235
Deferred revenue	-	(218,106)
Net cash provided by operating activities	1,034,350	908,930
Cash flows from investing activities:		
Purchases of furniture and equipment	(11,664)	(17,327)
Purchases of investments	(2,497,559)	(2,564,205)
Maturities and redemption of investments	1,371,500	1,799,111
Net cash used in investing activities	(1,137,723)	(782,421)
(Decrease) increase in cash	(103,373)	126,509
Cash:		
Beginning of year	932,695	806,186
End of year	\$ 829,322	\$ 932,695

See notes to consolidated financial statements.

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Environmental Law and Policy Center of the Midwest (ELPC) is a nonprofit organization whose mission is to protect and enhance the environment, natural resources and quality of life in Midwestern states and to provide legal representation and other technical support to environmental, civic and governmental organizations involved in cases or policy matters involving environmental, energy and public health policy issues. ELPC's activities are funded primarily by grants and contributions from various foundations and individuals. ELPC conducts activities from headquarters in Chicago, Illinois, and also has offices in Iowa, Michigan, Minnesota, North Dakota, Ohio, South Dakota, Washington D.C. and Wisconsin.

ELPC is exempt from income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and applicable state law.

The Environmental Law and Policy Center Action Fund (the Action Fund) was established for the promotion of social welfare within the meaning of IRC Section 501(c)(4), including, but not limited to, improving environmental quality and protecting and preserving natural resources by engaging in effective public advocacy, legislative outreach and public education activities.

Principles of consolidation: The financial statements include the accounts of ELPC and of the Action Fund. ELPC has both control and economic interest in the Action Fund. Certain members sit on both boards of directors and the organizations share common management. Inter-organizational balances and all significant intercompany transactions have been eliminated in consolidation. ELPC and the Action Fund are collectively referred to herein as "the Center."

Basis of presentation: The financial statement presentation follows financial reporting requirements for nonprofit organizations. Under those provisions, net assets and activities are classified based on the absence or existence, and nature, of donor-imposed restrictions as follows:

Net assets without donor restrictions – Net assets without donor restrictions are net assets which are not subject to donor-imposed restrictions. This includes the Midwest Advocates Fund, which was established by ELPC's Board of Directors to serve as a contingency fund.

Net assets with donor restrictions – Net assets with donor restrictions represent assets subject to donor-imposed restrictions which are to be satisfied by the Center's actions or by the passage of time. Net assets with donor restrictions are reclassified to net assets without donor restrictions when the restrictions have been met.

Investments: Investments consist of certificates of deposit and shares of mutual funds. Certificates of deposit have original maturities of up to twelve months and are recorded at cost plus accrued interest, which approximates fair value. Mutual fund shares are recorded at fair value. Changes in fair value are recorded as an unrealized gain or loss. Investments are exposed to various risks such as interest rate, market and credit risks. It is at least reasonably possible that changes in values of investments will occur in the near term and that such changes could significantly affect the amounts reported. Interest income is recognized under the accrual basis. Dividend income is recognized on the ex-dividend date.

Revenue recognition: For financial reporting purposes, the Center recognizes grantors' unconditional promises to give cash and other assets as revenue in the period in which the promises are made. Conditional promises to give are recognized as revenue in the period in which the conditions are met.

Contributions and foundation grants: Grants receivable have been recorded for amounts recognized as foundation grants revenue where collection is not expected until a future date. Grants receivable due in excess of one year are recorded net of a present value discount, based on a risk adjusted rate of return. The discount is amortized into contribution revenue over the expected collection period.

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Management determines an allowance, if any, for uncollectible promises to give by considering such factors as prior collection history with the donor and the type of contribution. Management has determined that no reserve is needed for foundation grants receivable at June 30, 2019.

Special events revenue consists of amounts received in connection with a fundraising gala held in May 2019.

Management maintains internal accounting records for the Center which track contribution and grant revenue according to the year for which its expenditure or use was intended by the donor, based on management's review of contribution and grant documents and understanding of donors' intentions. Total revenue per these internal accounting records may differ from total revenue as reflected in the financial statements because, as described above, unconditional grants and contributions are recognized at the time they are pledged, regardless of their payment terms (multi-year installments, for example) or when their use is otherwise intended. Total revenue intended for use in 2019 per management's internal accounting records was approximately \$8,945,000 as opposed to the approximate \$8,233,000 total revenue reflected in the schedule of activities under U.S. GAAP. Although revenue levels may fluctuate significantly by fiscal year, the total revenue intended for a particular year typically corresponds more closely with annual expense levels.

Other income: Other income consists primarily of fee awards, which represent reimbursement for legal fees incurred in successful litigation activities, and contract income, which represents amounts received for services provided under terms of contract agreements.

Functional expenses: Operating expenses directly identifiable with a functional area are charged to that area and, where those expenses affect more than one area, they are allocated on the basis of estimates made by management. The expenses that are allocated include salaries, benefits, payroll taxes, telephone, subscriptions, publications, dues, licenses, and fees, which are allocated based on employee hours.

Property and equipment: Additions and significant improvements to existing property in excess of \$1,000 are capitalized, while general maintenance and repairs are charged to expense. Depreciation and amortization is being provided using the straight-line method over the estimated useful lives of the assets. Computers are depreciated over a useful life of 3 years, telecommunications equipment is depreciated over 5 years, photocopiers are depreciated over 6 years, furniture is depreciated over 7 years, and leasehold improvements are amortized over the shorter of useful life or term of lease. Improvements funded by the landlord are discussed below.

Deferred rent: Rent expense is recognized on a straight-line basis over the lease term. Deferred rent is recorded for the cumulative difference between cash paid and straight-line rent expense. Improvements funded by the landlord as a rental incentive but considered to be owned by the Center are capitalized as landlord improvements, with an equivalent amount included in the deferred rent liability; each is amortized over the term of the lease, and included in rental expense.

Comparative data: The consolidated financial statements include certain prior year summarized comparative information, in total but not by asset class. That information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America because it does not present changes in net assets by class of net assets. Accordingly, this information should be read in connection with the Center's financial statements for 2018, from which the summarized information was derived.

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Tax status: The Center follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Center may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Center and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the financial reporting period presented in these consolidated financial statements.

The Center files Forms 990 in the U.S. federal jurisdiction and the state of Illinois.

Management estimates: In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Adopted accounting pronouncement: In 2019, the Center adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include new net asset categories, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. Certain provisions, as required, have been retrospectively applied to 2018.

Recent accounting pronouncements: In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard will be effective for the Center in the fiscal year ending June 30, 2022. Early adoption is permitted.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides guidance surrounding the categorization of certain transactions as contributions or exchange transactions. It further clarifies when contributions should be deemed conditional. The new standard will be effective for the Center's June 30, 2020 financial statements.

The Center is currently evaluating the impact of the adoption of these new standards on its financial statements.

Reclassifications: Certain 2018 amounts have been reclassified to conform to the current year presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

Subsequent events: The Center has evaluated subsequent events for potential recognition and/or disclosure through January 30, 2020, the date the financial statements were available to be issued.

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

Note 2. Liquidity and Availability

Financial assets, at year-end:

Cash	\$ 829,322
Investments	17,659,576
Foundation grants receivable, net	2,096,889
	<u>20,585,787</u>

Less amounts not available to be used within one year:

Board designated funds	(3,555,405)
Net assets with donor restrictions	<u>(3,494,222)</u>

Financial assets available to meet cash needs for general expenditures within one year

\$ 13,536,160

The Center's conservative financial management has allowed it to build a substantial asset base. Moreover, the Center receives grants and contributions without donor restrictions in advance of expenses to carry out its work. The Center's investment policy calls for straightforward mutual fund investments, which are readily available if needed to meet cash flow or unforeseen advocacy needs. However, it is not the Center's intent to substantially draw down these reserves to meet anticipated operating expenses.

Note 3. Investments

Investments at June 30, 2019, consist of:

	Fair Value	Cost
Investments:		
Certificates of deposit	\$ 555,913	\$ 554,671
Mutual funds:		
Domestic equity	8,458,991	4,378,584
Fixed income	6,784,895	7,058,283
International equity	1,658,461	1,426,975
Blended	201,316	181,460
	<u>\$ 17,659,576</u>	<u>\$ 13,599,973</u>

Certificates of deposit mature through September 2019, with interest rates of up to 1.10 percent per annum.

Investment income on the statement of activities consists of following:

Interest	\$ 4,205
Dividends	356,887
Realized gains	285,312
	<u>646,404</u>
Unrealized gains	752,827
	<u><u>\$ 1,399,231</u></u>

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

Note 4. Fair Value Disclosures

The provisions of the Fair Value Measurements and Disclosures Accounting Standards Codification (ASC) Topic of the FASB Accounting Standards Codification (the Topic) applies to all assets and liabilities that are being measured and reported at fair value and requires disclosure that establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Topic defines fair value as the price that would be received upon a sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Topic enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The Topic requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Other observable inputs, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that can be corroborated by observable market data.

Level 3: Unobservable inputs not corroborated by market data that reflect management's best estimate of fair value using its own assumptions that market participants would use in pricing an asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Center's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

Investments in mutual funds in equities and fixed income are stated at the daily closing price on the day of valuation. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Center are deemed to be actively traded. The fair value of the mutual funds amount to \$17,103,663 and are entirely Level 1 values at June 30, 2019. There have been no changes in the methodology used at June 30, 2019.

Investments are the only assets measured at fair value on a recurring basis.

Certificates of deposit amount to \$555,913 and are valued at amortized cost.

Note 5. Foundation Grants Receivable

Foundation grants receivable include multi-year grants which are expected to be collected in future installments. The total receivable is reflected on the statement of financial position net of a discount to present value. The expected collections by fiscal year and discount at June 30, 2019, are as follows:

Year ending June 30,	
2020	\$ 1,457,711
2021	675,000
	<hr/>
	2,132,711
Discount to present value at 3.41 percent for post-2020 receivables	(35,822)
	<hr/>
	\$ 2,096,889
	<hr/>

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

Note 5. Foundation Grants Receivable (Continued)

The Center has also received a foundation grant with three annual \$1,500,000 installments, of which the first installment was received and recognized as foundation grant revenue without donor restrictions in fiscal year 2019. Expected fiscal year 2020 and 2021 installments are considered to be conditional, subject to the Center's compliance with terms and conditions of the agreement, including submission of reports, progress of the funded programs, and various related approvals. These future installments will be recognized as revenue when the conditions are satisfied.

Note 6. Property and Equipment

Property and equipment at June 30, 2019, consist of:

Furniture and equipment	\$ 214,782
Leasehold improvements	381,832
Landlord improvements	<u>986,775</u>
	1,583,389
Accumulated depreciation	<u>(1,264,065)</u>
	<u>\$ 319,324</u>

Depreciation and amortization expense amounted to \$45,467 plus amortization of landlord improvements of \$85,807.

Note 7. Lease Commitments

The Center's headquarters is subject to a lease with terms through December 2021. The lease includes scheduled rent increases throughout the term and certain rent abatements. The lease also provides incentives for leasehold (landlord) improvements, which are recorded on the statement of financial position as a capital asset and deferred rent liability. Landlord improvements and deferred rent are amortized on a straight-line basis over the term of the lease. In October 2019, the Center's headquarters lease was extended through December 2031.

The Center leases additional office space in other Midwestern states (Iowa, Michigan, Minnesota, North Dakota, Ohio and Wisconsin) and Washington D.C. under annual and month-to-month agreements expiring on various dates through December 2023.

Approximate future minimum annual lease payments under the leases are as follows:

Year ending June 30,	
2020	\$ 227,000
2021	297,000
2022	315,000
2023	198,000
2024	194,000
Thereafter	1,591,000
	<u>\$ 2,822,000</u>

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

Note 7. Lease Commitments (Continued)

Occupancy expense reported in the financial statements for fiscal year 2019 consists of the following:

Cash rentals paid	\$	512,643
Utilities		7,284
Repairs, maintenance and equipment rental		3,402
Incremental effect of straight-line rental recognition (deferred rent)		(32,397)
Amortization of landlord improvements		85,807
Amortization of deferred rent pertaining to landlord improvements		(85,807)
	\$	<u>490,932</u>

Note 8. Net Assets with Donor Restrictions

Net assets with donor restrictions were available for the following purposes at June 30, 2019:

Energy	\$	1,346,833
Wild and natural places		349,856
Transportation/air quality/land use		104,917
Other projects		259,095
ELPC Action Fund		719,021
General support for future periods		714,500
	\$	<u>3,494,222</u>

Net assets with donor restrictions were released from restrictions for the following purposes for the year ended June 30, 2019:

Energy	\$	2,168,636
Wild and natural places		747,044
Transportation/air quality/land use		604,754
Other projects		355,494
ELPC Action Fund		22,065
General support		709,500
	\$	<u>4,607,493</u>

General support of \$709,500 consists of \$959,500 of net assets released from donor restrictions for general support during fiscal year 2019 net of \$250,000 transferred from ELPC to the Action Fund.

Note 9. Pension Plan

The Center maintains a defined contribution annuity plan which provides participants with salary deferral options and discretionary matching contributions made by the Center. Essentially all employees are eligible to participate in the plan and they become fully vested upon joining the plan. The Center's contribution for fiscal year 2019 was \$270,636.

Supplementary Information

Environmental Law and Policy Center of the Midwest

**Consolidating Schedule of Activities
Year Ended June 30, 2019**

	ELPC							
	Without Donor Restrictions			With Donor Restrictions	2019 Total	ELPC Action Fund	Eliminations	2019 Consolidated Total
	Undesignated	Midwest Advocates Fund	Total					
Revenue:								
Contributions	\$ 462,087	\$ -	\$ 462,087	\$ 54,264	\$ 516,351	\$ -	\$ -	\$ 516,351
Foundation grants	2,534,647	-	2,534,647	3,829,010	6,363,657	-	-	6,363,657
Special events, net of costs of direct benefit to donors of \$145,449	315,225	-	315,225	-	315,225	-	-	315,225
Investment income	643,102	-	643,102	-	643,102	3,302	-	646,404
Other income	90,492	-	90,492	300,994	391,486	-	-	391,486
Transfer of net assets arising primarily from satisfaction of program restrictions	4,840,235	-	4,840,235	(4,835,428)	4,807	250,000	(254,807)	-
	<u>8,885,788</u>	<u>-</u>	<u>8,885,788</u>	<u>(651,160)</u>	<u>8,234,628</u>	<u>253,302</u>	<u>(254,807)</u>	<u>8,233,123</u>
Expenses:								
Program service expenses	6,396,153	-	6,396,153	-	6,396,153	22,065	(254,807)	6,163,411
General and administrative	469,701	-	469,701	-	469,701	-	-	469,701
Marketing	145,867	-	145,867	-	145,867	-	-	145,867
Fundraising	533,650	-	533,650	-	533,650	-	-	533,650
	<u>7,545,371</u>	<u>-</u>	<u>7,545,371</u>	<u>-</u>	<u>7,545,371</u>	<u>22,065</u>	<u>(254,807)</u>	<u>7,312,629</u>
Increase (decrease) in net assets before other item	1,340,417	-	1,340,417	(651,160)	689,257	231,237	-	920,494
Unrealized gain on investments	752,827	-	752,827	-	752,827	-	-	752,827
Increase (decrease) in net assets	2,093,244	-	2,093,244	(651,160)	1,442,084	231,237	-	1,673,321
Net assets:								
Beginning of year	10,966,594	3,555,405	14,521,999	3,426,361	17,948,360	487,784	-	18,436,144
End of year	<u>\$ 13,059,838</u>	<u>\$ 3,555,405</u>	<u>\$ 16,615,243</u>	<u>\$ 2,775,201</u>	<u>\$ 19,390,444</u>	<u>\$ 719,021</u>	<u>\$ -</u>	<u>\$ 20,109,465</u>