



ENVIRONMENTAL LAW & POLICY CENTER

TO: ELPC Directors and Colleagues

FROM: Howard A. Learner, Executive Director

RE: FY 2022 Audit (July 1, 2021 – June 30, 2022)

DATE: February 10, 2023

Enclosed is the Environmental Law & Policy Center's (ELPC) audited financial statements for our Fiscal Year 2022 (July 1, 2021 through June 30, 2022). 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 2022 with “real” revenues of \$12,500,000 and expenses of \$8,381,400. This “snapshot-in-time” surplus is due to three unusual factors. *First*, ELPC received a total of \$1,235,250 in one-time attorneys’ fee awards in FY 2022 as a result of three successful public interest environmental litigation cases. The largest fee award was \$998,000 resulting from our successful Clean Water Act environmental lawsuit against Cleveland-Cliffs for its excessive ammonia and cyanide pollution into Lake Michigan. ELPC is reinvesting part of those funds to launch our new Northwest Indiana Air, Parks and Water Protector Project. *Second*, ELPC received “forgiveness” for a Paycheck Protection Loan of \$884,000, which is therefore treated as new income. *Third*, ELPC’s new staff hiring in FY 2022 was slower than expected due to the overall COVID-19 and market situation. ELPC is now accelerating our hiring of talented additional public interest attorneys, analysts and other program staff to protect the Midwest’s environment and vital natural resources in these extraordinary times. <https://elpc.org/about/careers/> ELPC’s expenses are growing accordingly in FY 2023.

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 2022 income to be \$16,340,604 compared to expenses of \$8,381,400 (see page 4 of the audit). The audit shows a surplus of \$2,738,532, which includes \$5,220,672 in unrealized loss on investments. These unrealized losses (and sometimes

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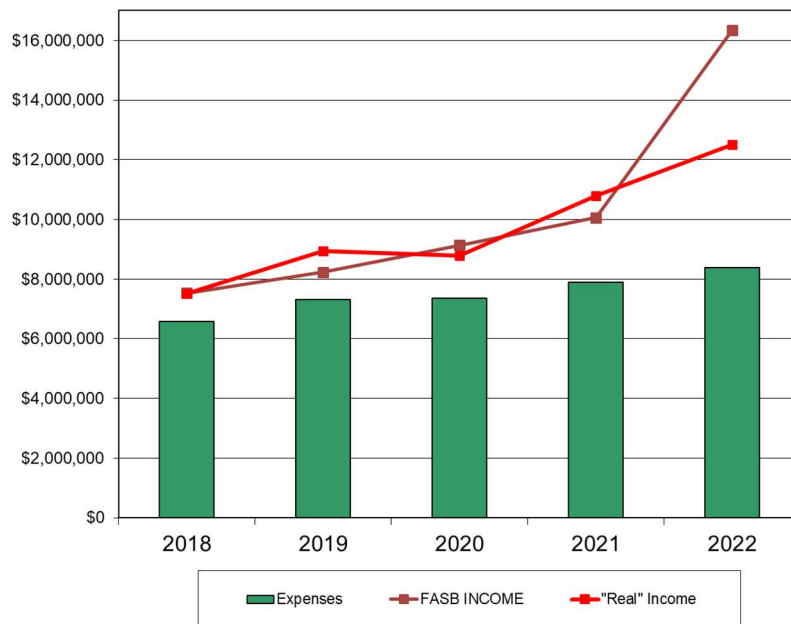
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gains) fluctuate from year to year and simply reflect a snapshot of the highly-fluctuating stock market equity prices on June 30, 2022.

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 use was intended by the donor...Total revenue intended for use in 2022 per management’s internal accounting records was approximately \$12,500,000 as opposed to the approximate \$16,350,000 of total revenue reflected in the schedule of activities under accounting principles generally accepted in the United States of America (U.S. GAAP).

These fluctuations in FASB-defined income can be seen graphically below.



Please call me or ELPC’s Deputy Director Kevin Brubaker if you have any questions regarding the FY 2022 audit or ELPC's overall finances. Thank you for your support of ELPC’s success.

Environmental Law and Policy Center of the Midwest

Consolidated Financial Report
June 30, 2022

Contents

| | |
|------------------------------|-----|
| Independent auditor's report | 1-2 |
|------------------------------|-----|

| | |
|---|------|
| 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 | 8-16 |

| | |
|--------------------------------------|----|
| Supplementary information | |
| Consolidating schedule of activities | 17 |



Independent Auditor's Report

RSM US LLP

Board of Directors
Environmental Law and Policy Center of the Midwest

Opinion

We have audited the consolidated financial statements of Environmental Law and Policy Center of the Midwest, which comprise the consolidated statement of financial position as of June 30, 2022, 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).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Environmental Law and Policy Center of the Midwest as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Environmental Law and Policy Center of the Midwest and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Environmental Law and Policy Center of the Midwest's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Environmental Law and Policy Center of the Midwest's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Environmental Law and Policy Center of the Midwest's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Environmental Law and Policy Center of the Midwest's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 9, 2022. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

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 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 audits 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
February 10, 2023

Environmental Law and Policy Center of the Midwest

Consolidated Statement of Financial Position
June 30, 2022 (with Comparative Totals for 2021)

| | 2022 | 2021 |
|---|----------------------|----------------------|
| Assets | | |
| Cash | \$ 1,889,592 | \$ 961,897 |
| Investments | 24,575,940 | 26,259,294 |
| Foundation grants receivable | 5,329,962 | 2,749,876 |
| Prepaid expenses | 72,459 | 119,992 |
| Property and equipment, net | 10,981 | 82,457 |
| | <u>\$ 31,878,934</u> | <u>\$ 30,173,516</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 569,514 | \$ 545,550 |
| Deferred revenue | - | 40,000 |
| Deferred rent | 9,675 | 142,493 |
| Loan payable—Paycheck Protection Program loan | - | 884,260 |
| | <u>579,189</u> | <u>1,612,303</u> |
| Net assets: | | |
| Without donor restrictions: | | |
| Undesignated | 21,297,417 | 21,314,666 |
| Board designated (Midwest Advocates Fund) | 3,954,490 | 4,499,911 |
| | <u>25,251,907</u> | <u>25,814,577</u> |
| With donor restrictions | 6,047,838 | 2,746,636 |
| | <u>31,299,745</u> | <u>28,561,213</u> |
| | <u>\$ 31,878,934</u> | <u>\$ 30,173,516</u> |

See notes to consolidated financial statements.

Environmental Law and Policy Center of the Midwest

Consolidated Statement of Activities
Year Ended June 30, 2022 (with Comparative Totals for 2021)

| | 2022 | | | 2021 |
|---|-------------------------------|----------------------------|----------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | |
| Revenue: | | | | |
| Contributions | \$ 1,639,728 | \$ 679,760 | \$ 2,319,488 | \$ 469,199 |
| Foundation grants | 2,749,639 | 7,165,045 | 9,914,684 | 6,561,522 |
| Special events, net of costs of direct benefit to donors of \$34,419 in 2022 | 494,907 | - | 494,907 | 235,806 |
| Investment income | 1,306,211 | 1,872 | 1,308,083 | 1,638,126 |
| Forgiveness of payroll protection program loan | 884,260 | - | 884,260 | 881,657 |
| Other income | 1,409,835 | 9,347 | 1,419,182 | 280,490 |
| Transfer of net assets arising from satisfaction of restrictions | 4,547,239 | (4,547,239) | - | - |
| | 13,031,819 | 3,308,785 | 16,340,604 | 10,066,800 |
| Expenses: | | | | |
| Program service expenses | 6,703,263 | - | 6,703,263 | 6,555,796 |
| General and administrative | 754,854 | - | 754,854 | 549,891 |
| Marketing | 177,401 | - | 177,401 | 209,652 |
| Fundraising | 745,882 | - | 745,882 | 571,288 |
| | 8,381,400 | - | 8,381,400 | 7,886,627 |
| Increase in net assets before other items | 4,650,419 | 3,308,785 | 7,959,204 | 2,180,173 |
| Unrealized (loss) gain on investments | (5,213,089) | (7,583) | (5,220,672) | 3,400,327 |
| (Decrease) increase in net assets | (562,670) | 3,301,202 | 2,738,532 | 5,580,500 |
| Net assets: | | | | |
| Beginning of year | 25,814,577 | 2,746,636 | 28,561,213 | 22,980,713 |
| End of year | \$ 25,251,907 | \$ 6,047,838 | \$ 31,299,745 | \$ 28,561,213 |

See notes to consolidated financial statements.

Environmental Law and Policy Center of the Midwest

**Consolidated Statement of Functional Expenses
Year Ended June 30, 2022 (with Comparative Totals for 2021)**

| | Program Services | | | | Total |
|--------------------------------------|---------------------|--------------------------------------|--------------------------------|-------------------|---------------------|
| | Energy | Natural Resources/ Transportation | Climate Change/ Clean Water | Other Projects | |
| Salaries, benefits and payroll taxes | \$ 2,289,533 | \$ 623,106 | \$ 1,985,026 | \$ 270,577 | \$ 5,168,242 |
| Consultants | 158,727 | 75,493 | 115,173 | 5,870 | 355,263 |
| Equipment and furniture | 2,595 | 4,117 | 1,715 | 204 | 8,631 |
| Training/recruitment | 929 | 302 | 1,139 | 131 | 2,501 |
| Travel | 38,843 | 4,869 | 9,714 | 7,227 | 60,653 |
| Conferences and meetings | 3,073 | 1,163 | 2,136 | 424 | 6,796 |
| Outside services | 290,341 | 1,171 | 79,091 | 7,901 | 378,504 |
| Subscriptions and publications | 17,376 | 4,729 | 15,065 | 2,054 | 39,224 |
| Dues, licenses and fees | 45,969 | 3,395 | 69,038 | 1,626 | 120,028 |
| Telephone | 10,833 | 3,117 | 9,167 | 1,624 | 24,741 |
| Photocopy and printing | 267 | - | 764 | - | 1,031 |
| Postage and deliveries | 706 | 89 | 1,497 | 48 | 2,340 |
| Public awareness | 2,100 | 100 | 2,610 | - | 4,810 |
| Occupancy | 158,040 | 43,011 | 137,021 | 18,918 | 356,990 |
| General insurance | 5,336 | 1,452 | 4,626 | 631 | 12,045 |
| Supplies | 2,577 | 919 | 2,614 | 1,099 | 7,209 |
| Miscellaneous | 624 | 221 | 1,541 | 74 | 2,460 |
| Grants | 90,000 | 16,665 | - | - | 106,665 |
| | <u>3,117,869</u> | <u>783,919</u> | <u>2,437,937</u> | <u>318,408</u> | <u>6,658,133</u> |
| Depreciation and amortization | 19,992 | 5,441 | 17,334 | 2,363 | 45,130 |
| | <u>\$ 3,137,861</u> | <u>\$ 789,360</u> | <u>\$ 2,455,271</u> | <u>\$ 320,771</u> | <u>\$ 6,703,263</u> |

(Continued)

Environmental Law and Policy Center of the Midwest

Consolidated Statement of Functional Expenses (Continued) Year Ended June 30, 2022 (with Comparative Totals for 2021)

| | Supporting Services | | | | 2022 Total | 2021 Total |
|--------------------------------------|----------------------------------|------------|-------------|--------------|---------------|---------------|
| | General and Administrative | Marketing | Fundraising | Total | | |
| Salaries, benefits and payroll taxes | \$ 564,024 | \$ 95,012 | \$ 483,121 | \$ 1,142,157 | \$ 6,310,399 | \$ 5,958,707 |
| Consultants | 29,321 | 1,219 | 56,759 | 87,299 | 442,562 | 707,250 |
| Equipment and furniture | 2,797 | 668 | 364 | 3,829 | 12,460 | 3,137 |
| Training/recruitment | 1,062 | 46 | 383 | 1,491 | 3,992 | 8,670 |
| Travel | 5,690 | 760 | 3,648 | 10,098 | 70,751 | 18,695 |
| Conferences and meetings | 8,322 | 1,927 | 113,741 | 123,990 | 130,786 | 6,535 |
| Outside services | 1,232 | 9,930 | 6,289 | 17,451 | 395,955 | 154,626 |
| Subscriptions and publications | 4,787 | 8,485 | 8,130 | 21,402 | 60,626 | 73,376 |
| Dues, licenses and fees | 59,781 | 456 | 8,190 | 68,427 | 188,455 | 124,112 |
| Telephone | 4,171 | 439 | 3,071 | 7,681 | 32,422 | 34,631 |
| Photocopy and printing | 755 | 3,182 | 4,011 | 7,948 | 8,979 | 11,051 |
| Postage and deliveries | 1,338 | 14 | 439 | 1,791 | 4,131 | 16,925 |
| Public awareness | - | 37,786 | 1,210 | 38,996 | 43,806 | 109,760 |
| Occupancy | 41,358 | 6,558 | 50,513 | 98,429 | 455,419 | 301,374 |
| General insurance | 11,767 | 222 | 1,126 | 13,115 | 25,160 | 25,681 |
| Supplies | 2,248 | 322 | 536 | 3,106 | 10,315 | 3,748 |
| Miscellaneous | 11,184 | 9,545 | 132 | 20,861 | 23,321 | 24,331 |
| Grants | - | - | - | - | 106,665 | 249,641 |
| | 749,837 | 176,571 | 741,663 | 1,668,071 | 8,326,204 | 7,832,250 |
| Depreciation and amortization | 5,017 | 830 | 4,219 | 10,066 | 55,196 | 54,377 |
| | \$ 754,854 | \$ 177,401 | \$ 745,882 | \$ 1,678,137 | \$ 8,381,400 | \$ 7,886,627 |

See notes to consolidated financial statements.

Environmental Law and Policy Center of the Midwest

Consolidated Statement of Cash Flows
Year Ended June 30, 2022 (with Comparative Totals for 2021)

| | 2022 | 2021 |
|---|---------------------|--------------------|
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 2,738,532 | \$ 5,580,500 |
| Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 55,196 | 54,377 |
| Deferred rent including landlord improvements | (89,914) | (67,441) |
| Unrealized loss (gain) on investments | 5,220,672 | (3,400,327) |
| Realized gain on investments | (905,060) | (1,291,161) |
| Donated securities | (473,345) | - |
| Gain on extinguishment of debt | (884,260) | (876,518) |
| Changes in: | | |
| Foundation grants receivable | (2,580,086) | 37,928 |
| Prepaid expenses | 47,533 | (40,193) |
| Accounts payable and accrued expenses | 23,964 | (50,338) |
| Deferred revenue | (40,000) | (186,020) |
| Net cash provided by (used in) operating activities | 3,113,232 | (239,193) |
| Cash flows from investing activities: | | |
| Purchases of furniture and equipment | (26,624) | (21,144) |
| Purchases of investments | (4,341,699) | (3,928,312) |
| Maturities and redemption of investments | 1,719,894 | 2,843,276 |
| Net cash used in investing activities | (2,648,429) | (1,106,180) |
| Cash flows from financing activities: | | |
| Proceeds from donated securities | 462,892 | - |
| Proceeds from Paycheck Protection Program loan | - | 884,260 |
| Net cash provided by financing activities | 462,892 | 884,260 |
| Increase (decrease) in cash | 927,695 | (461,113) |
| Cash: | | |
| Beginning of year | 961,897 | 1,423,010 |
| End of year | \$ 1,889,592 | \$ 961,897 |

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, Ohio, 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 consolidated 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 designated reserve 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. Also included in this category are net assets subject to donor-directed restrictions to be maintained in perpetuity by ELPC.

Investments: Investments consist of certificates of deposit and shares of mutual funds. Certificates of deposit have original maturities of up to 12 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.

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

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

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. As of June 30, 2022, pledges receivable of \$3,200,000 is expected to be received within one year with the remaining contributions to be received within five years.

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, 2022.

Revenues for special events are recognized when earned, which is generally in the period the event takes place. Amounts received applicable to future events are recorded as deferred revenue. Direct costs are deferred and recognized similarly.

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 consolidated 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 2022 per management's internal accounting records was approximately \$12,500,000 as opposed to the approximate \$16,350,000 total revenue reflected in the schedule of activities under accounting principles generally accepted in the United States of America (U.S. GAAP).

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. In fiscal year 2022, ELPC received a legal settlement in the amount of \$998,214.

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 three years, telecommunications equipment is depreciated over five years, photocopiers are depreciated over six years, furniture is depreciated over seven 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.

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

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

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 U.S. GAAP 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 consolidated financial statements for 2021, from which the summarized information was derived.

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 consolidated 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 consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% 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 U.S. GAAP, 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: The Center adopted Accounting Standards Update (ASU) 2020-07, *Not-For-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, in the fiscal year ended June 30, 2022. The adoption had no impact on the Center's financial statements.

Recent accounting pronouncement: 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 and subsequently issued amendments, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard will be effective for the Center in the fiscal year ending June 30, 2023.

The Center is currently evaluating the impact on its consolidated financial statements of implementing this ASU.

COVID-19: On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a Public Health Emergency of International Concern and on March 11, 2020, declared COVID-19 to be a pandemic. Effective March 16, 2020, the Center transitioned all employees to working remotely and initiated a hybrid work environment in early 2022.

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

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

The extent to which COVID-19 impacts the Center's fiscal year ending June 30, 2023, will depend on future developments, which are highly uncertain and cannot be predicted. Management continues to closely monitor developments in this area and will take steps to mitigate any future impact.

Subsequent events: The Center has evaluated subsequent events for potential recognition and/or disclosure through February 10, 2023, the date the consolidated financial statements were available to be issued.

Note 2. Liquidity and Availability

Financial assets, at year-end:

| | |
|------------------------------|-------------------|
| Cash | \$ 1,889,592 |
| Investments | 24,575,940 |
| Foundation grants receivable | 5,329,962 |
| | <u>31,795,494</u> |

Less amounts not available to be used within one year:

| | |
|---|--------------------|
| Foundation grants receivable, collectible in one year | (2,129,962) |
| Board designated funds | (3,954,490) |
| Net assets with donor restrictions | <u>(6,047,838)</u> |

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

\$ 19,663,204

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, 2022, consist of:

| | <u>Fair Value</u> | <u>Cost</u> |
|-------------------------|----------------------|----------------------|
| Investments: | | |
| Certificates of deposit | \$ 305,329 | \$ 305,329 |
| Mutual funds: | | |
| Domestic equity | 12,074,848 | 8,114,420 |
| Fixed income | 9,759,597 | 10,890,773 |
| International equity | 343,295 | 370,389 |
| Blended | 2,092,871 | 1,888,742 |
| | <u>\$ 24,575,940</u> | <u>\$ 21,569,653</u> |

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

Note 3. Investments (Continued)

Certificates of deposit mature in July and November 2022, with an interest rate of 0.25% and 0.046% per annum, respectively.

Investment income on the consolidated statement of activities consists of following:

| | |
|-------------------|------------------------------|
| Interest | \$ 253 |
| Dividends | 402,770 |
| Realized gains | 905,060 |
| | <u>1,308,083</u> |
| Unrealized losses | (5,220,672) |
| | <u><u>\$ (3,912,589)</u></u> |

Note 4. Fair Value Disclosures

Under the FASB's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance 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. Under this guidance, assets and liabilities carried at fair value must 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 \$24,270,611 and are entirely Level 1 values at June 30, 2022. There have been no changes in the methodology used at June 30, 2022.

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

Certificates of deposit amount to \$305,329 and are valued at amortized cost.

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

Note 5. Property and Equipment

Property and equipment at June 30, 2022, consist of:

| | |
|--------------------------|--------------------|
| Furniture and equipment | \$ 277,144 |
| Leasehold improvements | 381,832 |
| Landlord improvements | 986,775 |
| | <u>1,645,751</u> |
| Accumulated depreciation | <u>(1,634,770)</u> |
| | <u>\$ 10,981</u> |

Depreciation and amortization expense amounted to \$55,196 plus amortization of landlord improvements of \$42,904.

Note 6. Lease Commitments

The Center's headquarters is subject to a lease with terms through December 2031. 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 consolidated 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.

The Center leases additional office space in other Midwestern states (Iowa, Michigan, Minnesota, 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:

| | |
|-----------------------|---------------------|
| Years ending June 30: | |
| 2023 | \$ 198,000 |
| 2024 | 194,000 |
| 2025 | 191,000 |
| 2026 | 197,000 |
| 2027 | 204,000 |
| Thereafter | 999,000 |
| | <u>\$ 1,983,000</u> |

Occupancy expense reported in the consolidated financial statements for fiscal year 2022 consists of the following:

| | |
|--|-------------------|
| Cash rentals paid | \$ 512,002 |
| Utilities | 6,114 |
| Repairs, maintenance and equipment rental | 27,217 |
| Incremental effect of straight-line rental recognition (deferred rent) | (89,914) |
| Amortization of landlord improvements | 42,904 |
| Amortization of deferred rent pertaining to landlord improvements | (42,904) |
| | <u>\$ 455,419</u> |

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

Note 7. Loan Payable

The Coronavirus Aid, Relief, and Economic Security Act introduced the Paycheck Protection Program (PPP) to provide funding to small businesses with the goal of preventing job loss and business failures due to losses caused by the COVID-19 pandemic. The PPP loan program was available for eligible small businesses, including nonprofits, to provide a forgivable loan to cover payroll and other costs.

The Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act) was signed into law on December 27, 2020. The Economic Aid Act extending the authority to make PPP loans through March 31, 2021, revising certain PPP requirements, and permitting second draw PPP loans. In February 2021, the Center received an additional PPP loan totaling \$884,260. In October 2021, the Center received notification from BMO Harris that the Center's second PPP loan forgiveness application was approved by the Small Business Administration.

Note 8. Net Assets with Donor Restrictions

Net assets with donor restrictions were available for the following purposes at June 30, 2022:

| | |
|-------------------------------------|---------------------|
| Energy | \$ 902,078 |
| Wild and natural places | 556,976 |
| Transportation/air quality/land use | 201,275 |
| ELPC Action Fund | 363,374 |
| General support for future periods | 3,556,501 |
| Endowment | 467,634 |
| | <u>\$ 6,047,838</u> |

Net assets with donor restrictions were released from restrictions for the following purposes for the year ended June 30, 2022:

| | |
|-------------------------------------|---------------------|
| Energy | \$ 2,172,628 |
| Wild and natural places | 1,552,963 |
| Transportation/air quality/land use | 452,447 |
| Other projects | 105,000 |
| ELPC Action Fund | 264,201 |
| | <u>\$ 4,547,239</u> |

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

Note 9. Endowment Funds

The Center's endowment consists of donor-restricted funds established to provide the Center with a permanent revenue stream. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted in Illinois on June 30, 2009. The Center's management has interpreted the UPMIFA as requiring the preservation of the purchasing power of the original gift amounts contributed to an endowment fund unless there are donor stipulations to the contrary. As a result of this interpretation, the Center classified as net assets with donor 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) accumulations 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 Center considers a fund to be underwater if its fair value is less than the amount required to be maintained in perpetuity as previously described. The Center has interpreted UPMIFA to permit spending from underwater funds in accordance with the standards of prudence prescribed by UPMIFA. Endowment funds are reclassified to net assets without donor restrictions when they are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Center and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Center
- The investment policies of the Center

Return Objectives and Risk Parameters: The Center's investment and spending policies for endowment assets 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. As of June 30, 2022 endowment assets include only those assets of donor-restricted funds that the Center must hold in perpetuity. As approved by the Center's Board of Directors, the endowment assets are invested in a manner that is intended to provide adequate liquidity, maximizing returns on all funds invested and achieving full employment of all available funds as earning assets.

Funds With Deficiencies: From time to time, the fair value of assets associated with the donor-restricted endowment fund may fall below the level that the donor or Illinois UPMIFA requires the Center to retain as a fund of perpetual duration. Certain funds with original gift values totaling \$473,345 had deficiencies of \$5,711 at June 30, 2022. This deficiency resulted from unfavorable market fluctuations.

Environmental Law and Policy Center of the Midwest

Notes to Consolidated Financial Statements

Note 9. Endowment Funds (Continued)

Withdrawal Policy: The Center established a withdrawal policy in fiscal year 2022, which allows for the appropriation of up to 7% of the average market value of the endowment over the preceding three years. Appropriated earnings are to be used for the Center's operations and expenses in accordance with donor restrictions, if any. There were no appropriations for the year ended June 30, 2022.

The Center's endowment consisted of the following as of June 30, 2022:

| | |
|------------------|-------------------|
| Original corpus | \$ 473,345 |
| Accumulated loss | (5,711) |
| | <u>\$ 467,634</u> |

The following are changes in endowment net assets for the year ended June 30, 2022:

| | |
|--|-------------------|
| Endowment net assets at July 1, 2021 | \$ - |
| Contributions received | 473,345 |
| Net investment loss | (5,711) |
| Endowment net assets at June, 30, 2022 | <u>\$ 467,634</u> |

Note 10. 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 beginning on their date of hire and they become fully vested upon joining the plan. The Center's contribution for fiscal year 2022 was \$334,244.

Supplementary Information

Environmental Law and Policy Center of the Midwest

Consolidating Schedule of Activities Year Ended June 30, 2022

| | Without Donor Restrictions | | | With Donor Restrictions | 2022 Total | With Donor Restrictions | | 2022 Consolidated Total |
|---|----------------------------|------------------------------|----------------------|----------------------------|----------------------|----------------------------|------------------|-------------------------------|
| | Undesignated | Midwest Advocates Fund | Total | | | Action Fund | Eliminations | |
| Revenue: | | | | | | | | |
| Contributions | \$ 1,639,728 | \$ - | \$ 1,639,728 | \$ 679,660 | \$ 2,319,388 | \$ 100 | \$ - | \$ 2,319,488 |
| Foundation grants | 2,749,639 | - | 2,749,639 | 7,165,045 | 9,914,684 | - | - | 9,914,684 |
| Special events, net of costs of direct benefit to donors of \$34,419 | 494,907 | - | 494,907 | - | 494,907 | - | - | 494,907 |
| Investment income | 1,306,211 | - | 1,306,211 | 1,872 | 1,308,083 | - | - | 1,308,083 |
| Forgiveness for payroll protection program loan | 884,260 | - | 884,260 | - | 884,260 | - | - | 884,260 |
| Other income | 1,409,835 | - | 1,409,835 | - | 1,409,835 | 9,347 | - | 1,419,182 |
| Transfer of net assets arising from satisfaction of restrictions | 4,547,239 | - | 4,547,239 | (4,283,038) | 264,201 | - | (264,201) | - |
| | <u>13,031,819</u> | <u>-</u> | <u>13,031,819</u> | <u>3,563,539</u> | <u>16,595,358</u> | <u>9,447</u> | <u>(264,201)</u> | <u>16,340,604</u> |
| Expenses: | | | | | | | | |
| Program service expenses | 6,703,263 | - | 6,703,263 | - | 6,703,263 | 264,201 | (264,201) | 6,703,263 |
| General and administrative | 754,854 | - | 754,854 | - | 754,854 | - | - | 754,854 |
| Marketing | 177,401 | - | 177,401 | - | 177,401 | - | - | 177,401 |
| Fundraising | 745,882 | - | 745,882 | - | 745,882 | - | - | 745,882 |
| | <u>8,381,400</u> | <u>-</u> | <u>8,381,400</u> | <u>-</u> | <u>8,381,400</u> | <u>264,201</u> | <u>(264,201)</u> | <u>8,381,400</u> |
| Increase in net assets before other items | 4,650,419 | - | 4,650,419 | 3,563,539 | 8,213,958 | (254,754) | - | 7,959,204 |
| Unrealized (loss) gain on investments | (4,667,668) | (545,421) | (5,213,089) | (7,583) | (5,220,672) | - | - | (5,220,672) |
| (Decrease) increase in net assets | (17,249) | (545,421) | (562,670) | 3,555,956 | 2,993,286 | (254,754) | - | 2,738,532 |
| Net assets: | | | | | | | | |
| Beginning of year | 21,314,666 | 4,499,911 | 25,814,577 | 2,128,508 | 27,943,085 | 618,128 | - | 28,561,213 |
| End of year | <u>\$ 21,297,417</u> | <u>\$ 3,954,490</u> | <u>\$ 25,251,907</u> | <u>\$ 5,684,464</u> | <u>\$ 30,936,371</u> | <u>\$ 363,374</u> | <u>\$ -</u> | <u>\$ 31,299,745</u> |