

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED MARCH 31, 2022
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2021**

SOUTHERN ENVIRONMENTAL LAW CENTER

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CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Southern Environmental Law Center
Charlottesville, Virginia

Opinion

We have audited the accompanying financial statements of the Southern Environmental Law Center (SELC), which comprise the statement of financial position as of March 31, 2022, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SELC as of March 31, 2022, and the change 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. 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 SELC 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 SELC's ability to continue as a going concern within one year after the date that the financial statements are 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.

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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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 SELC'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 SELC'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

The prior year summarized comparative information has been derived from SELC's 2021 financial statements, which were audited by other auditors and, in their report dated October 29, 2021, they expressed an unmodified opinion on those statements.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

November 4, 2022

SOUTHERN ENVIRONMENTAL LAW CENTER
STATEMENT OF FINANCIAL POSITION
AS OF MARCH 31, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 9,619,501	\$ 11,859,350
Investments	188,125,562	170,084,934
Accounts receivable	-	83,266
Grant and contributions receivable	1,350,000	49,500
Prepaid expenses	250,110	407,388
Deferred compensation investment	117,876	249,677
Deposits	75,719	75,719
Property and equipment, net of accumulated depreciation and amortization of \$2,662,830	4,265,194	705,543
Right-of-use assets	<u>13,333,724</u>	<u>-</u>
TOTAL ASSETS	\$ <u>217,137,686</u>	\$ <u>183,515,377</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Operating lease liabilities	\$ 13,674,899	\$ -
Accounts payable and accrued liabilities	918,355	336,426
Accrued salaries and related benefits	588,287	530,617
Deferred compensation liability	<u>117,876</u>	<u>249,677</u>
Total liabilities	<u>15,299,417</u>	<u>1,116,720</u>

NET ASSETS

Without donor restrictions		
Operating	67,286,820	70,559,176
Property and equipment	4,265,194	705,543
Board designated:		
Endowment funds	<u>93,461,345</u>	<u>90,024,409</u>
Total without donor restrictions	165,013,359	161,289,128
With donor restrictions	<u>36,824,910</u>	<u>21,109,529</u>
Total net assets	<u>201,838,269</u>	<u>182,398,657</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>217,137,686</u>	\$ <u>183,515,377</u>

SOUTHERN ENVIRONMENTAL LAW CENTER

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021**

	<u>2022</u>			<u>2021</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 18,200,598	\$ 22,023,958	\$ 40,224,556	\$ 29,896,291
Foundation grants	188,640	7,166,860	7,355,500	6,428,000
Bequests	180,737	-	180,737	325,750
Attorney fees	138,462	-	138,462	264,770
Investment income, net	3,499,113	832,920	4,332,033	42,088,684
Contributed services	49,333	-	49,333	50,167
Other revenue	272	-	272	688
Net assets released from donor restrictions	<u>14,308,357</u>	<u>(14,308,357)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>36,565,512</u>	<u>15,715,381</u>	<u>52,280,893</u>	<u>79,054,350</u>
EXPENSES				
Program Services	<u>28,387,736</u>	<u>-</u>	<u>28,387,736</u>	<u>25,367,618</u>
Supporting Services:				
Administration and General	2,219,087	-	2,219,087	1,936,220
Fundraising	<u>2,234,458</u>	<u>-</u>	<u>2,234,458</u>	<u>1,791,225</u>
Total supporting services	<u>4,453,545</u>	<u>-</u>	<u>4,453,545</u>	<u>3,727,445</u>
Total expenses	<u>32,841,281</u>	<u>-</u>	<u>32,841,281</u>	<u>29,095,063</u>
Change in net assets	3,724,231	15,715,381	19,439,612	49,959,287
Net assets at beginning of year	<u>161,289,128</u>	<u>21,109,529</u>	<u>182,398,657</u>	<u>132,439,370</u>
NET ASSETS AT END OF YEAR	<u>\$ 165,013,359</u>	<u>\$ 36,824,910</u>	<u>\$ 201,838,269</u>	<u>\$ 182,398,657</u>

SOUTHERN ENVIRONMENTAL LAW CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021

	2022				2021	
	Supporting Services			Total Supporting Services	Total Expenses	Total Expenses
	Program Services	Administration and General	Fundraising			
Salaries and related expenses:						
Salaries	\$ 15,064,588	\$ 1,539,982	\$ 1,373,306	\$ 2,913,288	\$ 17,977,876	\$ 15,966,075
Payroll taxes	1,106,748	99,573	93,678	193,251	1,299,999	1,023,259
Employee benefits	2,436,625	246,581	197,966	444,547	2,881,172	2,480,194
Total salaries and related expenses	18,607,961	1,886,136	1,664,950	3,551,086	22,159,047	19,469,528
Equipment, software and depreciation	1,359,636	42,278	143,517	185,795	1,545,431	1,145,893
Contributed services	44,333	2,500	2,500	5,000	49,333	50,167
General contracted services	793,438	-	-	-	793,438	345,423
Grants to other organizations	32,500	-	-	-	32,500	130,398
Insurance	139,842	10,461	9,238	19,699	159,541	157,201
Development services	1,035	-	25,529	25,529	26,564	136,324
Conferences and meetings	124,067	5,173	19,453	24,626	148,693	51,181
Miscellaneous	73,162	8,795	46	8,841	82,003	138,833
Occupancy	2,185,756	210,725	185,754	396,479	2,582,235	2,356,217
Office supplies	124,743	9,019	281	9,300	134,043	125,058
Postage and delivery	86,300	903	35,880	36,783	123,083	69,624
Printing and publications	675,920	222	29,307	29,529	705,449	164,178
Professional development	163,423	6,468	780	7,248	170,671	122,706
Professional dues and fees	82,959	2,297	1,020	3,317	86,276	82,992
Environmental program litigation	1,242,921	-	-	-	1,242,921	2,230,932
Communications, education and marketing	1,917,376	-	59,243	59,243	1,976,619	1,636,190
Reference materials	206,253	-	17,364	17,364	223,617	177,426
Telephone	405,811	30,173	20,489	50,662	456,473	497,205
Travel	120,300	3,937	19,107	23,044	143,344	7,587
Total operating expenses	9,779,775	332,951	569,508	902,459	10,682,234	9,625,535
TOTAL EXPENSES	\$ 28,387,736	\$ 2,219,087	\$ 2,234,458	\$ 4,453,545	\$ 32,841,281	\$ 29,095,063

See accompanying notes to financial statements.

SOUTHERN ENVIRONMENTAL LAW CENTER

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 19,439,612	\$ 49,959,287
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	390,368	285,267
Net realized and unrealized gain	(1,644,132)	(39,245,354)
Change in measurement of operating lease	341,175	-
Decrease (increase) in:		
Accounts receivable	83,266	(21,407)
Grant and contributions receivable	(1,300,500)	368,500
Prepaid expenses	157,278	(151,382)
Deposits	-	6,908
Increase (decrease) in:		
Accounts payable and accrued liabilities	581,929	(25,106)
Accrued salaries and related benefits	<u>57,670</u>	<u>89,048</u>
Net cash provided by operating activities	<u>18,106,666</u>	<u>11,265,761</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(3,950,019)	(264,611)
Purchase of investments	(29,981,250)	(4,678,453)
Proceeds from sale of investments	<u>13,584,754</u>	<u>2,081,832</u>
Net cash used by investing activities	<u>(20,346,515)</u>	<u>(2,861,232)</u>
Net (decrease) increase in cash and cash equivalents	(2,239,849)	8,404,529
Cash and cash equivalents at beginning of year	<u>11,859,350</u>	<u>3,454,821</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 9,619,501</u>	<u>\$ 11,859,350</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS:		
Right-of-Use Asset	<u>\$ 14,931,791</u>	<u>\$ -</u>
Operating Lease Liability for Right-of-Use Asset	<u>\$ 15,194,747</u>	<u>\$ -</u>

SOUTHERN ENVIRONMENTAL LAW CENTER

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Southern Environmental Law Center (SELC) is a legal and policy non-profit with the mission to protect the basic right to clean air, clean water, and a livable climate; to preserve our region's natural treasures and rich biodiversity; and to provide a healthy environment for all. 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. 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.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions.

Descriptions of the two net asset categories are as follows:

- **Net Assets without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board designated and are also reported as net assets without donor restrictions.
- **Net Assets with Donor Restrictions** - Net assets may be subject to donor-imposed stipulations that are more restrictive than SELC's mission and purpose. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

The financial statements include certain prior year summarized comparative information in total but not by net asset class; such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with SELC's financial statements for the year ended March 31, 2021, from which the summarized information was derived.

SOUTHERN ENVIRONMENTAL LAW CENTER

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

New accounting pronouncements adopted (continued) -

During the year ended March 31, 2022, SELC early adopted ASU 2019-01, *Leases* (Topic 842), which changed the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosure of key information about leasing arrangements. SELC applied the new standard to all leases in effect during 2022 and also the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. See note 8 for further details.

Cash and cash equivalents -

SELC considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, SELC maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, realized and unrealized gains and losses are included in investment income, which is presented net of investment expenses paid to external investment advisors, in the accompanying Statement of Activities and Change in Net Assets.

Accounts, grants and contributions receivable -

Accounts, grants and contributions receivable are recorded at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectable. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

Property and equipment in excess of \$5,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally five to seven years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the year ended March 31, 2022 totaled \$390,368 and is included in equipment, software and depreciation in the accompanying Statement of Functional Expenses.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to the Statement of Activities and Change in Net Assets, to its current fair value.

SOUTHERN ENVIRONMENTAL LAW CENTER

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Income taxes -

SELC is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. SELC is not a private foundation.

Uncertain tax positions -

For the year ended March 31, 2022, SELC has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Revenue -

Contributions, grants and bequests -

SELC receives contributions, including unconditional promises to give. Contributions, grants and bequests are recognized in the appropriate category of net assets in the period received. SELC performs an analysis of the individual contribution and grant to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal under ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

For contributions, grants and bequests qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions and grants qualifying as contributions that are unconditional that have donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements.

Contributions and grants qualifying as conditional contributions contain a right of return and a barrier. Revenue is recognized when the condition or conditions are satisfied. These transactions are nonreciprocal and recognized as contributions when the revenue becomes unconditional.

Funds received in advance of the incurrence of qualifying expenditures are recorded as a refundable advance. SELC had approximately \$18,000,000 of unrecognized conditional contributions as of March 31, 2022. All unrecognized conditional contributions as of March 31, 2022 are expected to be collected and recognized as revenue during the year ended March 31, 2023.

Attorney fees revenue -

Attorney fees revenue are classified as exchange transactions following ASU 2014-09, *Revenue from Contracts With Customers*, and are recorded as revenue at a point in time when the performance obligations are met. SELC has elected to opt out of all (or certain) disclosures not required for nonpublic entities. Transaction price is based on cost.

SOUTHERN ENVIRONMENTAL LAW CENTER

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Contributed services -

Contributed services consist of donated attorney services and advertising. Contributed services are recorded at their fair value as of the date of the gift. In addition, volunteers have donated significant amounts of their time to SELC; these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of SELC are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

Investment risks and uncertainties -

SELC invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

SELC adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. SELC accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

New accounting pronouncement not yet adopted -

ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure.

SOUTHERN ENVIRONMENTAL LAW CENTER

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

New accounting pronouncement not yet adopted (continued) -

The amendments in this Update address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP's programs and other activities. The ASU should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The amendment will not change the recognition and measurement requirements for those contributed nonfinancial assets.

SELC plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying financial statements.

2. INVESTMENTS

Investments consisted of the following as of March 31, 2022:

	<u>Fair Value</u>
Equities	\$ 110,374,570
Fixed income mutual funds	<u>77,750,992</u>
TOTAL INVESTMENTS	<u>\$ 188,125,562</u>

Included in investment income, net are the following:

Interest and dividends	\$ 2,716,563
Net realized and unrealized gain	1,644,132
Investment expenses provided by external investment advisors	<u>(28,662)</u>
TOTAL INVESTMENT INCOME, NET OF INVESTMENT EXPENSES	<u>\$ 4,332,033</u>

In accordance with FASB ASC 820, *Fair Value Measurement*, SELC has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market SELC has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

SOUTHERN ENVIRONMENTAL LAW CENTER

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2022**

2. INVESTMENTS (Continued)

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used and there were no transfers between levels in the fair value hierarchy during the year ended March 31, 2022. Transfers between levels are recorded at the end of the reporting period, if applicable.

- *Equities* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Fixed income mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by SELC are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily value and to transact at that price. Mutual funds held by SELC are deemed to be actively traded.

The table below summarizes, the investments measured at fair value on a recurring basis, by level within the fair value hierarchy as of March 31, 2022.

	Level 1	Level 2	Level 3	Total March 31, 2022
Investments:				
Equities	\$ 110,374,570	\$ -	\$ -	\$ 110,374,570
Fixed income mutual funds	<u>77,750,992</u>	<u>-</u>	<u>-</u>	<u>77,750,992</u>
TOTAL INVESTMENTS	<u>\$ 188,125,562</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 188,125,562</u>
Deferred Compensation Investments:				
Equities	<u>\$ 117,876</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,876</u>

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31, 2022:

Equipment	\$ 574,648
Furniture	819,262
Leasehold improvements	<u>5,534,114</u>
Total Property and equipment	6,928,024
Less: Accumulated depreciation and amortization	<u>(2,662,830)</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 4,265,194</u>

4. LINE OF CREDIT

SELC has a \$1,500,000 bank line of credit which matures December 1, 2022. Amounts borrowed under this agreement bear interest at the bank's prime rate plus 3%.

SOUTHERN ENVIRONMENTAL LAW CENTER

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2022**

4. LINE OF CREDIT (Continued)

As of March 31, 2022 there was no outstanding balance on the line of credit.

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at March 31, 2022:

Subject to the passage of time or expenditure for specified purpose:	
North Carolina	\$ 277,500
Virginia	47,000
Tennessee	112,500
Georgia	145,000
South Carolina	20,000
Alabama	60,006
Coast & Wetlands	184,720
Energy/Air	2,903,750
Forests	31,250
Wildlife	250
Land & Community/Transportation	400,000
Water	47,500
Regional	16,842,577
Accumulated investment earnings on endowment	<u>11,602,857</u>
	32,674,910
Endowment to be invested in perpetuity	<u>4,150,000</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 36,824,910</u>

The following net assets with donor restrictions were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

North Carolina	\$ 349,500
Virginia	194,500
Tennessee	142,073
Georgia	165,000
South Carolina	35,000
Alabama	140,006
Coast & Wetlands	336,125
Energy/Air	4,681,750
Forests	191,750
Wildlife	20,250
Land & Community/Transportation	1,230,000
Water	177,500
Regional	6,544,903
Strategic Plan	<u>100,000</u>
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 14,308,357</u>

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**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2022**

6. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following:

Cash and cash equivalents	\$ 9,619,501
Investments	188,125,562
Grant and contributions receivable	<u>1,350,000</u>
Subtotal financial assets available within one year	199,095,063
Less: Net assets with donor restrictions	(36,824,910)
Less: Board designated endowment	<u>(93,461,345)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 68,808,808</u>

SELC has a policy to structure its financial assets to be available and liquid as its obligations become due. In addition, SELC has a line of credit agreement (as further discussed in Note 4) which allows for additional available borrowings up to \$1,500,000.

7. CONTRIBUTED SERVICES

During the year ended March 31, 2022, SELC was the beneficiary of donated services which allowed SELC to provide greater resources toward various programs. To properly reflect total program expenses, the following donations have been included in revenue and expense for the year ended March 31, 2022.

Donated legal services	\$ 44,333
Donated advertising services	<u>5,000</u>
TOTAL	<u>\$ 49,333</u>

The following programs have benefited from these donated services:

Program Services	\$ 44,333
Administration and General	2,500
Fundraising	<u>2,500</u>
TOTAL	<u>\$ 49,333</u>

8. LEASE COMMITMENTS

SELC rents office facilities in Virginia, Washington D.C., Alabama, Georgia, North Carolina, South Carolina and Tennessee. Office facilities are pursuant to leases with varying terms and conditions.

ASU 2019-01, *Leases* (Topic 842), changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosure of key information about leasing arrangements.

SOUTHERN ENVIRONMENTAL LAW CENTER

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2022**

8. LEASE COMMITMENTS (Continued)

SELC elected on April 1, 2021 to early implement the ASU and elected the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. SELC also elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes. SELC adopted the package of practical expedients to not perform any lease reclassification, did not reevaluate embedded leases and did not reassess initial direct costs. As a result, SELC recorded a right-of-use asset in the amount of \$14,931,791. SELC recorded an operating lease liability in the amount of \$15,194,747 by calculating the present value using the discount rate of 2.23%. As of March 31, 2022, the right-of-use asset totaled \$13,333,724 and the lease liability totaled \$13,674,899.

The following is a schedule of the future minimum lease payments:

Year Ending March 31,

2023	\$ 2,128,326
2024	2,528,243
2025	2,594,140
2026	2,661,842
2027	<u>2,731,400</u>
	<u>\$ 12,643,951</u>

Lease expense for the year ended March 31, 2022 was \$2,253,068 and is included in occupancy in the accompanying Statement of Functional Expenses.

9. RETIREMENT PLAN

SELC provides retirement benefits to its employees through a defined contribution plan under Section 403(b) of the Internal Revenue code covering all full-time employees with one year of eligible experience. SELC provides a 9% contribution of each eligible employee's salary; the employer contribution does not begin until two years of service has been reached. Contributions to the Plan during the year ended March 31, 2022 totaled \$1,303,666.

SELC has established a defined contribution plan under Section 457(b) of the Internal Revenue Code. All assets contributed to the Plan are considered assets of the employer. Total contributions and investment earnings related to the Plan were \$117,876 as of March 31, 2022 and are recorded as a Deferred compensation investment and liability in the accompanying Statement of Financial Position. During year ended March 31, 2022, distributions from the Deferred compensation investment account totaled \$150,000.

10. ENDOWMENT

SELC's endowment consists of donor-restricted endowment funds and funds designated by the governing Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2022**

10. ENDOWMENT (Continued)

The Board of Trustees is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, SELC considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. SELC has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, SELC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization 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 organization; and
- Investment policies of the organization.

Endowment net asset composition by type of fund as of March 31, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board Designated Endowment Funds	\$ 93,461,345	\$ -	\$ 93,461,345
Endowment funds required to be held in perpetuity by donor	-	4,150,000	4,150,000
Accumulated investment earnings, subject to appropriation and expenditure when a specified event occurs	<u>-</u>	<u>11,602,857</u>	<u>11,602,857</u>
TOTAL ENDOWMENT FUNDS	<u>\$ 93,461,345</u>	<u>\$ 15,752,857</u>	<u>\$ 109,214,202</u>

Changes in endowment net assets for the year ended March 31, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 90,024,409	\$ 14,869,937	\$ 104,894,346
Investment return, net	3,181,724	832,920	4,014,644
Contributions	-	50,000	50,000
Other changes	<u>255,212</u>	<u>-</u>	<u>255,212</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 93,461,345</u>	<u>\$ 15,752,857</u>	<u>\$ 109,214,202</u>

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**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2022**

10. 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 the organization to retain as a fund of perpetual duration. There were no such deficiencies as of March 31, 2022.

Return Objectives and Risk Parameters -

SELC has adopted 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 of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as Board designated funds.

Endowment assets include those assets that SELC must hold in perpetuity or for a donor-specified period, as well as funds designated by the Board of Trustees to function as endowments. 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. In keeping with the SELC mission and sound investment practices, the Investment Committee will maximize the investment of the equity portion of SELC's Investment Portfolio in Environmental, Social and Governance funds.

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). SELC targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

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

11. SUBSEQUENT EVENTS

In preparing these financial statements, SELC has evaluated events and transactions for potential recognition or disclosure through November 4, 2022, the date the financial statements were issued.