MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY

FINANCIAL STATEMENTS

For the Years Ended June 30, 2011 and 2010

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY

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SHERRY D. HEFFERNAN, LTD.
CERTIFIED PUBLIC ACCOUNTANT

6650 HORSESHOE BEND
CORCORAN-HAMEL, MINNESOTA 55340
763-478-6518, FAX 763-478-6088
EMAIL: SSSHEFF@AOL.COM

MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF MINNESOTA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
St. Paul, Minnesota

I have audited the accompanying statement of financial position of the Minnesota Center for Environmental Advocacy (MCEA), a nonprofit organization, as of June 30, 2011 and 2010 and the related statements of activity, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of MCEA's management. My responsibility is to express an opinion on these financial statements based on the audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota Center for Environmental Advocacy as of June 30, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Sherry D. Heffernan, Ltd.

Sherry D. Heffernan, Ltd.

October 10, 2011

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Statement of Financial Position
June 30, 2011 and 2010

	2011	2010
ASSETS		
Cash and cash equivalents	$ 473,697	$ 437,197
Accounts receivable	63,387	64,949
Unconditional promises to give	384,500	315,000
Investments	1,131,871	988,975
Prepaid expenses	16,608	17,791
Property and leasehold improvements, net	4,360	7,616
TOTAL ASSETS	**$ 2,074,423**	**$ 1,831,528**
LIABILITIES		
Accounts payable	$ 18,915	$ 104,833
Accrued expenses	44,747	46,584
Deferred revenues	75,839	-
	139,501	151,417
NET ASSETS		
Unrestricted		
Undesignated	92,112	103,657
Designated by board for future programming needs	620,454	440,354
	712,566	544,011
Temporarily restricted	664,749	578,493
Permanently restricted - endowment fund	557,607	557,607
TOTAL NET ASSETS	1,934,922	1,680,111
TOTAL LIABILITIES AND NET ASSETS	**$ 2,074,423**	**$ 1,831,528**

The accompanying notes are an integral part of these financial statements.

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Statement of Activities
Year Ended June 30, 2011 with Comparative Totals for the Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011	2010
REVENUES:					
Contributions	$ 520,255	$ 675,000	$ -	$ 1,195,255	$ 834,199
Program services	341,816	-	-	341,816	230,106
Investment income	190,639	-	-	190,639	108,817
Miscellaneous income	1,007	-	-	1,007	2,698
Special event revenue	71,269	-	-	71,269	7,960
Less: Costs of direct benefits to donors	(15,175)	-	-	(15,175)	(10,027)
	56,094	-	-	56,094	(2,067)
TOTAL REVENUES	1,109,811	675,000	-	1,784,811	1,173,753
Net assets released from restrictions					
Restrictions satisfied by purpose and time	588,744	(588,744)	-	-	-
TOTAL REVENUES AND OTHER SUPPORT	1,698,555	86,256	-	1,784,811	1,173,753
EXPENSES:					
Program services:					
Transportation and land use	265,964	-	-	265,964	264,495
Public health	126,153	-	-	126,153	129,951
Wildlife and natural resources	94,988	-	-	94,988	119,128
Water quality	348,701	-	-	348,701	459,930
Clean energy	424,968	-	-	424,968	422,110
Total program services	1,260,774	-	-	1,260,774	1,395,614
Management and administrative	154,842	-	-	154,842	191,711
Fundraising	114,384	-	-	114,384	148,882
TOTAL EXPENSES	1,530,000	-	-	1,530,000	1,736,207
INCREASE (DECREASE) IN NET ASSETS	168,555	86,256	-	254,811	(562,454)
NET ASSETS AT BEGINNING OF YEAR	544,011	578,493	557,607	1,680,111	2,242,565
NET ASSETS AT END OF YEAR	$ 712,566	$ 664,749	$ 557,607	$ 1,934,922	$ 1,680,111

The accompanying notes are an integral part of these financial statements.

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Statement of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 254,811	$ (562,454)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	6,033	5,832
Realized and unrealized (gains) losses on investments	(167,000)	(80,924)
(Increase) decrease in operating assets:		
Accounts receivable	1,562	(4,599)
Unconditional promises to give	(69,500)	175,344
Prepaid expenses	1,183	(735)
Increase (decrease) in operating liabilities:		
Accounts payable	(85,918)	79,430
Accrued expenses	(1,837)	6,990
Deferred revenues	75,839	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	15,173	(381,116)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	130,365	89,883
Purchase of long-term investments	(106,261)	(104,916)
Purchase of equipment, net of disposition	(2,777)	(4,630)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	21,327	(19,663)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,500	(400,779)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	437,197	837,976
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 473,697	$ 437,197

The accompanying notes are an integral part of these financial statements.

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Statement of Functional Expenses
Year Ended June 30, 2011

		Supporting Services			
	Program Services	Management and General	Fund Raising	Total Supporting Services	Total
Salaries, taxes and benefits	$ 859,468	$ 77,219	$ 95,242	$ 172,461	$ 1,031,929
Consultants	192,026	26,923	8,637	35,560	227,586
Legal disbursements/library	10,309	-	-	-	10,309
Occupancy costs	54,083	1,492	1,492	2,984	57,067
Computer and website development	37,068	566	566	1,132	38,200
Office supplies	6,751	193	193	386	7,137
Telephone	15,686	427	427	854	16,540
Postage	4,260	107	107	214	4,474
Printing and copying	31,906	865	2,327	3,192	35,098
Professional fees	-	12,258	-	12,258	12,258
Investment fees	-	11,211	-	11,211	11,211
Legislative expenses	-	-	-	-	-
Dues and subscriptions	14,886	111	3,174	3,285	18,171
Insurance	1,305	21,462	-	21,462	22,767
Travel	15,644	146	146	292	15,936
Conferences and meetings	9,954	211	211	422	10,376
Grants	-	-	-	-	-
Marketing and branding	1,410	151	-	151	1,561
Miscellaneous	1,097	388	1,862	2,250	3,347
Depreciation	4,921	1,112	-	1,112	6,033
Total expenses	**$ 1,260,774**	**$ 154,842**	**$ 114,384**	**$ 269,226**	**$ 1,530,000**
	82.4%	10.1%	7.5%	17.6%	100.0%

The accompanying notes are an integral part of these financial statements.

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Statement of Functional Expenses
Year Ended June 30, 2010

	Program Services	Supporting Services: Management and General	Supporting Services: Fund Raising	Supporting Services: Total Supporting Services	Total
Salaries, taxes and benefits	$ 1,004,085	$ 104,255	$ 124,112	$ 228,367	$ 1,232,452
Consultants	58,156	43,802	-	43,802	101,958
Legal disbursements/library	12,325	-	-	-	12,325
Occupancy costs	52,826	1,705	3,800	5,505	58,331
Computer and website development	62,295	558	558	1,116	63,411
Office supplies	9,387	342	313	655	10,042
Telephone	14,505	418	418	836	15,341
Postage	4,289	137	3,069	3,206	7,495
Printing and copying	39,784	1,342	11,392	12,734	52,518
Professional fees	-	13,775	-	13,775	13,775
Investment fees	-	7,497	-	7,497	7,497
Legislative expenses	3,461	-	-	-	3,461
Dues	13,973	102	102	204	14,177
Insurance	1,002	14,333	3,523	17,856	18,858
Travel	11,120	510	385	895	12,015
Conferences and meetings	4,689	118	118	236	4,925
Grants	90,000	-	-	-	90,000
Marketing and branding	3,529	121	280	401	3,930
Miscellaneous	5,557	1,495	812	2,307	7,864
Depreciation	4,631	1,201	-	1,201	5,832
Total expenses	**$ 1,395,614**	**$ 191,711**	**$ 148,882**	**$ 340,593**	**$ 1,736,207**
	80.4%	11.0%	8.6%	19.6%	100.0%

The accompanying notes are an integral part of these financial statements.

1) Organizational Purpose

The Minnesota Center for Environmental Advocacy (MCEA) is a nonprofit charitable organization using law, science and research to protect Minnesota's environment. Since 1974, MCEA's lawyers and policy experts have worked in all three branches of government to see that environmental standards are enforced and when necessary to change statutes and rules to better protect the environment.

MCEA's program focuses include the following:

Water Quality: focuses on protecting Minnesota's greatest natural resource and economic asset, its water. For example, MCEA advocates for the adoption of protective nitrogen and phosphorous standards for flowing waters, defends the state's numeric nitrogen and phosphorous standards for lakes and reservoirs, and fully participates in large-scale implementation plans for turbidity reductions in the Minnesota River and phosphorus reductions in Lake Pepin. MCEA also acts as a watchdog to assure that clean water funds from the Legacy Amendment are targeted effectively. MCEA continues to provide legal and technical pressure on Minnesota agency officials to meet federal standards for water quality permitting and enforcement.

Wildlife & Natural Resources: works to conserve, protect, and advocate for policies and practices that will sustain lakes, rivers, forest and streams, as well as the communities that depend upon them to prevent long term damage and destruction. For example, MCEA has been a key leader in the Red River basin since 1998 when a mediation agreement was signed that proposed a new approach to achieve both flood damage reduction and natural resource enhancement goals.

Land Use and Transportation: advocates for public policy platforms and funding mechanisms that support a broad set of choices for how we live and get around, both to protect the environment and improve public health. MCEA played a major role in the Central Corridor Light Rail Transit (LRT) and is a leader in the formative stages of the proposed Southwest LRT line and the Bottineau Corridor, a future transit line that could bring enormous benefits to the citizens of north Minneapolis as economic equity issues are addressed while the project is being developed.

Clean Energy: focuses on long-term development of modern and sustainable energy sources for Minnesota and the replacement of out-dated, environmentally harmful energy sources like coal-fired electrical power plants. To support this goal, MCEA serves as legal counsel for several Minnesota energy partners including the Izaak Walton League, Wind on the Wires, Fresh Energy, Center for Energy and the Environment, and the Sierra Club's Retire Old Coal program.

1) Organizational Purpose, continued

Mining: works to ensure that proposed new copper nickel mines and existing taconite mines comply with all applicable federal, state and local environmental safeguards and that Minnesota's taxpayers are not left with the bill for long-term cleanup costs.

2) Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements of MCEA have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. MCEA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted assets are resources over which the Board of Directors has discretionary control. Temporarily restricted assets are resources which are subject to a donor imposed restriction which generally will be satisfied by organizational actions or the passage of time. Permanently restricted resources are subject to a donor imposed restriction that such assets are restricted permanently.

Cash and Cash Equivalents

For purposes of the statement of cash flows, MCEA considers all unrestricted cash and other highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk

Financial instruments that potentially subject MCEA to concentrations of credit risk consist principally of temporary cash investments and unconditional promises to give. The organization places its temporary cash investments with financial institutions as noted below. Concentrations of credit risk with respect to unconditional promises receivable are limited due to the financial stability of the contributors. Unconditional promises to give include amounts from two donors comprising 100% of the balance at June 30, 2011 and from three donors comprising 100% of the balance at June 30, 2010.

2) Summary of Significant Accounting Policies, continued

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The organization maintains its cash and certificates of deposit in one financial institution located in the Twin Cities. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000. At June 30, 2011, the organization's uninsured cash balance was approximately $224,000.

Concentration of Contributions

In 2011 MCEA received approximately 56% of its total contribution revenues from one donor. In 2010 MCEA received approximately 55% of its total contribution revenues from three donors.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probably uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. There have been no charges to bad debt expense or the valuation allowance.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received.

Investments

MCEA carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

1) Summary of Significant Accounting Policies, continued

Fair Value Measurements

MCEA determined the fair value of certain assets and liabilities in accordance with the provisions of accounting Standards Codification (ASC) 820, "Fair Value Measurements" (formerly Statement of Financial Accounting Standards (SFAS) Statement No. 157, *Fair Value Measurements*,) which provides a framework for measuring fair value under generally accepted accounting principles.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs and reflect management's best estimate of what market participants would use as fair value.

Property and Leasehold Improvements

MCEA capitalizes all expenditures for property and leasehold improvements in excess of $1,500. Purchased property and leasehold improvements are recorded at cost. Donated property is carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of three to ten years.

Deferred Revenues

Revenue from program service contracts is recognized as it is earned through expenditure in accordance with the agreements.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by MCEA.

A significant number of legal services are contributed to MCEA in connection with the accomplishment of its program services. These donated services, which had an estimated value of $29,500 in 2011 and $67,000 in 2010, were not recognized in the financial statements because they did not meet the criteria for recognition under SFAS No. 116.

2) Summary of Significant Accounting Policies, continued

Restricted and Unrestricted Revenue

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

MCEA has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute 290.05. It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code and contributions by donors are tax deductible.

Comparative Financial Information

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 MECA's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

3) Certificates of Deposit

There are no certificates of deposit at June 30, 2011. Certificates of deposit totaling $148,250 at June 30, 2010 were included in cash in the accompanying financial statements.

4) Unconditional Promises to Give

Unconditional promises to give of $384,500 and $315,000 at June 30, 2011 and 2010, respectively, are receivable within one year and are primarily for future program services.

5) Investments

Investments are reported on the basis of quoted market prices and consist of the following at June 30, 2011 and 2010:

	2011	2010
Level 1: Quoted prices in active markets for identical assets:		
Equity securities	$ 759,612	$ 592,150
Level 2: Significant other observable inputs:		
Treasury notes and government bonds	372,846	375,739
Money market funds	-587	21,086
Total	$ 1,131,871	$ 988,975

Investment return is summarized as follows:

	2011	2010
Interest and dividend income	$ 24,310	$ 24,777
Net realized and unrealized gains (losses)	167,000	80,924
Investment income	191,310	105,701
Interest income on certificates of deposit	-	3,116
Total investment income	$ 191,310	$ 108,817

Expenses relating to investment revenues, including investment advisory fees were $11,211 in 2011 and $7,497 in 2010.

6) Property and Leasehold Improvements

Property and leasehold improvements consist of the following:

	2011	2010
Furniture and equipment	$ 60,051	$ 123,555
Leasehold improvements	14,471	14,471
	74,522	134,846
Less accumulated depreciation	70,162	130,410
	$ 4,360	$ 7,616

Depreciation of $6,033 and $4,382 was recorded for the years ended June 30, 2011 and 2010.

7) Operating Leases

MCEA leases office space under an operating lease, which expires June 30, 2013. Monthly rent is $4,756 which includes utilities, real estate taxes and insurance. Rent expense was $57,067 and $56,236 for the years ended June 30, 2011 and 2010, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2011 are as follows:

Year Ending June 30	Amount
2012	$ 57,067
2013	58,779
	$ 115,846

8) Retirement Plans

In January 2008 MCEA adopted a defined contribution plan and can elect to match an employee's pre-tax contribution up to three percent of the employee's salary. There were no employer contributions made by MCEA in 2011 or 2010.

9) Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes:

	2011	2010
Time restrictions	$ 108,113	$ 248,193
Environmental programs	556,636	330,299
	$ 664,749	$ 578,492

10) Designations

The Board of Directors has designated the use of cumulative earnings from the endowment fund for future programming needs. The designated net asset balances are $620,454 and $440,354 as of June 30, 2011 and 2010, respectively. These amounts are not available for general operations until released by the Board of Directors. The balances include $180,099 of net gain on investments in 2011 and $98,204 of net gain on investments in 2010.

11) Endowment Fund

MCEA has a donor-restricted endowment fund. It also has a fund designated by the Board of Directors which is not deemed to be an endowment fund (see footnote 10). As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

11) Endowment Fund, continued

Interpretation of Relevant Law: The Board of Directors of MCEA has interpreted the Minnesota adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, MCEA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. In accordance with Minnesota UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) The duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the organization.

There were no changes in the permanently restricted endowment fund and the balance at June 30, 2011 and 2010 was $557,607.

Return Objectives and Risk Parameters: MCEA has adopted investment and spending policies for endowment assets that attempt to provide a predicable 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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the desire for growth and the need to protect principal.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the organization 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). It 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: MCEA has a policy that allows the Board of Directors discretion in determining annually the spending policy and considers the balance between re-investment of annual earnings with the operating needs of the organization. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

12) Grantor or Donor Restrictions

Certain contributions or grants from donors are subject to special audit by the donor. Such audits could result in claims against the organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

13) Income Taxes

The organization has evaluated its potential exposure for uncertain tax positions and management has expressed there are no uncertain tax positions as of June 30, 2011. Tax returns for the past three tax years remain open for examination by tax jurisdictions.

14) Subsequent Events

MCEA has evaluated subsequent events through October 10, 2011, the date the financial statements were available to be issued. MCEA is not aware of any subsequent events that require recognition or disclosure in the financial statements.