MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY

FINANCIAL STATEMENTS

For the Years Ended June 30, 2013 and 2012

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Minnesota Center for
Environmental Advocacy
St. Paul, Minnesota

I have audited the accompanying financial statements of Minnesota Center for Environmental Advocacy (MCEA), a nonprofit organization, which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statements of activity, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
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 from material misstatement.

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

INDEPENDENT AUDITOR'S REPORT, continued

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Sherry D. Heffernan, Ltd.

Sherry D. Heffernan, Ltd.

October 18, 2013

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Statement of Financial Position
June 30, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 843,207	$ 561,768
Accounts receivable	8,533	37,662
Unconditional promises to give	327,700	50,000
Investments	1,238,264	1,165,932
Prepaid expenses	16,079	15,259
Property and leasehold improvements, net	1,331	925
TOTAL ASSETS	**$ 2,435,114**	**$ 1,831,546**
LIABILITIES		
Accounts payable	$ 20,725	$ 26,609
Accrued expenses	39,129	44,953
Deferred revenues	19,142	44,005
	78,996	115,567
NET ASSETS		
Unrestricted		
Undesignated	450,351	185,757
Designated by board for future programming needs	677,551	654,432
	1,127,902	840,189
Temporarily restricted	670,609	318,183
Permanently restricted - endowment fund	557,607	557,607
TOTAL NET ASSETS	2,356,118	1,715,979
TOTAL LIABILITIES AND NET ASSETS	**$ 2,435,114**	**$ 1,831,546**

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

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Statement of Activities
Year Ended June 30, 2013 with Comparative Totals for the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
REVENUES:					
Contributions	$ 604,692	$ 900,003	$ -	$ 1,504,695	$ 793,788
Program services	338,272	-	-	338,272	339,512
Investment income	143,657	-	-	143,657	44,101
Special event revenue	106,105	-	-	106,105	85,642
Less: Costs of direct benefits to donors	(17,092)	-	-	(17,092)	(15,276)
	89,013	-	-	89,013	70,366
TOTAL REVENUES	1,175,634	900,003	-	2,075,637	1,247,767
Net assets released from restrictions					
Restrictions satisfied by purpose and time	547,577	(547,577)	-	-	-
TOTAL REVENUES AND OTHER SUPPORT	1,723,211	352,426	-	2,075,637	1,247,767
EXPENSES:					
Program services:					
Clean energy	457,289	-	-	457,289	594,237
Water quality	311,599	-	-	311,599	286,748
Transportation and land use	221,374	-	-	221,374	229,772
Wildlife, natural resources and mining	180,147	-	-	180,147	103,801
Total program services	1,170,409	-	-	1,170,409	1,214,558
Management and administrative	144,541	-	-	144,541	139,855
Fundraising	120,548	-	-	120,548	112,297
TOTAL EXPENSES	1,435,498	-	-	1,435,498	1,466,710
INCREASE (DECREASE) IN NET ASSETS	287,713	352,426	-	640,139	(218,943)
NET ASSETS AT BEGINNING OF YEAR	840,189	318,183	557,607	1,715,979	1,934,922
NET ASSETS AT END OF YEAR	$ 1,127,902	$ 670,609	$ 557,607	$ 2,356,118	$ 1,715,979

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

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Statement of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 640,139	$ (218,943)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	1,192	3,435
Realized and unrealized (gains) on investments	(110,399)	(18,710)
(Increase) decrease in operating assets:		
Accounts receivable	29,129	25,725
Unconditional promises to give	(277,700)	334,500
Prepaid expenses	(820)	1,349
Increase (decrease) in operating liabilities:		
Accounts payable	(5,884)	7,694
Accrued expenses	(5,824)	206
Deferred revenues	(24,863)	(31,834)
NET CASH PROVIDED BY OPERATING ACTIVITIES	244,970	103,422
CASH FLOWS FROM INVESTING ACTIVITIES		
Transfer from investment account	60,000	-
Proceeds from sale of investments	253,457	378,789
Purchase of long-term investments	(275,390)	(394,140)
Purchase of equipment	(1,598)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	36,469	(15,351)
INCREASE IN CASH AND CASH EQUIVALENTS	281,439	88,071
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	561,768	473,697
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 843,207	$ 561,768

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

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Statement of Functional Expenses
Year Ended June 30, 2013

	Program Services	Supporting Services: Management and General	Supporting Services: Fund Raising	Supporting Services: Total Supporting Services	Total
Salaries, taxes and benefits	$ 810,919	$ 102,824	$ 107,458	$ 210,282	$ 1,021,201
Consultants	129,706	491	491	982	130,688
Legal disbursements/library	9,661	-	-	-	9,661
Occupancy costs	55,720	1,530	1,530	3,060	58,780
Computer and website development	25,727	700	700	1,400	27,127
Office supplies	4,585	122	122	244	4,829
Telephone	11,981	329	329	658	12,639
Postage	3,382	89	1,094	1,183	4,565
Printing and copying	29,057	798	3,529	4,327	33,384
Professional fees	179	16,364	2,023	18,387	18,566
Investment fees	-	12,438	-	12,438	12,438
Dues and subscriptions	10,450	57	2,726	2,783	13,233
Insurance	5,507	6,250	329	6,579	12,086
Travel	15,521	161	161	322	15,843
Conferences and meetings	2,990	56	56	112	3,102
Grants	50,000	-	-	-	50,000
Miscellaneous	4,018	2,146	-	2,146	6,164
Depreciation	1,006	186	-	186	1,192
Total expenses	**$ 1,170,409**	**$ 144,541**	**$ 120,548**	**$ 265,089**	**$ 1,435,498**
	81.5%	10.1%	8.4%	18.5%	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, 2012

	Program Services	Supporting Services: Management and General	Supporting Services: Fund Raising	Supporting Services: Total Supporting Services	Total
Salaries, taxes and benefits	$ 805,341	$ 94,287	$ 103,884	$ 198,171	$ 1,003,512
Consultants	166,098	11,411	2,173	13,584	179,682
Legal disbursements/library	9,744	-	-	-	9,744
Occupancy costs	54,430	1,317	1,319	2,636	57,066
Computer and website development	14,083	368	368	736	14,819
Office supplies	6,697	150	150	300	6,997
Telephone	15,051	342	342	684	15,735
Postage	4,127	96	96	192	4,319
Printing and copying	30,052	728	728	1,456	31,508
Professional fees	-	13,022	-	13,022	13,022
Investment fees	-	11,269	-	11,269	11,269
Dues	12,594	64	2,710	2,774	15,368
Insurance	4,011	5,978	268	6,246	10,257
Travel	20,143	171	172	343	20,486
Conferences and meetings	6,230	87	87	174	6,404
Grants	62,500	-	-	-	62,500
Miscellaneous	562	25	-	25	587
Depreciation	2,895	540	-	540	3,435
Total expenses	**$ 1,214,558**	**$ 139,855**	**$ 112,297**	**$ 252,152**	**$ 1,466,710**
	82.8%	9.5%	7.7%	17.2%	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:

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.

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.

Transportation and Land Use: 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.

Wildlife, Natural Resources and Mining: 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.

1) Organizational Purpose, continued

MCEA 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 99.2% of the balance at June 30, 2013 and from one donor comprising 100% of the balance at June 30, 2012.

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

The organization maintains its deposits in two financial institutions located in the Twin Cities. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000 at each institution. At June 30, 2013, the organization's uninsured cash balance was approximately $356,000.

2) Summary of Significant Accounting Policies, continued

Concentration of Contributions
In 2013 MCEA received approximately 48% of its total contribution revenues from two donors. In 2012 MCEA received approximately 42% of its total contribution revenues from two 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.

Fair Value Measurements
MCEA determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles which 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. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy has also been established which prioritizes the valuation inputs into three broad levels.

2) Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

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 $39,000 in 2013 and $59,000 in 2012, were not recognized in the financial statements because they did not meet the criteria for recognition under generally accepted accounting principles.

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.

2) Summary of Significant Accounting Policies, continued

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 MCEA's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

3) Unconditional Promises to Give

Unconditional promises to give of $327,700 and $50,000 at June 30, 2013 and 2012, respectively, are receivable within one year and are primarily for future program services.

4) Investments

Investments are reported on the basis of quoted market prices and consist of the following at June 30, 2013 and 2012:

	2013	2012
Level 1: Quoted prices in active markets for identical assets:		
Equity securities	$ 819,189	$ 757,640
Level 2: Significant other observable inputs:		
Treasury notes, government and other bonds	415,091	367,188
Money market funds	3,984	41,104
	$ 1,238,264	$ 1,165,932

4) Investments, continued

Investment return is summarized as follows:

	2013	2012
Interest and dividend income	$ 33,258	$ 25,391
Net realized and unrealized gains (losses)	110,399	18,710
	$ 143,657	$ 44,101

Expenses relating to investment revenues, including investment advisory fees were $12,438 in 2013 and $11,269 in 2012.

At June 30, 2013 and 2012 the total investment balance is considered partially designated by the board for future programming needs and partially restricted for an endowment fund.

5) Property and Leasehold Improvements

Property and leasehold improvements consist of the following at June 30, 2013 and 2012:

	2013	2012
Furniture and equipment	$ 54,345	$ 60,051
Leasehold improvements	14,471	14,471
	68,816	74,522
Less accumulated depreciation	67,485	73,597
	$ 1,331	$ 925

Depreciation of $1,192 and $3,435 was recorded for the years ended June 30, 2013 and 2012, respectively.

6) Operating Leases

MCEA leases office space under an operating lease which expires June 30, 2015. Monthly rent is $4,898 which includes utilities, real estate taxes and insurance. Rent expense was $58,779 and $57,067 for the years ended June 30, 2013 and 2012.

Future minimum lease payments under this operating lease which has remaining terms in excess of one year as of June 30, 2013 are:

Year Ending June 30,	Amount
2014	$ 58,779
2015	58,779
	$ 117,558

7) Retirement Plan

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 2013 or 2012.

8) Designated Net Assets

The designated net asset balances are $677,551 and $654,432 as of June 30, 2013 and 2012, respectively. These amounts are not available for general operations until released by the Board of Directors. The Board of Directors has designated the use of cumulative earnings from the endowment fund for future programming needs. The net asset balances include $102,151 and $33,978 of net gain on investments in 2013 and 2012, respectively.

In June 2013 the Board of Directors authorized a transfer of $60,000 from this fund to the undesignated cash account for general operating purposes.

9) Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2013 and 2012:

	2013	2012
Time restrictions	$ 61,233	$ 80,322
Environmental programs	609,376	237,861
	$ 670,609	$ 318,183

10) 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 8). 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.

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.

It 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.

10) Endowment Fund, continued

There were no changes in the endowment fund and the balance at June 30, 2013 and 2012 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.

11) 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.

12) 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, 2013. Tax returns for the past three tax years remain open for examination by tax jurisdictions.

13) Subsequent Events
MCEA has evaluated subsequent events through October 18, 2013, 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.