

**MINNESOTA CENTER FOR
ENVIRONMENTAL ADVOCACY**

FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flow	5
Statement of Functional Expenses	6-7
Notes to Financial Statements	8-16



SHERRY D. HEFFERNAN, LTD.

CERTIFIED PUBLIC ACCOUNTANT

6650 HORSESHOE BEND DRIVE

CORCORAN, MINNESOTA 55340

763-478-6518

CELL 763-229-7129

EMAIL: SHERRY.HEFFERNAN@COMCAST.NET

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

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, 2016 and 2015, 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, 2016 and 2015, 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 17, 2016

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Statement of Financial Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 675,119	\$ 886,066
Accounts receivable	10,850	9,648
Unconditional promises to give	437,080	272,200
Investments	1,463,329	1,496,430
Prepaid expenses	5,899	5,934
Property and leasehold improvements, net	<u>7,330</u>	<u>12,832</u>
TOTAL ASSETS	<u>\$ 2,599,607</u>	<u>\$ 2,683,110</u>
LIABILITIES		
Accounts payable	\$ 10,077	\$ 39,271
Accrued expenses	<u>55,684</u>	<u>55,353</u>
	<u>65,761</u>	<u>94,624</u>
NET ASSETS		
Unrestricted		
Undesignated	319,691	335,243
Designated by board for future programming needs	<u>902,055</u>	<u>935,069</u>
	<u>1,221,746</u>	<u>1,270,312</u>
Temporarily restricted	754,493	760,567
Permanently restricted - endowment fund	<u>557,607</u>	<u>557,607</u>
TOTAL NET ASSETS	<u>2,533,846</u>	<u>2,588,486</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,599,607</u>	<u>\$ 2,683,110</u>

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

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Statement of Activities
Year Ended June 30, 2016 with Comparative Totals for the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016</u>	<u>2015</u>
REVENUES:					
Contributions	\$ 537,967	\$ 638,841	\$ -	\$ 1,176,808	\$ 1,236,438
Program services	279,351	-	-	279,351	358,700
Investment income	51,759	-	-	51,759	75,213
Miscellaneous income	5,563	-	-	5,563	8,326
Special event revenue	146,160	-	-	146,160	151,515
Less: Costs of direct benefits to donors	(28,279)	-	-	(28,279)	(26,609)
	<u>117,881</u>	<u>-</u>	<u>-</u>	<u>117,881</u>	<u>124,906</u>
TOTAL REVENUES	<u>992,521</u>	<u>638,841</u>	<u>-</u>	<u>1,631,362</u>	<u>1,803,583</u>
Net assets released from restrictions					
Restrictions satisfied by purpose and time	<u>644,915</u>	<u>(644,915)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>1,637,436</u>	<u>(6,074)</u>	<u>-</u>	<u>1,631,362</u>	<u>1,803,583</u>
EXPENSES:					
Program services:					
Clean energy	606,091	-	-	606,091	520,894
Water quality	427,578	-	-	427,578	355,163
Transportation and land use	137,352	-	-	137,352	201,367
Wildlife, natural resources and mining	<u>211,204</u>	<u>-</u>	<u>-</u>	<u>211,204</u>	<u>175,019</u>
Total program services	1,382,225	-	-	1,382,225	1,252,443
Management and administrative	159,314	-	-	159,314	157,483
Fundraising	<u>144,463</u>	<u>-</u>	<u>-</u>	<u>144,463</u>	<u>133,487</u>
TOTAL EXPENSES	<u>1,686,002</u>	<u>-</u>	<u>-</u>	<u>1,686,002</u>	<u>1,543,413</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(48,566)</u>	<u>(6,074)</u>	<u>-</u>	<u>(54,640)</u>	<u>260,170</u>
NET ASSETS AT BEGINNING OF YEAR	<u>1,270,312</u>	<u>760,567</u>	<u>557,607</u>	<u>2,588,486</u>	<u>2,328,316</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,221,746</u>	<u>\$ 754,493</u>	<u>\$ 557,607</u>	<u>\$ 2,533,846</u>	<u>\$ 2,588,486</u>

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

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Statement of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (54,640)	\$ 260,170
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	5,502	5,015
Net realized and unrealized (gains) on investments	(24,228)	(48,449)
(Increase) decrease in operating assets:		
Accounts receivable	(1,202)	7,423
Unconditional promises to give	(164,880)	(197,200)
Prepaid expenses	35	10,397
Increase (decrease) in operating liabilities:		
Accounts payable	(29,194)	32,875
Accrued expenses	331	(2,125)
Deferred revenues	-	(24,250)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(268,276)</u>	<u>43,856</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	427,259	294,468
Purchase of long-term investments	(369,930)	(307,787)
Purchase of equipment	-	(7,725)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>57,329</u>	<u>(21,044)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(210,947)	22,812
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>886,066</u>	<u>863,254</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 675,119</u>	<u>\$ 886,066</u>

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

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Statement of Functional Expenses
Year Ended June 30, 2016

		Supporting Services			
		Program Services	Management and General	Fund Raising	Total Supporting Services
Salaries, taxes and benefits	\$ 970,676	\$ 124,967	\$ 126,106	\$ 251,073	\$ 1,221,749
Consultants	194,239	-	-	-	194,239
Legal disbursements/library	18,443	-	-	-	18,443
Occupancy costs	54,360	2,720	1,700	4,420	58,780
Information technology	30,198	1,002	1,002	2,004	32,202
Office supplies	5,669	130	130	260	5,929
Telephone	16,196	810	506	1,316	17,512
Postage	4,504	146	641	787	5,291
Printing and copying	30,462	919	2,319	3,238	33,700
Professional fees	5,045	9,187	4,995	14,182	19,227
Investment fees	-	14,670	-	14,670	14,670
Dues	14,073	291	2,345	2,636	16,709
Insurance	8,250	3,217	536	3,753	12,003
Travel	13,546	341	569	910	14,456
Conferences and meetings	5,730	267	133	400	6,130
Grants	5,000	-	-	-	5,000
Miscellaneous	1,764	170	2,526	2,696	4,460
Depreciation	4,070	477	955	1,432	5,502
Total expenses	\$ 1,382,225	\$ 159,314	\$ 144,463	\$ 303,777	\$ 1,686,002
	<u>82.0%</u>	<u>9.4%</u>	<u>8.6%</u>	<u>18.0%</u>	<u>100.0%</u>

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

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Statement of Functional Expenses
Year Ended June 30, 2015

		<u>Supporting Services</u>			<u>Total</u>
		<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total Supporting Services</u>
Salaries, taxes and benefits	\$ 931,368	\$ 123,507	\$ 115,373	\$ 238,880	\$ 1,170,248
Consultants	105,680	-	-	-	105,680
Legal disbursements/library	10,226	-	-	-	10,226
Occupancy costs	54,708	2,506	1,566	4,072	58,780
Information technology	17,704	462	462	924	18,628
Office supplies	4,168	71	71	142	4,310
Telephone	16,528	757	473	1,230	17,758
Postage	2,837	82	3,159	3,241	6,078
Printing and copying	33,161	926	926	1,852	35,013
Professional fees	5,336	9,773	5,324	15,097	20,433
Investment fees	-	14,860	-	14,860	14,860
Dues and subscriptions	12,373	237	3,244	3,481	15,854
Insurance	8,099	3,186	531	3,717	11,816
Travel	12,311	316	316	632	12,943
Conferences and meetings	6,715	179	89	268	6,983
Grants	25,000	-	-	-	25,000
Miscellaneous	2,417	220	1,151	1,371	3,788
Depreciation	3,812	401	802	1,203	5,015
Total expenses	\$ 1,252,443	\$ 157,483	\$ 133,487	\$ 290,970	\$ 1,543,413
	<u>81.1%</u>	<u>10.2%</u>	<u>8.6%</u>	<u>18.9%</u>	<u>100.0%</u>

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

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY

Notes to Financial Statements

June 30, 2016 and 2015

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, its natural resources and the health of its people. 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 power plants. MCEA advocates for agencies to consider the full cost of air emissions when evaluating potential energy sources, especially coal. 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 Sierra Club.

Water Quality: focuses on protecting Minnesota's greatest natural resource and economic asset, its water. For example, MCEA advocates for the adoption and effective implementation 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.

Land Use and Transportation: advocates for public policy platforms and funding mechanisms that support more compact and mixed-use forms of development, broaden choices for how we live and get around, provide residents access to the region's environmental, social and economic opportunities, protect forest, farms and natural areas, and improve the quality of the air we breathe and the water we drink. MCEA works to make certain that racially diverse and transit-dependent neighborhoods will benefit from the region's substantial investment in transitway corridors. MCEA also works to integrate authorities and align investments at the local, regional and state levels to mitigate Minnesota's contribution to greenhouse gas emissions and adapt to the coming changes in Minnesota's climate.

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Notes to Financial Statements

1) Organizational Purpose, continued

Wildlife, Natural Resources and Mining: works to conserve, protect, and advocate for policies and practices that will sustain lakes, rivers, streams, wetlands, and forests, as well as the communities that depend upon them to prevent long term damage and destruction. For example, MCEA has been a key advocate for strengthening Minnesota's Wetland Conservation Act and for funding for actions and research that work to stop the spread of aquatic invasive species.

MCEA works to ensure that state and federal agencies use the best available science to evaluate proposed new copper nickel or "sulfide" mines; to encourage maximum transparency and public participation as part of the regulatory process; to require that all mines in Minnesota comply with all applicable federal, state and local environmental safeguards; and to protect Minnesota's taxpayers from long-term cleanup costs at mining sites.

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 one donor comprising 91.5% of the balance at June 30, 2016 and from one donor comprising 91.8% of the balance at June 30, 2015.

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Notes to Financial Statements

2) Summary of Significant Accounting Policies, continued

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

The organization maintains its deposits in 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, 2016, the organization's uninsured cash balance was approximately \$425,000.

Concentration of Contributions

In 2016 MCEA received approximately 45% of its total contribution revenues from two donors. In 2015 MCEA received approximately 55% 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.

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Notes to Financial Statements

2) Summary of Significant Accounting Policies, continued

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.

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.

Earned Revenue

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 \$84,000 in 2016 and \$48,000 in 2015, were not recognized in the financial statements because they did not meet the criteria for recognition under generally accepted accounting principles.

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Notes to Financial Statements

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 MCEA's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

3) Unconditional Promises to Give

Unconditional promises to give of \$437,080 and \$272,200 at June 30, 2016 and 2015, 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, 2016 and 2015:

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Notes to Financial Statements

4) Investments, continued

	<u>2016</u>	<u>2015</u>
Level 1: Quoted prices in active markets for identical assets:		
Equity securities	\$ 932,544	\$ 977,606
Level 2: Significant other observable inputs:		
Treasury notes, government and other bonds	483,635	497,573
Money market funds	<u>47,150</u>	<u>21,251</u>
	<u>\$ 1,463,328</u>	<u>\$ 1,496,430</u>

Investment return for the years ended June 30, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 27,531	\$ 26,764
Net realized and unrealized gains	<u>24,228</u>	<u>48,449</u>
	<u>\$ 51,759</u>	<u>\$ 75,213</u>

Expenses relating to investment revenues, including investment advisory fees were \$14,670 in 2016 and \$14,860 in 2015.

At June 30, 2016 and 2015 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 18,130	\$ 24,060
Leasehold improvements	<u>19,051</u>	<u>19,051</u>
	37,181	43,111
Less accumulated depreciation	<u>29,851</u>	<u>30,279</u>
	<u>\$ 7,330</u>	<u>\$ 12,832</u>

Depreciation of \$5,502 and \$5,015 was recorded for the years ended June 30, 2016 and 2015, respectively.

6) Operating Leases

MCEA leases office space under an operating lease which expired June 30, 2015. It is currently on a verbal month-to-month lease agreement. Monthly rent is \$4,898 which includes utilities, real estate taxes and insurance. Rent expense was \$58,780 for each of the years ended June 30, 2016 and 2015.

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Notes to Financial Statements

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 employer contributions of \$24,477 and \$30,010 in 2016 and 2015, respectively.

8) Board Designated Net Assets

Board designated net asset balances are \$902,055 and \$935,069 as of June 30, 2016 and 2015, respectively, and are included in Investments in the Statement of Financial Position. 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 this designated fund for future programming needs. The net asset balances include \$36,986 and \$61,613 of net gain on investments for the years ended June 30, 2016 and 2015, respectively. Net gain includes realized and unrealized gains or losses on investments less investment fees.

9) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Time restrictions	\$ 8,200	\$ 9,648
Environmental programs	<u>746,293</u>	<u>750,919</u>
	<u>\$ 754,493</u>	<u>\$ 760,567</u>

10) Permanently Restricted Endowment Fund

MCEA has a donor-restricted endowment fund, which is included in Investments in the Statement of Financial Position. The balance was \$557,607 at June 30, 2016 and 2015.

MCEA also has a fund designated by the Board of Directors which is not deemed to be an endowment fund (see Note 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.

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Notes to Financial Statements

10) Permanently Restricted Endowment Fund, continued

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.

Return Objectives and Risk Parameters: MCEA 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. 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.

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY
Notes to Financial Statements

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, 2016. 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 17, 2016, 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.