

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Statements of financial position

(Pesos)

Assets	December 31, <u>2011</u>	December 31, <u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 1,474,678	240,920
Donations receivable (note 9)	4,085,555	4,647,997
Other receivables	<u>9,375</u>	<u>31,563</u>
Total current assets	5,569,608	4,920,480
Furniture, equipment and leasehold improvements, net (note 6)	100,209	73,812
Other assets, net (note 7)	<u>53,170</u>	<u>55,385</u>
	<u>\$ 5,722,987</u>	<u>5,049,677</u>
Liabilities and net assets		
Current liabilities:		
Accrued expenses	\$ 93,687	179,228
Taxes payable (note 12)	355,860	340,991
Donations received with unconditional promises (note 9)	4,085,555	4,647,997
Accounts payable to related party (note 8)	<u>853,748</u>	<u>480,941</u>
Total current liabilities	5,388,850	5,649,157
Employee benefits (note 11)	<u>451,135</u>	<u>308,682</u>
Total liabilities	5,839,985	5,957,839
Net assets - Unrestricted (note 3(f))	(116,998)	(908,162)
Commitment and contingency (note 13)	<u> </u>	<u> </u>
	<u>\$ 5,722,987</u>	<u>5,049,677</u>

See accompanying notes to financial statements.

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Statements of Activities

Years ended December 31, 2011 and 2010

(Pesos)

	<u>2011</u>	<u>2010</u>
Changes in unrestricted net assets:		
Revenues:		
Cash contributions (note 9)	\$ 18,338,700	18,069,316
Foreign exchange gain	67,776	7,424
Interest income	996	116,959
Other income	42,503	20,434
	<u>18,449,975</u>	<u>18,214,133</u>
Total revenues		
Expenses:		
Program expenses (notes 8 and 10)	16,541,012	18,989,710
General administration expenses	903,251	895,531
Foreign exchange loss	207,214	232,061
Interest expense	5,457	23,118
Income tax (note 12)	1,852	16,364
Others	25	2,511
	<u>17,658,811</u>	<u>20,159,295</u>
Total expenses		
Increase (decrease) in unrestricted net assets	791,164	(1,945,162)
Net assets:		
Net assets at beginning of year	<u>(908,162)</u>	<u>1,037,000</u>
Net assets at end of year	<u>\$ (116,998)</u>	<u>(908,162)</u>

See accompanying notes to financial statements.

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Statements of Cash Flows

Years ended December 31, 2011 and 2010

(Pesos)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 791,164	(1,945,162)
Items related to investing activities:		
Depreciation and amortization	70,414	187,570
Interest income	996	7,424
Items relating to financing activities:		
Interest expense	<u>(5,457)</u>	<u>(23,118)</u>
Subtotal	857,117	(1,773,286)
Other receivables	22,188	(2,873)
Accrued expenses and taxes payable	(70,672)	172,885
Accounts payable to related party	372,807	(88,143)
Changes in direct employee benefits	<u>142,453</u>	<u>128,013</u>
Net cash provided by (used in) operating activities	<u>1,323,893</u>	<u>(1,563,404)</u>
Cash flows from investing activities:		
Capital expenditures	(96,811)	(12,750)
Decrease in other non-current assets	2,215	-
Interest collected	<u>(996)</u>	<u>(7,424)</u>
Net cash used in investing activities	<u>(95,592)</u>	<u>(20,174)</u>
Cash flows from financing activities- Interest paid	<u>5,457</u>	<u>23,118</u>
Net increase (decrease) in cash and cash equivalents	1,233,758	(1,560,460)
Cash and cash equivalents:		
At beginning of year	<u>240,920</u>	<u>1,801,380</u>
At end of year	\$ <u><u>1,474,678</u></u>	<u><u>240,920</u></u>

See accompanying notes to financial statements.

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

December 31, 2011 and 2010

(Pesos)

The accompanying financial statements have been translated from Spanish into English for use of English-speaking readers.

(1) Financial statements authorization and presentation-

On February 10, 2012, Mr. Gustavo Alanis Ortega, President of the Association, authorized the issuance of the accompanying financial statements and related notes.

In accordance with the applicable law and the Association's bylaws, the associates are empowered to modify the financial statements after issuance. The accompanying financial statements will be submitted to the next Associates' Meeting for approval.

These financial statements are presented on the basis of Mexican Financial Reporting Standards ("MFRS") applicable to not-for-profit organizations. Certain accounting practices applied by the Association that conform with MFRS may not conform with accounting principles generally accepted in a different country.

The aforementioned financial statements are presented in Mexican pesos (reporting currency), which is the same as the recording currency and the functional currency.

(2) Nature of activities-

Centro Mexicano de Derecho Ambiental, A. C. (the Association) is a not-for-profit organization and its purpose is to promote awareness of environmental law and environmental education in general, as well as to foster the conservation of biodiversity and sustained development of the quality of life in Mexico and other countries.

The Association carries out different programs that contribute to the development and application of environmental laws and regulations.

The Association applies all contributions received to the activities for which it was created.

(3) Summary of significant accounting policies-

MFRS require that management makes certain estimates and use certain assumptions that affect the amounts reported in the financial statements and their related disclosures; however, actual results may differ from such estimates and assumptions. The Association's management, upon applying professional judgment, considers that estimates made and assumptions used were adequate under the circumstances.

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CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Pesos)

For purposes of disclosure, “pesos” or “\$” means Mexican pesos, and “dollars” or “US\$” means U.S. dollars.

Significant accounting policies applied in the preparation of the accompanying financial statements follow:

(a) *Recognition of the effects of inflation-*

Since January 1, 2008, in accordance with MFRS B-10 “Inflation effects”, the Company operates in a non-inflationary environment, therefore, the inflation effects were recognized in the financial information until December 31, 2007. When the cumulative inflation of the three preceding years equals or exceeds 26%, the recognition of inflation effects will be resumed.

As of December 31, 2011 the cumulative inflation effects of the last three years was 12.12%.

(b) *Cash and cash equivalents-*

Cash and cash equivalents consist of cash in banks, foreign currencies and other highly liquid instruments. At the date of the financial statements, interest income and foreign exchange gains and losses are included in the statements of activities.

(c) *Furniture, equipment and leasehold improvements-*

Furniture, equipment and leasehold improvements are recorded at acquisition cost.

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CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Pesos)

Depreciation of furniture and equipment and the amortization of leasehold improvements are calculated using the straight-line method over the estimated useful lives of the assets, determined by the Association's management. The annual depreciation and amortization rates of the principal asset classes are as follows:

	<u>Rates</u>
Transportation equipment	25%
Furniture and office equipment	10%
Computer equipment	30%
Video equipment	10%
Leasehold improvements	*

* Leasehold improvements are amortized over the useful life of the improvement or the related contract term, whichever is shorter.

Minor repairs and maintenance costs are expensed as incurred.

(d) Other assets-

Other assets include mainly software licenses and are recorded at acquisition cost. Amortization is computed using the straight-line method over two years.

(e) Employee benefits-

Termination benefits to which employees are entitled are recognized in the financial statements, based on actuarial computations using the projected unit credit method, considering the projected salaries. At December 31, 2011, the remaining average service life of employees entitled to benefits approximates 27 years.

Actuarial gains or losses are amortized based on the remaining service lives of the employees expected to receive the benefits.

(f) Net assets-

The Association's net assets comprise of unrestricted contributions and donations received from foundations, individuals, companies, certain groups and institutions, less program, general administration and other expenses incurred by the Association.

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CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Pesos)

(g) Recognition of donations received and program expenses-

Donations are income and are recognized as increases to the Association's net assets when they are received in cash or in-kind, as unconditional promises to receive cash or assets. Donations of assets are recognized in the financial statements at fair value.

Donations in cash and in-kind with restrictions as to their use are recorded under permanently or temporarily restricted net assets.

When restrictions are met, the related contributions are transferred to unrestricted net assets.

Donations received with conditional promises are recorded as liabilities and transferred to net assets when the conditions are met.

Expenses are recognized in the financial statements when incurred.

(h) Activities concentration-

The contributions received from "International Community Foundation", "The Summit Foundation" and "The William and Flora Hewlett Foundation" represented 54% in 2011 and 50% in 2010, of the total contributions received.

Services rendered to the Association by Asesoría Jurídico Ambiental, S. C., a related party, represented 37% in 2011 and 40% in 2010, of the total expenses.

(i) Accruals -

The liability provisions represent current obligations for previous transaction for which an outflow of financial resources is probable. These provisions have been recorded based on Management's best estimates.

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CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Pesos)

(4) Accounting changes -

The MFRS and Improvements mentioned below, issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera or CINIF) became effective for fiscal years beginning on or after January 1, 2011, with the respective prospective or retrospective application being specified in each case.

- **MFRS C-6 “Property, plant and equipment”**- The principal changes with respect to the superseded Bulletin include: Determination of the residual value and Depreciation of components.
- **MFRS B-2 “Statement of cash flows” (Improvement)**- The requirement to present in the statement of cash flows the line item “cash surplus to be applied in financing activities or, cash to be obtained from financing activities” is eliminated and is left at a recommendation level.
- **MFRS C-13 “Related parties” (Improvement)**- The definition of “immediate family” is now more specific.

The adoption of the above mentioned MFRS had no impact on the Association’s financial statements.

(5) Foreign currency exposure-

Monetary assets denominated in dollars translated into pesos as of December 31, 2011 and 2010 were \$4,134,120 and \$4,672,235, respectively. Liabilities denominated in dollars aggregated \$4,085,555 and \$4,647,997 as of those dates, respectively.

As of December 31, 2011 and 2010, net foreign exchange losses aggregated \$139,438 and \$115,102, respectively.

The exchange rate of the peso to the dollar, as of December 31, 2011 and 2010, was \$13.65 and \$12.38, respectively.

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CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Pesos)

(6) Furniture, equipment and leasehold improvements-

Furniture, equipment and leasehold improvements comprise the following:

	<u>2011</u>	<u>2010</u>
Computer equipment	\$ 475,194	870,945
Furniture and office equipment	146,997	143,596
Video equipment	45,318	45,318
Transportation equipment	28,222	28,222
Leasehold improvements	<u>40,617</u>	<u>40,617</u>
	736,348	1,128,698
Less accumulated depreciation and amortization	<u>636,139</u>	<u>1,054,886</u>
	\$ <u>100,209</u>	<u>73,812</u>

(7) Other assets-

Other assets consist of the following:

	<u>2011</u>	<u>2010</u>
Software	\$ 480,313	480,313
Security deposits	<u>53,170</u>	<u>55,385</u>
	533,483	535,698
Less accumulated amortization	<u>480,313</u>	<u>480,313</u>
	\$ <u>53,170</u>	<u>55,385</u>

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CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Pesos)

(8) Accounts payable to related party-

At December 31, 2011 and 2010, accounts payable to related party amounting to \$853,748 and \$480,941, respectively, relate to professional services rendered by Asesoría Jurídico Ambiental, S. C. to the Association. The services received relate to the programs carried out by the Association and consist of legal, planning, supervision, communication, administration and personnel management services. The total amounts paid to Asesoría Jurídico Ambiental, S. C. amounted to \$6,655,000 and \$8,081,861, during the years ended December 31, 2011 and 2010, respectively.

(9) Cash contributions received-

Cash contributions received from domestic and foreign donors during the years ended December 31, 2011 and 2010 were as shown below:

	<u>2011</u>	<u>2010</u>
<u>Domestic donors:</u>		
Fondo Pro Cuenca Valle de Bravo, A. C.	\$ 605,000	220,000
Other persons, individually greater than \$50,000	531,500	-
Embajada de la República Federal de Alemania	421,500	-
Programa de las Naciones Unidas para el Medio Ambiente	298,750	-
Conservación Internacional Mexico, A. C.	191,342	243,072
Protección de la Fauna Mexicana, A.C.	150,000	-
HSBC México, S.A.	75,000	-
Cultura Ecológica, A.C.	53,980	-
AMCO Internacional, A.C.	50,000	-
Rostros y Voces Fds, A. C.	-	530,000
Fondo Mexicano para la Conservación de la Naturaleza, A. C.	-	317,700
Pronatura Península de Yucatán, A. C.	-	51,896
Other, individually less than \$50,000	<u>197,362</u>	<u>580,920</u>
Total	\$ <u>2,574,434</u>	<u>1,943,588</u>

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CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Pesos)

Foreign donors:

International Community Foundation	3,741,079	3,136,441
The Summit Foundation	3,105,095	1,499,230
The William and Flora Hewlett Foundation	3,092,750	4,399,190
The Leona M. and Harry B. Helmsley Charitable Trust	1,435,970	1,320,516
The Walton Family Foundation	1,231,875	1,445,234
The David and Lucille Packard Foundation	1,199,410	1,265,570
Asociación Interamericana para la Defensa del Ambiente (A.I.D.A)	611,226	554,574
Environmental Law Institute	516,582	123,827
Climate Works Foundation	489,476	-
Fund for Global Human Rights	117,867	252,403
International Development Law Organization	100,744	-
The Ford Foundation	-	1,223,560
Critical Ecosystem Partnership Foundation	-	121,766
Others	<u>122,192</u>	<u>783,417</u>
Total	<u>15,764,266</u>	<u>16,125,728</u>
Total domestic and foreign donors	\$ <u>18,338,700</u>	<u>18,069,316</u>

Donations receivable with unconditional promises -

At December 31, 2011 and 2010, the Association's unconditional promises to receive donations which qualified as accounts receivable in accordance with MFRS E-2 "Donations received or granted by non-for-profit organizations", are shown on the following page.

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CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Pesos)

		<u>2011</u>	<u>2010</u>
The Walton Family Foundation	\$	2,621,007	-
The William and Flora Hewlett Foundation		-	1,903,200
The Summit Foundation		1,464,548	1,422,290
The Leona M. and Harry B. Helmsley Charitable Trust		<u>-</u>	<u>1,322,507</u>
Total	\$	<u>4,085,555</u>	<u>4,647,997</u>

(10) Program expenses-

The Association carries out several programs that support the development and application of environmental laws and regulations. The related expenses incurred during the years ended December 31, 2011 and 2010, are shown below:

		<u>2011</u>	<u>2010</u>
<u>Programs:</u>			
La Paz office	\$	4,885,620	4,851,031
Cancun office		3,839,362	2,812,101
Valle de Bravo office		394,973	-
Air and energy		3,021,777	3,954,412
Institutional reinforcement		1,436,589	3,018,576
Communications		1,118,434	1,376,412
Mexico litigation		678,083	1,655,936
Asociación Interamericana para la Defensa del Ambiente (A.I.D.A.)		363,000	477,952
Strategic projects		332,122	194,185
Human rights and environment		315,888	454,284
Conservación Internacional Mexico, A. C.		150,464	194,821
Programa de Naciones Unidas para el cuidado del Medio Ambiente (PNUMA)		<u>4,700</u>	<u>-</u>
	\$	<u>16,541,012</u>	<u>18,989,710</u>

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CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Pesos)

(11) Employee benefits-

The cost, obligations for seniority premium and severance compensation payable for reasons other than restructuring, mentioned in note 3(e), have been determined based on computations prepared by independent actuaries. At December 31, 2011 and 2010, the present value of benefit obligations and the net periodic cost for such years, are shown below:

		<u>Benefits</u>	
		<u>Total</u>	
		<u>2011</u>	<u>2010</u>
Projected benefit obligation (PBO)	\$	918,316	775,863
Amortization of transition liability		<u>(467,181)</u>	<u>(467,181)</u>
Projected liability, net		<u>451,135</u>	<u>308,682</u>
Net periodic cost	\$	<u>142,453</u>	<u>128,013</u>

The main assumptions used in the determination of net periodic cost, are as follows:

	<u>2011</u>	<u>2010</u>
Discount rate (net of inflation)	8.25%	8.25%
Rate of compensation increase	5.50%	5.50%
Amortization period of unrecognized item	27 years	28 years

(12) Tax environment-

The Association is a non-profit entity as defined in the Income Tax Law (ITL), consequently, it is not subject to Income Tax or Business Flat Tax (IETU), or employee statutory profit sharing; however, distributable surplus, if any, are taxable.

At December 31, 2011 and 2010, the income tax on distributable surplus resulting from non-deductible expenses amounted to \$1,852 and \$16,364 respectively.

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CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Pesos)

The Association has an authorization from the Ministry of Finance and Public Credit (SCHP) to receive deductible donations. The authorization number is 00001000000100846707 and was renewed on January 9, 2011.

The ITL stipulates that donations and interest income shall be used solely for purposes of carrying out the activities of the Association. Also, the Association cannot spend more than 5% of its revenues on administrative expenses.

Taxes payable-

Taxes payable as of December 31, 2011 and 2010 include the following:

	<u>2011</u>	<u>2010</u>
Withheld income		
tax and value added tax	\$ 208,149	206,809
Social security contributions	126,443	102,393
Payroll taxes	19,416	15,425
IT receivable	<u>1,852</u>	<u>16,364</u>
Total taxes payable	\$ <u>355,860</u>	<u>340,991</u>

(13) Commitments and contingency-

- (a) Pursuant to agreements with donors, the Association is obligated to report and demonstrate the proper use of contributions received.
- (b) The Association leases its administrative offices, under a one year renewable lease agreement. The rental amount is adjusted annually based on inflation according to the NCPI. Total rental expense amounted to \$478,159 in 2011 and \$482,299, in 2010.

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CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Pesos)

(14) Recently issued financial reporting standards-**2012 FRS Improvements**

The CINIF has issued the MFRS C-1 “Cash and cash equivalents”- which requires the presentation of restricted cash in “cash and cash equivalents”, if the restriction expires within the twelve months following the date of the statement of financial position or in the regular course of the entity’s operations. If the restriction expires at a subsequent date, it shall be classified as a long-term asset. This modification is effective for fiscal years beginning January 1, 2012 and must be applied retrospectively. Management estimates that the effects of the 2012 FRS Improvements will not be significant.