



Community Environmental Council

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
Financial Statements
December 31, 2019



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Community Environmental Council, Inc.

We have audited the accompanying financial statements of Community Environmental Council, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Environmental Council, Inc. as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Community Environmental Council, Inc.'s 2018 financial statements and we expressed an unmodified audit opinion on those audited financial statements in their report dated March 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stoltey & Associates

Los Olivos, California
March 19, 2020

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2019
(with comparative totals for 2018)

ASSETS		
	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and Cash Equivalents	\$ 139,221	\$ 232,997
Accounts Receivable	229,590	141,530
Contributions Receivable (Note 2)	50,649	60,000
Receivable - Other	16,730	16,730
Prepaid Expenses	17,259	3,156
Fixed Assets, Net (Note 5)	2,861	3,955
Endowment assets (Notes 3, 6 and 7):		
Endowment Investments	2,530,687	2,290,037
Investment in General Partnership (GP)	290,000	290,000
Total Endowment Investments	<u>2,820,687</u>	<u>2,580,037</u>
Total Assets	<u><u>\$3,276,997</u></u>	<u><u>\$3,038,405</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 90,214	\$ 70,274
Accrued Expenses	34,367	32,903
Deferred Income	10,000	-
Unrelated Business Tax Payable	9,271	15,000
Total liabilities	<u>143,852</u>	<u>118,177</u>
NET ASSETS (Notes 7 and 8)		
Without Donor Restriction:		
Undesignated	221,582	230,191
Board Designated - Quasi Endowment	<u>2,690,180</u>	<u>2,449,530</u>
	2,911,762	2,679,721
With Donor Restrictions:		
Purpose Restrictions	90,876	110,000
Perpetual in Nature - Endowment	<u>130,507</u>	<u>130,507</u>
	221,383	240,507
Total Net Assets	<u>3,133,145</u>	<u>2,920,228</u>
Total Liabilities and Net Assets	<u><u>\$3,276,997</u></u>	<u><u>\$3,038,405</u></u>

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF ACTIVITIES
December 31, 2019
(with Comparative Totals for 2018)

	2019			2018
	Without Donor Restriction	With Donor Restriction	Total	Total
OPERATING				
PUBLIC SUPPORT				
Special Events, Gross	\$ 229,763	\$ -	\$ 229,763	\$ 249,319
Less: Direct Costs	(120,668)	-	(120,668)	(114,537)
Special events, net	109,095	-	109,095	134,782
Contributions	420,269	18,800	439,069	350,817
Grants and Contracts (Private)	12,955	162,698	175,653	194,494
Total public support	542,319	181,498	723,817	680,093
REVENUE				
Grants and Contracts (Government)	452,711	-	452,711	308,465
Earth Day program	249,899	-	249,899	288,790
Solarize program	51,644	-	51,644	44,013
Total public support and revenue	1,296,573	181,498	1,478,071	1,321,361
Net assets released from restriction	200,622	(200,622)	-	-
EXPENSES				
PROGRAM SERVICES	1,318,421	-	1,318,421	1,181,415
SUPPORTING SERVICES				
Management and general	187,916	-	187,916	139,254
Fundraising	246,490	-	246,490	184,899
Total supporting services	434,405	-	434,405	324,153
Total operating expenses	1,752,827	-	1,752,827	1,505,568
Change in net assets from operating activities	(255,632)	(19,124)	(274,756)	(184,207)
NONOPERATING				
REVENUE				
Investment income (loss)	491,150	-	491,150	(37,540)
Distribution from Investment in GP	79,992	-	79,992	-
Change in Valuation of Investment in GP	-	-	-	(10,000)
Total nonoperating revenue	571,142	-	571,142	(47,540)
EXPENSES				
Depreciation	1,094	-	1,094	1,183
Unrelated Business Tax	-	-	-	15,000
Bad Debt	6,000	-	6,000	-
Strategic Planning	76,375	-	76,375	6,710
Total nonoperating expense	83,469	-	83,469	22,893
Change in net assets from nonoperating activities	487,673	-	487,673	(70,433)
Total change in net assets	232,041	(19,124)	212,917	(254,640)
Net assets, beginning of year	2,679,721	240,507	2,920,228	3,174,868
Net assets, end of year	\$ 2,911,762	\$ 221,383	\$ 3,133,145	\$ 2,920,228

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
December 31, 2019
(with Comparative Totals for 2018)

	2019										Total Expenses 2018
	Program Services					Total Programs Services		Support Services		Total Expenses 2019	
	Energy	Outreach & Education	Food	Plastics		Programs Services	Management & General	Fundraising			
Compensation and Related Benefits											
Salaries	\$ 221,728	\$ 110,022	\$ 127,278	\$ 17,925	\$ 476,953	\$ 63,476	\$ 132,793	\$ 584,146			
Payroll Taxes	17,884	8,866	10,360	1,403	38,513	4,668	10,776	45,963			
Employee Benefits	23,011	20,156	11,908	180	55,255	3,551	21,995	66,702			
Total Compensation and Related Benefit	262,623	139,044	149,546	19,508	570,721	71,695	165,564	696,811			
Other Operating Expenses											
Accounting and Legal	-	-	-	-	-	84,880	-	84,880			
Advertising	-	11,241	-	650	11,891	-	2,001	13,892			
Bank Charges	-	1,686	-	-	1,686	661	7,363	9,381			
Building Rental and Repairs	26,140	27,324	14,928	1,870	70,262	6,974	15,875	93,111			
Contract Services	110,337	221,778	99,496	1,018	432,629	5,433	18,734	456,796			
Dues and Subscriptions	498	10,184	1,737	15	12,434	6,042	965	19,441			
Duplicating and Printing	3,038	4,184	997	459	8,678	-	7,735	13,484			
Employee Relations	884	468	503	66	1,921	240	557	2,718			
Equipment and Software Maintenance	7,924	4,196	4,512	589	17,221	2,163	7,060	26,444			
Equipment Rental	1,498	65,483	753	98	67,832	362	834	69,028			
Insurance	4,171	2,208	2,375	310	9,064	1,139	2,630	12,833			
Meetings, Conferences and Special Events	6,192	9,217	3,379	28	18,816	7,010	11,080	36,906			
Postage and Mailing	-	-	-	-	-	188	1,631	1,819			
Supplies	4,148	29,648	19,663	26,277	79,736	436	2,739	82,911			
Taxes, Licenses and Fees	-	2,690	-	-	2,690	-	-	2,690			
Travel and Automobile	2,755	1,130	2,931	490	7,306	-	116	7,422			
Utilities and Telephone	2,546	1,348	1,450	189	5,534	693	1,605	7,832			
Total Operating Expenses	432,755	531,829	302,270	51,567	1,318,421	187,916	246,490	1,752,827			
Nonoperating Expenses											
Depreciation	356	188	203	26	773	97	224	1,094			
Unrelated business tax	-	-	-	-	-	-	-	-			
Bad Debt	-	-	-	-	-	6,000	-	6,000			
Strategic Planning	24,826	13,140	14,137	1,844	53,947	6,777	15,651	76,375			
Total Nonoperating Expenses	25,182	13,328	14,340	1,870	54,720	12,874	15,875	83,469			
Total Functional Expenses 2019	\$ 457,937	\$ 545,158	\$ 316,610	\$ 53,437	\$ 1,373,141	\$ 200,789	\$ 262,365	\$ 1,836,296			
Total Functional Expenses 2018	\$ 398,304	\$ 454,254	\$ 268,283	\$ 56,012	\$ 1,176,853	\$ 189,941	\$ 161,668	\$ 1,528,462			

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

STATEMENTS OF CASH FLOWS

December 31, 2019

(with Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 212,917	\$ (254,640)
Adjustments to reconcile increase in net assets to cash Provided by (Used by) operating activities:		
Depreciation	1,094	1,183
Gain (loss) on investments	(454,113)	86,434
Change in operating assets and liabilities:		
Accounts receivable	(88,060)	(100,248)
Contributions receivable	9,351	(33,740)
Receivable - other	-	(16,730)
Prepaid expenses	(14,103)	(379)
Accounts payable	19,940	50,551
Accrued expenses	1,464	8,805
Deferred income	10,000	-
Unrelated business tax payable	(5,729)	15,000
Net Cash Provided (Used) by Operating Activities	<u>(307,239)</u>	<u>(243,764)</u>
Cash Flows from Investing Activities		
Proceeds from sale of securities	582,903	667,130
Purchase of securities	(369,440)	(362,118)
Net Cash Provided (Used) by Investing Activities	<u>213,463</u>	<u>305,012</u>
Net Decrease in Cash and Cash Equivalents	(93,776)	61,248
Cash and Cash Equivalents at Beginning of Year	232,997	171,749
Cash and Cash Equivalents at End of Year	<u>\$ 139,221</u>	<u>\$ 232,997</u>

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

This summary of significant accounting policies of Community Environmental Council (CEC) is presented to assist in understanding the CEC's financial statements. The financial statements and notes are representations of CEC's management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of Activities

CEC pioneers real life solutions in areas with the most impact on climate change. Our programs provide pathways to clean vehicles, solar energy, resilient food systems and reduction of single-use plastic. CEC is funded by and works with private corporations, foundations and individuals as well as local, state and federal governments.

Prior-Year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but are not presented by net assets class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with CEC's financial statements for the year ended December 31, 2018 from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consists of cash on hand, cash in banks, and cash in money market funds and excludes cash and cash equivalents held for investment. Cash equivalents classified as investments include money market funds.

Accounts Receivable

CEC has made a \$5,000 provision for an allowance for doubtful accounts as of December 31, 2019 and 2018 based on management's analysis of the potential credit risk of funding agencies, historical trends, and other information. CEC does not require collateral from its funding agencies.

Contributions and Bequests and Pledges Receivable

Contributions are recorded when received. Bequests and pledges receivable are measured at fair value on the date a written unconditional promise to give is received from the donor. On this date, and subsequently annually, the fair value is measured using an income approach which incorporates inputs including estimated credit risk, estimated timing of cash receipts, and an appropriate present value discount factor designed to reflect the assumptions market participants would use in pricing the asset.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Fixed Assets

Fixed Assets are stated at cost or, if acquired by gift, at the fair market value at the date of donation. Expenditures for building improvements and major renewals in excess of \$5,000 that extend the useful lives of Fixed Assets are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

- Equipment 3-10 years
- Furniture 7-12 years
- Leasehold Improvements 10 years

Endowment Investments

Endowment investments consist of investments purchased with the following resources:

- Donor-Restricted Permanent Endowments, which are contributions restricted by donors to investment in perpetuity with only investment income and appreciation available to support CEC's activities.
- Donor-Restricted Term Endowment, which are contributions restricted by donors to investments for the term specified by the donor. During that term, the donor may either require investment income and appreciation to be reinvested in the fund or may permit CEC to spend those amounts in accordance with the donor's restrictions on use.
- Board-Designated Quasi-Endowments, are resources set aside by the Board of Directors for an indeterminate period to operate in a manner similar to a Donor-Restricted Permanent Endowment. Because a Board-Designated Endowment results from an internal designation, it can be spent upon action of the Board of Directors.

In accordance with GAAP, CEC accounts for its marketable securities at fair value using market values of identical securities. CEC holds a minority interest in a General Partnership (GP) which operates a restaurant in Santa Barbara, California. CEC values their ownership in the GP at the estimated fair value using the income approach. Information about fair value of investments is discussed in Note 3.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for a Board-Designated Quasi-Endowment.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Net Assets with Donor Restrictions

Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

CEC reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Measure of Operations

In its statement of activities, CEC includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Investment income, distributions from investment in GP, changes in value of investment in GP and depreciation expense are included as non-operating activities.

Revenue and Revenue Recognition

Exchange Transactions

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

Contributions

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to CEC's program services, administration, and fundraising activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. CEC records donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the years ended

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

December 31, 2019 and 2018, respectively. CEC receives approximately 2,000 volunteer hours per year.

Advertising Costs

Advertising costs are expensed as incurred and approximated \$13,892 and \$22,954 during the years ended December 31, 2019 and 2018, respectively.

Functional Expenses

The cost of providing CEC's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited on the basis of periodic time or usage studies. The expenses allocated include repairs and maintenance, rent, employee relations, equipment rental, insurance, supplies, telephone and utilities.

Tax Exempt Status

CEC is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), though it is subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). Contributions to CEC are tax deductible to donors under Section 170 of the IRC.

Uncertain Tax Positions

CEC's tax filings are subject to examination by the IRS, generally for three years after they are filed. CEC is not aware of any activities that would jeopardize its tax-exempt status.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, CEC's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. CEC's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates. Significant estimates used in the preparation of these financial statements include:

- Fair value of Investment in General Partnership
- Allocation of functional expenses
- Allowance for uncollectible accounts
- Fair value of contributions receivable

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Financial Instruments and Credit Risk

CEC manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, CEC has not experienced losses in any of these accounts. Credit risk associated with accounts receivable, bequests and promises to give is considered to be limited due to high historical collection rates. Investments are made by diversified investment managers whose performance is monitored by CEC and the Finance & Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Finance & Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of CEC.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. CEC has implemented ASU 2016-14 and have adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented with no material reclassifications between net asset without donor restrictions and net assets with donor restrictions.

Subsequent Events

Management has evaluated subsequent events through March 19, 2020, the date that the financial statements were available to be issued. See Note 12.

Note 2: Contributions Receivable

Unconditional promises to give are included in the financial statements as contributions receivable and contributions revenue of the appropriate net asset category. Future receipt of contributions receivable is expected to be collected in the year ending December 31, 2020.

Note 3: Fair Value Measurements and Disclosures

CEC reports certain assets and liabilities at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that CEC can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, CEC develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to management's assessment of the quality, risk, or liquidity profile of the asset or liability.

A significant portion of CEC's investment assets are classified within Level 1 as they are comprised of common stock, exchange traded funds and open-end mutual funds, with readily determinable fair values based on daily redemption values. The fair values of investment in West Beach Investors Group, a General Partnership, is determined by using estimated future income techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values. These are considered to be Level 3 measurements.

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient as identified in the following, at December 31, 2019:

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

	Total	(Level 1)	(Level 2)	(Level 3)
Operating Assets:				
Contributions				
Receivable	\$ 50,649	\$ -	\$ -	\$ 50,649
Endowment Assets:				
Endowment investments:				
Cash and money				
market funds	23,840	23,840	-	-
Common stock	1,531,263	1,531,263	-	-
ETF – fixed income	345,237	345,237	-	-
MF – fixed income	361,994	361,994	-	-
MF – equities	251,996	251,996	-	-
REIT	16,357	16,357	-	-
Endowment Investments	2,530,687	2,530,687	-	-
Interest in GP	290,000	-	-	290,000
Total Endowment Assets	\$ 2,820,687	\$ 2,530,687	\$ -	\$ 290,000

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2019:

	Contributions Receivable	Interest in GP
Balance, beginning of year	\$ 60,000	\$ 290,000
Additions	348,637	-
Collections	(357,988)	-
Unrealized loss	-	-
Balance, end of year	\$ 50,649	\$ 290,000

Note 4: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and Cash Equivalents	\$ 139,221
Accounts Receivable	234,590
Receivable – Other	16,730
Endowment spending-rate distributions and appropriations	216,649
Total	\$ 607,190

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

CEC's Endowment funds consist of Donor-Restricted Endowments and Funds designated by the Board as Endowments. CEC's Endowment is subject to an annual spending rate of 5% as described in Note 7. Although CEC does not intend to spend from this Board-Designated Quasi-Endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of our liquidity management plan, CEC invests cash in excess of daily requirements in money market funds.

Note 5: **Fixed Assets**

Fixed Assets at December 31, 2019 and 2018 are summarized by major classifications as follows:

	<u>2019</u>	<u>2018</u>
Furniture	\$ 25,419	\$ 25,419
Equipment	19,376	19,376
Leasehold improvements	<u>307,429</u>	<u>307,429</u>
	352,224	352,224
Accumulated Depreciation	<u>(349,363)</u>	<u>(348,269)</u>
Fixed Assets, Net	<u>\$ 2,861</u>	<u>\$ 3,955</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was \$1,094 and \$1,183, respectively.

Note 6: **Investment in West Beach Investors Group**

On July 18, 2001, a donor made an unrestricted donation of a 20% common stock interest in a company that owns a local waterfront restaurant. On July 5, 2001, an appraisal was prepared which approximated the fair market value of the company to be \$1,400,000. CEC's stock ownership share of the fair market value of the company was \$280,000. The Board of Directors included this asset as part of the Quasi-Endowment (see Notes 3 and 7). In 2006, one of the shareholders of the company passed away, leaving the remaining shareholders with the right of first refusal. In July 2006, the remaining shareholders purchased the deceased's shares of the company on a pro rata basis. CEC paid \$38,571 to acquire the additional shares and own a 28.57% interest. In July of 2008, another shareholder passed away. On February 28, 2011, the remaining shareholders agreed to purchase the deceased's shares of the company on a pro rata basis. CEC paid \$33,333 to acquire the additional shares and now own 33.33%. Effective December 31, 2017, CEC adopted a valuation approach based on the previous five year's earnings before income taxes, depreciation and amortization (EBITDA), discounted at 90%. At December 31, 2019, management estimates a fair value of \$290,000 for CEC's interest in the GP.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 7: **Endowment Funds**

CEC's Endowment (the Endowment) consists of a single fund established by donors to provide annual funding for general operations. The Endowment also includes certain net assets without donor restrictions that have been designated for Endowment by the Board of Directors.

The Board of Directors of CEC has interpreted the California 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. At December 31, 2019, there were no such donor stipulations. As a result of this interpretation, CEC retains in perpetuity (a) the original value of initial and subsequent gift amount (including pledges to give at fair value donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by CEC in a manner consistent with the standard of prudence prescribed by UPMIFA. CEC considers the following factors in making a determination to appropriate or accumulate Donor-Restricted Endowment Funds:

- The duration and preservation of the fund
- The purposes of CEC and the fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of CEC
- The investment policies of CEC

Funds with Deficiencies

From time to time, the fair value of assets associated with individual Donor-Restricted Endowment Funds may fall below the level that the donor or UPMIFA requires CEC to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2019 or 2018.

Investment and Spending Policies

CEC has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the Endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. The target minimum rate of return is the Consumer Price Index plus 5 percent on an annual basis. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

CEC uses an Endowment spending-rate formula to determine the maximum amount to spend from the Endowment, including those Endowments deemed to be underwater, each year. The rate, determined and adjusted from time to time by the Board of Directors, is applied to the average fair value of the Endowment investments for the prior 12 quarters at September 30 of each year to determine the spending amount for the upcoming year. During 2019 and 2018, the spending rate maximum was 5 percent. In establishing this policy, the Board considered the long-term expected return on the Endowment and set the rate with the objective of maintaining the purchasing power of the Endowment over time.

Changes in Endowment Net Assets for the year ended December 31, 2019 are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment Net Assets, Beginning of Year	\$ 2,449,530	\$ 130,507	\$ 2,580,037
Investment income:			
Interest and dividends	51,635	-	51,635
Unrealized losses on investments	411,258	-	411,258
Realized gains on sales of investments	42,647	-	42,647
Investment fees	(14,598)	-	(14,598)
Contributions:			
Draw per spending policy	(127,292)	-	(127,292)
Additional Board approved draw	(123,000)	-	(123,000)
Endowment Net Assets, End of Year	\$ 2,690,180	\$ 130,507	\$ 2,820,687

Note 8: Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purpose or periods:

	2019	2018
Restricted for specific purpose:		
Outreach and Education programs	29,189	31,285
Food related programs	61,687	78,715
Total Purpose Restricted	90,876	110,000
General Use Endowments:		
Subject to spending policy	130,507	130,507
Total	\$ 221,383	\$ 240,507

Note 9: Line of Credit

CEC holds an unsecured \$50,000 line of credit with Montecito Bank & Trust that carries interest at 6.75% per annum (prime + 2%) and matures July 2020. The line of

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

credit, which has never been drawn on, was set up to help smooth the seasonal variability of cash flows. The Line of Credit had no balance as of December 31, 2019.

Note 10: Lease Commitments

On October 28, 2015, CEC entered into a five-year lease with Hutton Parker Foundation that began on January 1, 2016 and will end on December 31, 2020. The base rent is \$3,966 per month, with common area expenses and utilities to be paid as additional amounts. The annual rental obligation through December 31, 2020 is \$47,587. Insurance and maintenance expenses covering the leased facilities are the obligations of CEC. The following is a schedule by years of future minimum lease payments on non-cancelable operating leases as of December 31, 2019:

	2020	<u>47,587</u>
Total minimum future payments		<u>\$ 47,587</u>

Rent expense for the year ended December 31, 2019 was \$73,163 which included Common Area Operating Expenses of \$20,740, storage rental of \$3,348 and Tenant Improvements of \$1,488.

Note 11: Customer and Credit Risk Concentrations

Financial instruments that potentially subject CEC to credit risk consist principally of cash, cash held for investment, and accounts receivable.

CEC maintains bank accounts at three financial institutions. Deposits at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Cash balances held in brokerage accounts are insured by the Securities Investor Protection Corporation (SIPC) up to \$250,000 per institution. From time to time cash held during the year exceeded the insured thresholds.

CEC receives a significant portion of its accounts receivable, pledges receivable and related contributions from individuals and corporations from the Santa Barbara, California region.

Note 12: Subsequent Events

On March 11, 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As a result of the economic impact of the COVID-19 pandemic and related security market volatility, CEC experienced an unrealized decrease in the estimated investment portfolio value of \$457,349 as of March 19, 2020. As of March 19, 2020 CEC offices remain open, subject to regulated or reduced hours. SDRI cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact SDRI's financial position, changes in net assets, and cash flows in 2020.