

Community Environmental Council



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COMMUNITY ENVIRONMENTAL COUNCIL, INC.
Financial Statements
December 31, 2022





INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Environmental Council, Inc.

Opinion

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, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Community Environmental Council, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Community Environmental Council, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Community Environmental Council, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Community Environmental Council, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Community Environmental Council's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 21, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was made for the purpose of forming an opinion on the financial statements referred to in the first paragraph as a whole. The accompanying management discussion and analysis on pages 4 and 5 is presented for the purpose of additional analysis and is not a required part of the above financial statements. Such information is the responsibility of management and has

not been subjected to the auditing standards described in the second paragraph above and on which we place no opinion.

Stoltey & Associates

Orcutt, California

September 21, 2023

Community Environmental Council Management Discussion & Analysis

In honor of the Community Environmental Council's 50th anniversary, in 2020 the organization completed an extensive review of our mission and program. This review included a competitive analysis of the need for CEC's services and our areas of expertise, as well as a fundraising landscape analysis and stakeholder interviews.

Determining both a strong need for CEC's work as well as a willingness of potential donors to invest in it, in December 2020 the CEC Board of Directors adopted an ambitious 2021-2025 Strategic Plan. This plan called for the organization to launch a portfolio of new environmental programs, bring solutions-based projects to scale, and expand our geographic reach to extend throughout Ventura and Santa Barbara Counties and parts of San Luis Obispo.

Informally called CEC's "twice as much, twice as fast" growth plan, this will lead to the doubling of our operating budget over 4-5 years. Prior to the adoption of this plan, CEC's 2020 operating budget stood at \$1.8M³. In 2021 it grew to \$2.7M and in 2022 to \$3.3M⁷. We expect 1-2 more years of moderate, late-stage growth, and then stabilization at an annual operating budget around \$3.5 - \$4M a year.

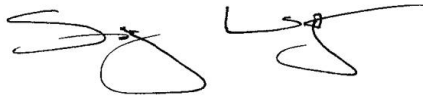
To fuel this growth, in late 2020 we launched CEC's 50th Anniversary Protect Our Climate Campaign. This \$15M fundraising effort had two goals: 1) to raise \$10M in contributions for immediate investment in program growth and the development of an innovative 10,000 sq ft Environmental Hub on Santa Barbara's main downtown corridor State Street, and 2) to ensure the long-term sustainability of the organization by securing \$5M in legacy giving pledges. In May 2023 we successfully closed the campaign at \$16.97M, raised from over 300 donors. The unexpectedly strong support shown by donors making legacy commitments in their estate plans led to the campaign surpassing its goal.

Long term financial viability will be built upon two primary "engines" to sustain the organization: *Private Contributions* and *Government Grants & Contracts*. In addition, we continue to benefit from an array of diverse revenue sources including *Special Events*, our *Solarize Nonprofit* program, and an annual draw from our *Board-directed endowment*.

In terms of expenses, with the vast majority of organizational growth coming in the form of staffing, about two thirds of the operating budget is invested in personnel in *Salaries & Related*. Growth in this category in 2022 was due to program growth, operational

needs, and aligning compensation with the *2022 Fair Pay for Southern California Nonprofits Compensation & Benefits Survey*.

As the organization rapidly grows and prepares for new revenue from state and federal grants and private sources, CEC will continue to deliver exceptional programs, deepen our relationships with key donors in the community, activate the Environmental Hub as a community gathering and further enhance our internal controls.

A handwritten signature in black ink, appearing to read 'Sigrid Wright', with a stylized flourish extending to the right.

Sigrid Wright
Executive Director

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2022
(with comparative totals for 2021)

ASSETS		
	2022	2021
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 2,524,948	\$ 427,750
Cash Held in Deposit Control Accounts [Note 5]	580,082	-
Investments	24,900	-
Accounts Receivable, Net	113,657	140,068
Contributions Receivable [Notes 3 and 6]	596,753	385,712
Receivable - Other	16,730	16,730
Prepaid Expenses	6,445	1,603
Right of Use Asset: Operating Lease - Current Portion [Note 4]	67,849	81,563
Total Current Assets	<u>3,931,364</u>	<u>1,053,426</u>
Non-Current Assets:		
Contributions Receivable, Non-Current [Notes 3 and 6]	941,501	720,233
Fixed Assets, Net [Note 5]	917,245	64,938
Right of Use Asset: Operating Lease Less Current Portion [Note 4]	1,663,564	873,509
Endowment Assets:		
Endowment Investments [Notes 6 and 9]	1,985,458	2,897,675
Investment in WBIG [Notes 6, 7 and 9]	195,000	165,000
Total Non-Current Assets	<u>5,702,768</u>	<u>4,721,355</u>
Total Assets	<u>\$ 9,634,132</u>	<u>\$ 5,774,781</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 332,090	\$ 169,641
Accrued Expenses	494,099	58,672
Retainage Payable	73,186	-
Deferred Income	22,240	25,000
Loan Payable - Current Portion [Note 8]	170,086	-
Liabilities Under Operating Lease - Current Portion [Note 4]	55,934	81,563
Total Current Liabilities	<u>1,147,635</u>	<u>334,876</u>
Long-Term Liabilities:		
Loan Payable, Less Current Portion [Note 8]	179,914	-
Liabilities Under Operating Lease, Less Current Portion [Note 4]	1,676,476	873,509
Total Long-Term Liabilities	<u>1,856,390</u>	<u>873,509</u>
Total Liabilities	<u>3,004,025</u>	<u>1,208,385</u>
NET ASSETS [Notes 9 and 10]		
Without Donor Restriction:		
Undesignated	3,386,041	1,101,703
Board Designated - Quasi Endowment	2,049,951	2,932,168
Invested in Fixed Assets	917,245	64,938
	<u>6,353,237</u>	<u>4,098,809</u>
With Donor Restrictions:		
Purpose Restrictions	146,363	337,080
Perpetual in Nature - Endowment	130,507	130,507
	<u>276,870</u>	<u>467,587</u>
Total Net Assets	<u>6,630,107</u>	<u>4,566,396</u>
Total Liabilities and Net Assets	<u>\$ 9,634,132</u>	<u>\$ 5,774,781</u>

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

STATEMENTS OF ACTIVITIES

December 31, 2022

(with Comparative Totals for 2021)

	2022			2021
	Without Donor Restriction	With Donor Restriction	Total	Total
PUBLIC SUPPORT				
Special Events, Gross	\$ 194,422	\$ -	\$ 194,422	\$ -
Less: Direct Costs	(53,934)	-	(53,934)	(6,268)
Special Events, Net	140,488	-	140,488	(6,268)
Contributions	937,606	-	937,606	404,971
Contributions - 50th Anniversary Campaign	4,085,848	-	4,085,848	2,226,601
Grants - Foundations	33,270	57,400	90,670	166,950
In-Kind Contributions	-	-	-	42,300
Total Public Support	5,197,212	57,400	5,254,612	2,834,554
REVENUE				
Government Contracts	491,975	-	491,975	485,842
Contract Revenue - Earth Day program	51,208	-	51,208	60,566
Contract Revenue - Solarize program	10,874	-	10,874	49,946
Contract Revenue - Other	55,298	-	55,298	15,101
Investment Income	(446,269)	-	(446,269)	373,217
Total Revenue	163,086	-	163,086	984,672
Total Public Support and Revenue	5,360,298	57,400	5,417,698	3,819,226
Net Assets Released From Restriction	248,117	(248,117)	-	-
EXPENSES				
PROGRAM SERVICES	2,216,751	-	2,216,751	1,929,567
SUPPORTING SERVICES				
Management and general	484,375	-	484,375	437,385
Fundraising	652,861	-	652,861	556,256
Total Expenses	3,353,987	-	3,353,987	2,923,208
Change in Net Assets	2,254,428	(190,717)	2,063,711	896,018
Net assets, beginning of year	4,098,809	467,587	4,566,396	3,670,378
Net assets, end of year	\$ 6,353,237	\$ 276,870	\$ 6,630,107	\$ 4,566,396

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
December 31, 2022
(with Comparative Totals for 2021)

	2022										
	Program Services					Support Services					
	Energy, Transportation & Waste	Climate Resilience & Justice	Climate Policy & Education	Climate Smart Ag	Total Program Services	Management & General	Continuing Fundraising	Fundraising 50th Anniversary Campaign	Total Fundraising Services	Total Expenses 2022	Total Expenses 2021
Compensation and Related Benefits											
Salaries	\$ 343,372	\$ 315,690	\$ 364,355	\$ 94,284	\$ 1,117,701	\$ 288,725	\$ 280,019	\$ -	\$ 280,019	\$ 1,686,445	\$ 1,378,719
Payroll Taxes	26,929	24,451	28,439	7,361	87,180	22,045	19,521	-	19,521	128,746	107,699
Employee Benefits	42,576	44,191	27,137	2,310	116,214	27,285	13,638	-	13,638	157,137	159,800
Total Compensation and Related Benefits	<u>412,877</u>	<u>384,332</u>	<u>419,931</u>	<u>103,955</u>	<u>1,321,095</u>	<u>338,055</u>	<u>313,178</u>	<u>-</u>	<u>313,178</u>	<u>1,972,328</u>	<u>1,646,218</u>
Other Expenses											
Professional Fees	26,398	24,458	26,724	6,615	84,195	22,000	19,954	-	19,954	126,149	83,372
Advertising	24,701	11,444	30,158	8,234	74,537	-	8,760	65,743	74,503	149,040	123,132
Bank Charges & Interest Expense	-	-	-	-	-	20,625	-	-	-	20,625	7,045
Building Rental and Repairs	38,130	35,494	56,827	9,600	140,051	41,063	28,958	-	28,958	210,072	127,761
Contract Services	182,943	169,100	75,607	10,744	438,394	12,011	36,263	102,983	139,246	589,651	696,647
Dues and Subscriptions	16,027	4,379	8,900	2,384	31,690	2,228	5,085	-	5,085	39,003	33,042
Photocopying and Printing	8,254	1,883	5,928	1,802	17,867	-	13,099	-	13,099	30,966	16,683
Employee Relations	-	-	-	-	-	7,891	-	-	-	7,891	11,036
Equipment and Software Maintenance	-	-	-	-	-	75	-	-	-	75	27,306
Equipment Rental	945	90	8,686	373	10,094	3,843	-	-	-	13,937	3,797
Insurance	3,588	3,340	3,649	903	11,480	3,004	2,725	-	2,725	17,209	11,437
Meetings, Conferences and Special Events	1,028	25	2,125	626	3,804	2,015	54,020	37,217	91,237	97,056	20,231
Postage and Mailing	159	18	311	18	506	898	3,849	111	3,960	5,364	4,323
Supplies	49,202	2,612	6,543	1,241	59,598	3,832	3,565	2,576	6,141	69,571	48,098
Taxes, Licenses, Fees	54	73	325	76	528	6,311	4,917	-	4,917	11,756	750
Travel and Automobile	3,646	1,160	3,814	704	9,324	415	587	-	587	10,326	1,950
Utilities and Telephone	4,077	3,795	4,147	1,027	13,046	3,414	3,097	-	3,097	19,557	21,013
Depreciation	189	157	160	36	542	114	108	-	108	764	764
Bad Debt	-	-	-	-	-	13,731	-	-	-	13,731	44,871
Strategic Planning - Administrative	-	-	-	-	-	2,850	-	-	-	2,850	-
Total Other Expenses	<u>359,341</u>	<u>258,028</u>	<u>233,904</u>	<u>44,383</u>	<u>895,656</u>	<u>146,320</u>	<u>184,987</u>	<u>208,630</u>	<u>393,617</u>	<u>1,435,593</u>	<u>1,283,258</u>
Total Expenses	772,218	642,360	653,835	148,338	2,216,751	484,375	498,165	208,630	706,795	3,407,921	2,929,476
Less Expenses Reported on Statement of Activities	-	-	-	-	-	-	(53,934)	-	(53,934)	(53,934)	(6,268)
Total Functional Expenses 2022	<u>\$ 772,218</u>	<u>\$ 642,360</u>	<u>\$ 653,835</u>	<u>\$ 148,338</u>	<u>\$ 2,216,751</u>	<u>\$ 484,375</u>	<u>\$ 444,231</u>	<u>\$ 208,630</u>	<u>\$ 652,861</u>	<u>\$ 3,353,987</u>	
Total Functional Expenses 2021	\$ 560,727	\$ 841,997	\$ 493,558	\$ 33,285	\$ 1,929,567	\$ 437,385	\$ 386,752	\$ 169,504	\$ 556,256		\$ 2,923,208

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF CASH FLOWS
December 31, 2022
(with Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 2,063,711	\$ 896,018
Adjustments to reconcile increase in net assets to cash Provided by (Used by) operating activities:		
Depreciation	764	764
Amortization of ROU Asset - Operating Lease	997	-
Loss (Gain) on investments	444,387	(389,530)
Donated Securities	(24,900)	-
Change in operating assets and liabilities:		
Accounts receivable	26,411	51,588
Contributions receivable	(432,309)	(938,712)
Receivable - other	-	1,770
Prepaid expenses	(4,842)	10,763
Accounts payable	162,449	94,070
Accrued expenses	435,427	18,231
Retainage payable	73,186	-
Cash Flow From Operating Activities	<u>2,742,521</u>	<u>(245,038)</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(853,071)	(63,657)
Proceeds from sale of securities	462,409	656,335
Purchase of securities	(24,579)	(428,734)
Net Cash From Investing Activities	<u>(415,241)</u>	<u>163,944</u>
Cash Flows from Financing Activities		
Proceeds From Note Payable	350,000	-
Net Cash From Investing Activities	<u>350,000</u>	<u>-</u>
Change in Cash and Cash Equivalents	2,677,280	(81,094)
Cash and Cash Equivalents at Beginning of Year	427,750	508,844
Cash and Cash Equivalents at End of Year	<u>\$ 3,105,030</u>	<u>\$ 427,750</u>
Non-cash Contribution - In-Kind Contributions	<u>\$ -</u>	<u>\$ 42,300</u>
Payment for Interest	<u>\$ 7,901</u>	<u>\$ -</u>
Reconciliation of Cash to Statement of Position		
Cash and Cash Equivalents	\$ 2,524,948	\$ 427,750
Cash Held in Deposit Control Accounts	580,082	-
	<u>\$ 3,105,030</u>	<u>\$ 427,750</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 leads a network of partners on the Central Coast in developing, testing, and implementing programs that can be national and global models for addressing the challenges of climate change. CEC pioneers real life solutions in areas with the most impact on climate change, through programs that provide pathways to clean vehicles, solar energy, resilient food systems and a greater focus on closed-loop systems, rather than single-use products. CEC is funded by, and works with, private corporations, foundations, and individuals as well as local, state, and federal governments.

Energy, Transportation & Waste:

Building on decades of work, CEC helps our region secure a rapid, equitable transition to 100% clean, renewable electricity and propel a rapid, equitable transition to clean, zero-emission transportation and buildings. Our efforts focus on ensuring that new construction is energy efficient and carbon-neutral; increasing access to electric vehicles (especially for low-to-moderate income and Spanish-speaking households); and advancing solar and energy efficient solutions for single and multi-family housing and nonprofit organizations. CEC also leads the Central Coast in pursuing a circular economy model that designs waste out of the food and plastic product systems.

Climate Resilience & Justice:

CEC deploys bold, community-led solutions rooted in climate justice aimed at protecting against extreme weather and climate impacts. Our current work, outlined in our first-ever Resilience Action Plan, is centered on increasing resilience to extreme heat, wildfire, and other natural disasters. This work includes actively collaborating with underrepresented voices in planning and implementing community-led solutions.

Climate Policy & Education:

CEC works to inform, unite, and engage a broad range of Central Coast residents to be stewards of the climate, building networks of diverse, engaged activists. Through our Climate Leadership and Climate Policy programs, CEC informs, energizes, and guides tens of thousands of individuals through webinars, political initiatives,

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

meetings, hearings, events, and roundtable discussions. This includes producing Santa Barbara's annual Earth Day celebration in April, one of the oldest in the nation that typically draws 30,000 attendees each year.

Climate Smart Ag:

CEC is focused on accelerating and bringing to scale climate-smart agriculture across San Luis Obispo, Santa Barbara, and Ventura counties. Together with ranchers and farmers, we are working to ensure that agriculturalists build soil health, protect against drought, and promote biodiversity to reduce the impacts of climate change, sequestering greenhouse gas emissions and creating stronger, more resilient food systems.

Prior-Year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but are not presented by net asset 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, 2021 from which the summarized information was derived.

Certain reclassifications have been made to the December 31, 2021 financial statements to conform to current year presentation.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consists of cash on hand, in banks, in money market funds and excludes cash and cash equivalents held for investment. Cash equivalents classified as investments include money market funds held in endowment. \$146,363 of cash and cash equivalents are restricted for purposes which will be met in the year ended December 31, 2023 (see Note 10). In addition, \$580,082 has been placed in accounts at Montecito Bank & Trust that are required to be used for the construction project described in Note 5.

Accounts Receivable

Accounts receivable are stated as unpaid balances, less an allowance for doubtful accounts. CEC provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of parties to pay their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the CEC's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. At December 31, 2022 CEC made a \$5,000 provision for an allowance for doubtful accounts.

Contract liabilities are reported as deferred revenue in the accompanying statement of financial position.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Contributions Receivable

CEC initially records unconditional contributions receivable at fair value and subsequently adjust the carried fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

Fixed Assets

CEC records property and equipment additions over \$5,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years, or in the case of leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

CEC reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2022.

Endowment Investments

Endowment investments consist of investments purchased with the following:

- 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.

CEC records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

CEC holds a minority interest in West Beach Investors Group, a California corporation ("WBIG"), which operates a restaurant in Santa Barbara, California. CEC values its ownership in WBIG at the estimated fair value using the income approach. Information about fair value of investments is discussed in Note 6.

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 Board has designated, from net assets without donor restrictions, net assets for a Board-Designated Quasi-Endowment.

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.

Revenue and Revenue Recognition

Exchange Transactions

CEC recognizes revenue from sales of consulting and other services at the point of time the services are performed, which corresponds with the performance obligations of the contract. Fees and payments received in advance are deferred to the applicable period of time the services are provided. CEC records annual special event revenue equal to the fair value of direct benefits to donors, and contribution revenue for the difference.

The aggregate amount of contract performance obligation as of December 31, 2022 that CEC expects to recognize as revenue in the next three years is \$816,350 with \$617,515 in 2023, \$198,835 in 2024 and \$0 in 2025.

The beginning and ending related contract balances are as follows:

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

	<u>12/31/2022</u>	<u>12/31/2021</u>
Receivables	\$113,657	\$140,068
Deferred revenue	\$22,240	\$25,000

Due to COVID-related Special Events postponements, deferred revenue that was included in the contract liability balance for the year ended December 31, 2021 was recognized in the year ended December 31, 2022.

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, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Consequently, at December 31, 2022, contributions totaling \$1,341,666, respectively, have not been recognized in the accompanying statement of activities because the condition on which they depend has not yet been met. See Note 3.

Donated Services and In-Kind Contributions

Contributed nonfinancial assets may include donated professional services, donated equipment, and other in-kind contributions. CEC does not sell donated gifts-in-kind. In addition to contributed nonfinancial assets, volunteers contribute significant amounts of time to program services, administration, and fundraising and development 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. No significant contributions of such goods or services were received during the year ended December 31, 2022.

Advertising Costs

Advertising costs are expensed as incurred and totaled \$83,297 and \$109,352 during the year ended December 31, 2022 and 2021, respectively.

Functional Allocation of 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 organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an

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organization described in IRC Section 501(c)(3). CEC qualifies for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi), and has been determined not to be private foundation. CEC is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, CEC is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. CEC files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income. Contributions to CEC are tax deductible to donors under IRC Section 170.

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 WBIG
- Allocation of functional expenses
- Allowance for doubtful accounts and fair value of contributions receivable
- Valuation of Right of Use Asset and related Liability

Financial Instruments and Credit Risk

CEC manages deposit concentration risk by placing cash and money market accounts with financial institutions believed by management 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 and contributions receivable 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.

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Change in Accounting Principle

CEC adopted FASB Topic 842, *Leases*, using the modified retrospective approach with January 1, 2021 as the date of initial adoption. CEC elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the CEC to carry forward the historical lease classification. In addition, CEC elected the practical expedient to use hindsight in determining the lease term for existing leases, which resulted in shortening the lease terms for certain existing leases.

As a result of adopting the new standards effective January 1, 2021, the Organization recorded additional net lease asset of \$955,072 and lease liability of \$955,072 at December 31, 2021. Net assets at December 31, 2021 were not impacted by the implementation of the new standard. Adoption of the new standard did not materially impact on the CEC's change in net assets and had no impact on cash flows.

Note 2: Liquidity and Availability

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

Cash and Cash Equivalents	\$ 2,524,948
Cash Held in Deposit Control Accounts	580,082
Investments	24,900
Accounts Receivable	113,658
Contributions Receivable – Current Portion	596,753
Receivable – Other	16,730
Endowment Spending-Rate Distributions and Appropriations	93,523
Less Cash Held in Deposit Control Accounts	(580,082)
Less Estimated Construction Contract Commitments	(1,519,918)
Less Restricted Net Assets to be Used in One Year	(146,363)
Total	<u>\$ 1,704,231</u>

CEC's Endowment funds consist of Board designated quasi-endowment funds totaling \$2,049,951 at December 31, 2022. Other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation CEC does not intend to spend from this Quasi-Endowment, but these amounts could be made available if necessary. CEC invests cash in excess of daily requirements in money market funds.

In addition, CEC holds a \$150,000 line of credit and 2 draw down loans with Montecito Bank & Trust which could be utilized if necessary. See Note 8.

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Note 3: Contributions Receivable

Unconditional Contributions Receivable

Unconditional promises to give are included in the financial statements as contributions receivable and contributions revenue of the appropriate net asset category. Long-term contributions receivables are discounted to present value using a discount rate of 4%. Future receipt of contributions receivable is expected to be collected as follows:

Year ending December 31,:	
2023	\$ 596,753
2024	449,295
2025	384,790
2026	196,053
2027	20,000
Subtotal	<u>1,646,891</u>
Less discount	<u>(108,637)</u>
Total	<u>\$ 1,538,254</u>

Contributions receivable totaling \$1,538,254 and \$1,105,945 reported at December 31, 2022 and 2021, respectively, were restricted by donors for current-year growth projects including program expansion and facility renovation. Management believes the donor restrictions were met and are reported as assets without donor restrictions and the related contributions as without donor restrictions.

Conditional Contributions Receivable

CEC received gifts in the form of intentions to give which are conditional upon the continued employment of CEC's current CEO. Due to the uncertain nature of these intentions CEC has not recognized an asset or contribution revenue for these gifts. The aggregate estimated total intentions to give approximated \$1,341,666 at December 31, 2022. During the year ended December 31, 2022 CEC recognized \$512,500 of contributions that were conditional contributions receivable at December 31, 2021.

Note 4: Right of Use Asset, Liabilities Under Operating Lease and Lease Commitments

On November 18, 2020, CEC entered into a ten-year office lease with Hutton Parker Foundation that began on January 1, 2021 and was extended on November 15, 2022 to November 30, 2040. Base rent for the original remaining eight years is \$10,664 per month or \$127,968 annually. Commencing December 1, 2030, the Base Rent will be \$12,457.50 per month or \$149,490 annually.

As disclosed in Note 1, CEC has adopted FASB ASC 842. The Hutton Parker lease is the only lease required to be included on CEC's statement of financial position

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under FASB ASC 842. As a result of adopting FASB ASC 842 there was no impact to prior year net assets, and because these leases are operating leases, the adoption of this standard has no impact on CEC's prior year changes in net assets.

Insurance and maintenance expenses covering the leased facilities are the obligations of CEC. The total rent over the eighteen-year period of \$2,635,948 represents the total future minimum lease payments on non-cancelable operating leases as of December 31, 2022.

As of December 31, 2022, the right-of-use (ROU) asset had a balance of \$1,731,413, as shown in current assets (\$67,849) and noncurrent assets (\$1,663,564) on the statement of financial position; the lease liability is included in other current liabilities (\$55,934) and long-term liabilities (\$1,676,476). The lease asset and liability were calculated utilizing the risk-free discount rate (4.22%).

Maturities of operating lease liabilities as of December 31, 2022:

Year ending December 31,	
2023	\$ 127,728
2024	127,728
2025	127,728
2026	127,728
2027	127,728
Thereafter	<u>1,867,440</u>
Total Lease Payments	2,506,080
Less Discount	<u>(773,670)</u>
Present Value Lease Liability	<u>\$ 1,732,410</u>

Total rent expense for the year ended December 31, 2022 was \$132,335 which included common area operating expenses of \$13,708 and storage rental of \$4,943.

Note 5: Fixed Assets

Fixed Assets at December 31, 2022 and 2021 are summarized as follows:

	2022	2021
Furniture	\$ 25,419	\$ 25,419
Equipment	<u>19,376</u>	<u>19,376</u>
	44,795	44,795
Accumulated Depreciation	<u>(44,278)</u>	<u>(43,514)</u>
Subtotal	517	1,281
Construction in Progress	<u>916,728</u>	<u>63,657</u>
Fixed Assets, Net	<u>\$ 917,245</u>	<u>\$ 64,938</u>

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Depreciation expense was \$764 for both years ended December 31, 2022 and 2021.

Construction in progress consists of costs associated with a major renovation of CEC's leased offices located in Santa Barbara, California. Management estimates the final costs of the renovation to be \$2,900,000. Construction in progress includes a \$73,186 retainage payable. Should the contractor fail to complete the scheduled construction, the retainage may be retained by CEC. Construction in progress will be subject to depreciation when the renovation is placed into service. The renovation funding arrangement with Montecito Bank & Trust required CEC to place \$580,082 of cash into deposit control accounts with the bank. The funds held in the deposit control accounts are subject to approval by Montecito Bank & Trust and are released by Montecito Bank & Trust as construction draw requests are received from the contracted construction company.

Note 6: Endowment Investments and Fair Value Measurements and Disclosures

CEC reports certain assets and liabilities at fair value in the 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 the market anticipates would use in pricing the asset or liability, including assumptions 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

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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 value of Investment in WBIG 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, 2022:

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	Total	Level 1	Level 2	Level 3
Operating Assets:				
Equities	\$ 24,900	\$ 24,900	\$ -	\$ -
Contributions Receivable	1,538,254	-	-	1,538,254
Total Operating Assets	\$1,563,154	\$ 24,900	\$ -	\$1,538,254
Endowment Assets:				
Endowment Investments:				
Cash and Equivalents	37,642	37,642	-	-
Common Stock	1,174,225	1,174,225	-	-
Mutual Funds:				
Fixed Income	293,907	293,907	-	-
Equity	187,207	187,207	-	-
Exchange Traded Fund – Fixed Income	281,507	281,507	-	-
Other Assets	10,970	10,970	-	-
Endowment Investments	1,985,458	1,985,458	-	-
Investment in WBIG	195,000	-	-	195,000
Total Endowment Assets	\$ 2,180,458	\$ 1,985,458	\$ -	\$ 195,000

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, 2022:

	Contributions Receivable	Investment in WBIG
Balance, beginning of year	\$ 1,105,945	\$ 165,000
Additions	4,023,744	-
Collections	(3,566,369)	-
Fair value adjustment	(25,066)	30,000
Balance, end of year	\$ 1,538,254	\$ 195,000

Note 7: Investment in West Beach Investors Group (WBIG)

CEC has a 33.3% interest in West Beach Investors Group (WBIG), which is an 80% joint venture partner in The Stearns Wharf Company dba Moby Dick

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Restaurant. Effective December 31, 2017, CEC adopted a valuation approach based on the previous five years earnings before income taxes, depreciation and amortization (EBITDA), discounted at 90%. At December 31, 2022, management estimates a fair value of \$195,000 for CEC's Investment in WBIG based on a consistent update of this valuation approach.

Note 8: Line of Credit and Loans Payable

CEC holds a secured \$150,000 line of credit with Montecito Bank & Trust that carries a variable interest rate based on the Prime Rate as published in the Wall Street Journal plus 0.750 percentage points over the index. At December 31, 2022 the calculated rate was 8.5% per annum. The line of credit matures July 2023. The line of credit is secured by a blanket UCC Filing. The line of credit had no balance as of December 31, 2022.

CEC holds a secured \$2,000,000 draw-down term loan with Montecito Bank & Trust that carries an annual 5% interest rate, matures in May 2028 and is secured by a blanket UCC Filing. Beginning May 2023, loan advances are no longer available, even if the principal balance has not been advanced in its entirety. Beginning June 5, 2023, CEC is required to pay this loan in sixty (60) consecutive monthly payments of principal and interest in an amount such that payments would fully repay the outstanding principal balance of this loan in substantially equal monthly payments over a period of sixty (60) months, based on an annual interest rate of 5%, which interest shall remain fixed over the remaining term of the loan. The loan had no balance as of December 31, 2022. Subsequent to December 31, 2022 the loan was amended to extend the draw down period to December 5, 2023. The amendment also revised the loan repayment terms to 53 consecutive principal and interest payments to fully amortize the loan on the stated 5% annual interest rate.

CEC holds a secured draw-down term loan of \$1,000,000 that carries a variable interest rate based on the Prime Rate as published in the Wall Street Journal plus 0.750 percentage points over the index with a floor of 4.0%. At December 31, 2022 the calculated rate was 8.5% per annum, matures in January 2025 and is secured by a blanket UCC Filing. Beginning January 2023, loan advances are no longer available, even if the principal balance has not been advanced in its entirety. Beginning February 5, 2023, CEC is required to pay this loan in twenty-four (24) consecutive monthly interest payments of all accrued unpaid interest due as of each payment date, during which interest continues to accrue on the unpaid principal balances based on an annual interest rate equal to the Index, plus 0.75%, that is current on February 5, 2022. In addition to the monthly interest payments, CEC is required to pay quarterly principal payments in an amount such that payments would fully repay the outstanding principal balance of this Loan in substantially equal eight (8) quarterly payments over a period of twenty-four (24) months, beginning February 5, 2023. The draw down loan had a \$350,000 balance as of December 31, 2022.

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CEC is obligated to make payments as follows:

Year ending December 31:

2023	\$ 189,350
2024	<u>189,350</u>
	378,700
Less Interest	<u>(28,700)</u>
	<u>\$ 350,000</u>

Note 9: 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, 2022 and 2021, 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, 2022 or 2021.

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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 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 2022 and 2021, 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, 2022 are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment Net Assets, Beginning of Year	\$ 2,932,168	\$ 130,507	\$ 3,062,675
Investment income:			
Interest and dividends	11,741	-	11,741
Unrealized losses on investments	(574,432)	-	(574,432)
Realized gains on sales of investments	130,075	-	130,075
Investment fees	(13,998)	-	(13,998)
Withdrawals:			
Draw per spending policy	(125,603)	-	(125,603)
Additional Board approved draw	(310,000)	-	(310,000)
Endowment Net Assets, End of Year	<u>\$ 2,049,951</u>	<u>\$ 130,507</u>	<u>\$ 2,180,458</u>

Note 10: Net Assets with Donor Restrictions

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

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	<u>2022</u>	<u>2021</u>
Restricted for specific purpose:		
Plastics programs	39,808	45,080
Food related programs	81,555	250,000
Climate & Other programs	25,000	42,000
Total Purpose Restricted	<u>146,363</u>	<u>337,080</u>
Perpetual in nature:		
Subject to spending policy	130,507	130,507
Total	<u>\$ 276,870</u>	<u>\$ 467,587</u>

Note 11: Customer and Credit Risk Concentrations

Financial instruments that potentially subject CEC to credit risk consist principally of cash, cash held for investment, contributions receivable and accounts receivable. CEC receives a significant portion of its accounts receivable, contributions receivable and related contributions from individuals and corporations from the Santa Barbara, California region.

CEC maintains bank accounts at three financial institutions. Deposits at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Balances held in brokerage accounts are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000 per institution. From time-to-time cash held during the year exceeded the insured thresholds. At December 31, 2022, the amount of cash deposits that exceeded federally insured limits was \$2,850,138.

At December 31, 2022, four donors accounted for approximately 43 percent of total contributions receivable. Ten contributors accounted for approximately 76 percent of total contribution revenue for the year ended December 31, 2022.

Note 12: Commitments

In relation to a major renovation of CEC's leased office space located in Santa Barbara, California, CEC has entered into construction contracts totaling approximately \$2,800,000 of which approximately \$700,000 had been incurred as of December 31, 2022. CEC plans to complete the renovation in 2023.

Note 13: Subsequent Events

Management has evaluated and identified no subsequent events, with the exception of the loan modification and term loan repayment noted below, requiring disclosure through September 21, 2023, the date that the financial statements were available to be issued.

As described in Note 8, subsequent to December 31, 2022 the \$2,000,000 draw down loan with Montecito Bank & Trust loan was amended to extend the draw down

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period to December 5, 2023. The amendment also revised the loan repayment terms to 53 consecutive principal and interest payments to fully amortize the loan on the stated 5% annual interest rate.

The term loan described in Note 8 with a balance of \$350,000 at December 31, 2022 was subsequently paid with a \$340,000 payment in January 2023 and \$10,000 payment in June 2023.