



Community Environmental Council

**COMMUNITY ENVIRONMENTAL COUNCIL, INC.
Financial Statements
December 31, 2017**

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5-6
Statement of Cash Flows	7
Notes to Financial Statements	8-20



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, 2017, 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, 2017, 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

Community Environmental Council, Inc.'s 2016 financial statements were audited by other auditors who expressed an unmodified audit opinion on those audited financial statements in their report dated March 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stoltey & Associates

Orcutt, California
April 19, 2018

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 with Comparative Totals for 2016

ASSETS		
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and Cash Equivalents	\$ 171,749	\$ 153,403
Investments (note 6)	54,261	44,493
Accounts Receivable (note 4)	41,282	20,061
Contributions Receivable (note 5)	26,260	8,925
Prepaid Expenses	2,777	5,041
Fixed Assets, Net (note 7)	<u>5,138</u>	<u>11,126</u>
Subtotal	301,467	243,049
Endowment Assets:		
Endowment Investments (note 6)	2,617,222	2,561,221
Investment in LLC (note 8)	<u>300,000</u>	<u>600,000</u>
Total Endowment Investments (note 10)	<u>2,917,222</u>	<u>3,161,221</u>
Total Assets	<u>\$ 3,218,689</u>	<u>\$ 3,404,270</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 19,723	\$ 13,508
Accrued Expenses	<u>24,098</u>	<u>23,184</u>
Total Liabilities	<u>43,821</u>	<u>36,692</u>
NET ASSETS		
Undesignated	225,146	144,442
Board Designated Quasi-Endowment (note 10)	<u>2,786,715</u>	<u>3,035,714</u>
Total Unrestricted Net Assets	3,011,861	3,180,156
Temporarily Restricted (note 9)	32,500	61,915
Permanently Restricted Endowment (note 9, 10)	<u>130,507</u>	<u>125,507</u>
Total Net Assets	<u>3,174,868</u>	<u>3,367,578</u>
Total Liabilities and Net Assets	<u>\$ 3,218,689</u>	<u>\$ 3,404,270</u>

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF ACTIVITIES
For the Year Ended December 31, 2017 with Comparative Totals for 2016

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING					
PUBLIC SUPPORT					
Special Events, Gross	\$ 193,321	\$ -	\$ -	\$ 193,321	\$ 170,930
Less: Direct Costs	(87,689)	-	-	(87,689)	(86,827)
Special Events, Net	105,632	-	-	105,632	84,103
Contributions	239,611	-	5,000	244,611	182,758
Grants and Contracts (Private)	92,869	32,500	-	125,369	201,469
Total Public Support	438,112	32,500	5,000	475,612	468,330
REVENUE					
Grants and Contracts (Government)	121,872	-	-	121,872	25,166
Earth Day Program	245,890	-	-	245,890	228,279
Solarize Program	58,360	-	-	58,360	43,633
Total Public Support and Revenue	864,234	32,500	5,000	901,734	765,408
Net Assets Released from Restriction	61,915	(61,915)	-	-	-
EXPENSES					
PROGRAM SERVICES	872,470	-	-	872,470	962,831
SUPPORTING SERVICES					
Management and General	190,974	-	-	190,974	104,241
Fundraising	139,905	-	-	139,905	164,036
Total Supporting Services	330,879	-	-	330,879	268,277
Total Operating Expenses	1,203,349	-	-	1,203,349	1,231,108
Change in Net Assets from Operating Activities	(277,200)	(29,415)	5,000	(301,615)	(465,700)
NONOPERATING					
REVENUE					
Investment Income (Note 6)	388,229	-	-	388,229	136,407
Distribution from Investment in LLC	26,664	-	-	26,664	53,509
Change in Valuation of Investment in LLC	(300,000)	-	-	(300,000)	-
Gain / (Loss) on Disposal of Assets	(4,697)	-	-	(4,697)	-
Total Nonoperating Revenue	110,196	-	-	110,196	189,916
EXPENSES					
Depreciation	1,291	-	-	1,291	3,329
Total Nonoperating Expense	1,291	-	-	1,291	3,329
Change in Net Assets from Nonoperating Activities	108,905	-	-	108,905	186,587
Total Change in Net Assets	(168,295)	(29,415)	5,000	(192,710)	(279,113)
Net Assets, Beginning of Year	3,180,156	61,915	125,507	3,367,578	3,646,691
Net Assets, End of Year	\$ 3,011,861	\$ 32,500	\$ 130,507	\$ 3,174,868	\$ 3,367,578

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017 with Comparative Totals for 2016

	2017				
	Program Services				
	Energy	Education	Food	Plastics	TOTAL
Compensation and Related Benefits					
Salaries	\$ 206,796	\$ 79,037	\$ 89,105	\$ 17,882	\$ 392,820
Payroll Taxes	14,432	6,020	7,057	1,403	28,912
Employee Benefits	15,847	2,779	2,724	207	21,557
Total Compensation and Related Benefits	237,075	87,836	98,886	19,492	443,289
Other Operating Expenses					
Accounting and Legal	-	-	-	-	-
Advertising	11,756	15,657	2,548	-	29,961
Bank Charges	-	4,515	-	-	4,515
Building Rental and Repairs	27,996	26,653	12,458	2,241	69,348
Contract Services	18,203	140,453	1,143	8,414	168,213
Dues and Subscriptions	2,675	2,873	860	8	6,416
Duplicating and Printing	1,748	8,418	117	1	10,284
Employee Relations	2,187	810	912	180	4,089
Equipment and Software Maintenance	1,562	579	652	128	2,921
Equipment Rental	2,110	45,201	872	134	48,317
Insurance	4,326	1,603	1,804	356	8,089
Meetings, Conferences and Special Events	6,969	5,130	6,694	247	19,040
Postage and Mailing	7	49	-	-	56
Supplies	1,188	18,161	555	21,292	41,196
Taxes, Licenses and Fees	-	5,435	-	-	5,435
Travel and Automobile	2,815	438	1,362	609	5,224
Utilities and Telephone	3,250	1,204	1,356	267	6,078
Total Operating Expenses	323,867	365,015	130,218	53,369	872,470
Nonoperating Expenses					
Depreciation	483	179	202	40	904
Total Nonoperating Expenses	483	179	202	40	904
 Total Functional Expenses 2017	<u>\$ 324,350</u>	<u>\$ 365,194</u>	<u>\$ 130,420</u>	<u>\$ 53,409</u>	<u>\$ 873,374</u>
 Total Functional Expenses 2016	<u>\$ 354,320</u>	<u>\$ 388,241</u>	<u>\$ 105,900</u>	<u>\$ 69,213</u>	<u>\$ 917,674</u>

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017 with Comparative Totals for 2016

	2017			2016
	Supporting Services		Total Program and Supporting Services	Total Program and Supporting Services
	Management & General	Fundraising		
Compensation and Related Benefits				
Salaries	\$ 53,055	\$ 99,053	\$ 544,928	\$ 498,651
Payroll Taxes	4,001	7,805	40,718	39,188
Employee Benefits	2,419	9,940	33,916	65,617
Total Compensation and Related Benefits	59,475	116,798	619,562	603,456
Other Operating Expenses				
Accounting and Legal	74,978	-	74,978	82,091
Advertising	712	3,407	34,080	31,423
Bank Charges	142	6,579	11,236	7,358
Building Rental and Repairs	21,994	450	91,792	71,316
Contract Services	13,183	1,299	182,695	243,504
Dues and Subscriptions	2,260	10	8,686	11,305
Duplicating and Printing	-	3,096	13,380	19,025
Employee Relations	1,748	-	5,837	11,430
Equipment and Software Maintenance	1,249	-	4,170	15,833
Equipment Rental	1,306	-	49,623	41,578
Insurance	3,457	-	11,546	11,421
Meetings, Conferences and Special Events	3,546	6,408	28,994	38,838
Postage and Mailing	178	1,357	1,591	1,366
Supplies	1,137	468	42,801	17,838
Taxes, Licenses and Fees	3,002	-	8,437	2,001
Travel and Automobile	9	33	5,266	11,145
Utilities and Telephone	2,597	-	8,675	10,180
Total Operating Expenses	190,974	139,905	1,203,349	1,231,108
Nonoperating Expenses				
Depreciation	387	-	1,291	3,329
Total Nonoperating Expenses	387	-	1,291	3,329
Total Functional Expenses 2017	<u>\$ 191,361</u>	<u>\$ 139,905</u>	<u>\$ 1,204,640</u>	
Total Functional Expenses 2016	<u>\$ 162,903</u>	<u>\$ 153,860</u>		<u>\$ 1,234,437</u>

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2017 with Comparative Totals for 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
(Decrease) in Net Assets	\$ (192,710)	\$ (279,113)
Adjustments to Reconcile Increase in Net Assets to Cash Provided by (Used by) Operating Activities:		
Permanently Restricted Contributions	(5,000)	-
Depreciation	1,291	3,329
Unrealized Loss (Gain)	31,213	447,300
Realized Loss (Gain)	(129,433)	-
Loss on Disposal of Fixed Assets	4,697	-
Change in Operating Assets and Liabilities:		
Accounts Receivable	(21,221)	31,683
Contributions Receivable	(17,335)	(6,791)
Prepaid Expenses	2,264	(1,716)
Accounts Payable	6,215	2,997
Accrued Expenses	914	4,806
Net Cash Provided (Used) by Operating Activities	<u>(319,105)</u>	<u>202,495</u>
Cash Flows from Investing Activities		
Proceeds from Sale of Securities	948,599	360,000
Purchase of Securities	(616,148)	(582,568)
Purchase of Fixed Asset	-	(5,350)
Net Cash Provided (Used) by Investing Activities	<u>332,451</u>	<u>(227,918)</u>
Cash Flows from Financing Activities		
Permanently Restricted Contributions	<u>5,000</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	18,346	(25,423)
Cash and Cash Equivalents at Beginning of Year	153,403	178,826
Cash and Cash Equivalents at End of Year	<u>\$ 171,749</u>	<u>\$ 153,403</u>

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 1: Nature of Activities

Community Environmental Council (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.

Note 2: Summary of Significant Accounting Policies

CEC prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by CEC are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis of Accounting

CEC prepares its financial statements using the accrual basis of accounting and accounting principles generally accepted in the United States of America.

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 LLC
- Allocation of functional expenses
- Allowance for uncollectible accounts and contributions receivable

Net Assets

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Unrestricted Net Assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting for the nature of CEC, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Temporarily Restricted Net Assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. CEC's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by CEC, unless the donor provides more specific directions about the period of its use.

Permanently Restricted Net Assets are resources whose use by CEC is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of CEC's donor-restricted endowment funds that must be maintained in perpetuity are classified in this net asset class.

Classification of Transactions

All revenues and net gains are reported as increases in unrestricted net assets in the statement of activities unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses and net losses other than losses on endowment investments are reported as decreases in unrestricted net assets. Net losses on endowment investments reduce temporarily restricted net assets to the extent that net gains of the fund from prior years are unspent and classified there; remaining losses are classified as decreases in unrestricted net assets. If an endowment fund has no net gains from prior years, such as when a fund is newly established, net losses are classified as decreases in unrestricted net assets. Donor-restricted contributions and investment earnings whose restrictions are met in the same reporting period are reported as unrestricted support.

Cash and Cash Equivalents

Cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less, unless the investments are held for meeting restrictions of a capital or endowment nature. CEC maintains cash balances at financial institutions with branches located in Santa Barbara, California. Deposit accounts at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account. The balances occasionally exceed those limits. Cash equivalents, other securities, and limited amounts of cash held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to \$500,000 of protection for each brokerage account, with a limit of \$250,000 for claims of uninvested cash balances. The SIPC insurance does not protect against market losses on investments.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Accounts Receivable

Accounts receivable are primarily unsecured non-interest-bearing amounts due from grantors on cost reimbursement or performance grants.

Contributions Receivable (Pledges)

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist primarily of prepaid Earth Day event expenses.

Fixed Assets

Fixed assets are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$1,000 or more and a useful life when acquired of more than 1 year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Equipment	3 – 10 Years
Furniture	7 – 12 Years
Leasehold improvements	10 Years

Fixed assets are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

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 being used to support CEC's activities.
- Donor-restricted term endowments, which are contributions restricted by donors to investment for the term specified by the donor. During that term, the

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

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 endowments (quasi-endowment), which 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.

Endowment investments also include investments purchased with unspent investment income and net gains on these resources. The investment and spending policies for the Endowment Fund are discussed in Note 10.

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 LLC, changes in value of investment in LLC and depreciation expense are included as non-operating activities.

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless the use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met. CEC is a beneficiary under several donors' wills. Contributions from bequests are recognized as contributions receivable when the probate court declares that the will is valid and CEC has an irrevocable right to the bequest.

Gifts-in-Kind Contributions

CEC benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in CEC's program operations and in its fund-raising campaigns. However, the contributed services do not meet the criteria for recognition in financial statements. GAAP allow recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

contribution, require specialized skills, and are provided by individuals possessing those skills.

Grant Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. Grant revenue is subject to review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, CEC's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of CEC.

Expense Recognition and Allocation

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.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of CEC.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. CEC generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

Tax 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). CEC's tax filings for the years ending 2016, 2015 and 2014 are subject to examination by the IRS, generally for three years after they are filed. CEC evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. Contributions to CEC are tax deductible to donors under Section 170 of the IRC. As of December 31, 2017, CEC had no uncertain tax positions requiring accrual. CEC is not classified as a private foundation. See Note 13 for unrelated business income tax discussion.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Advertising Costs

CEC advertises to promote its programs among the communities it serves as well as its fundraising events. CEC incurred a total of \$34,080 in advertising costs for the year ended December 31, 2017.

Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with CEC's financial statements for the year ended December 31, 2016, from which the summarized information was derived. Certain reclassifications have been made to these amounts to conform to current year classifications.

Note 3: Fair Value Measurements

The estimated fair values of CEC's short-term financial instruments, including cash, cash equivalents, accounts receivable, pledges receivable and accounts payable arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. CEC reports fair value measures of its long-term assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows:

- *Level 1.* Quoted prices for identical assets or liabilities in active markets to which CEC has access at the measurement date.
- *Level 2.* Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets in inactive markets;
 - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
 - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- *Level 3.* Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value if observable inputs are not available.

When available, CEC measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for some of the assets and liabilities that CEC is required to

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

measure at fair value (for example, unconditional promises to give and in-kind contributions). The primary uses of fair value measures in CEC's financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of endowment investments (Note 6).
- recurring measurement of LLC interest (Note 8).

Note 4: Accounts Receivable

Accounts receivable result from contracts between CEC and the County of Santa Barbara, Southern California Edison, The Gas Company, the County of San Luis Obispo, the Los Angeles Cleantech Incubator and various solar companies. Management expects to collect all accounts receivable prior to December 31, 2018. Management has recorded an allowance for doubtful accounts of \$5,000 at December 31, 2017.

Note 5: Contributions Receivable

Contributions receivable are recorded at the net present value of the future cash flows. All contributions are expected to be collected in the year ended December 31, 2018 and as such management has no allowance for doubtful accounts at December 31, 2017.

Note 6: Investments

Investments consist of the following at December 31, 2017:

	Market Value	Cost	Unrealized
Temporary cash	\$ 27,315	\$ 27,315	\$ -
Common stock – public	1,645,669	1,258,494	387,175
Exchange traded funds – bonds	319,903	322,041	(2,138)
Mutual funds – fixed income	336,563	334,000	2,563
Mutual funds – equities	314,952	238,268	76,684
Limited partnerships	5,247	5,097	150
REIT's	21,834	27,501	(5,667)
Totals	\$ 2,671,483	\$ 2,212,716	\$ 458,767
Less: Unrealized Gain, Beginning of year			(189,980)
Change in Unrealized Gain			\$ 268,787

As discussed in Note 3 to these financial statements, CEC is required to report its fair value measurements in one of three levels, which are based on the ability to observe in the marketplace the inputs to CEC's valuation techniques. Level 1, the most observable level of inputs, is for investments measured at quoted prices in active markets for identical investments as of the December 31, 2017, including investments measured at net asset value (NAV) if the NAV is determined as the fair value per share (unit) is published, and is the basis for current transactions. Level 2

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

is for investments measured using inputs such as quoted prices for similar assets or quoted prices for the identical asset in inactive markets. Level 3 is for investments measured using inputs that are unobservable, and is used in situations for which there is little, if any, market activity for the investment.

CEC uses the following ways to determine the fair value of its investments:

- *Money market funds*: Determined by the published NAV per unit at the end of the last trading day of the year, which is the basis for transactions at that date.
- *Equity securities traded on national securities exchanges*: Determined by the closing price on the last business day of the fiscal year.
- *Equity securities traded on the over-the-counter market*: Determined by the last reported bid price, if actively traded.
- *Open-end mutual funds*: Determined by the published NAV per unit at the end of the last trading day of the fiscal year, which is the basis for transactions at that date.
- *Exchange-traded funds*: Determined by the published closing price on the last business day of the fiscal year.
- *Limited partnership fund*: Determined by the NAV per share, as a practical expedient for a fair value measurement, because the underlying general partner's calculation of NAV is fair value based, and the NAV has been calculated by the fund manager as of CEC's fiscal year end date. Net asset values provided by the general partner are evaluated by CEC's investment committee and are believed to present a reasonable estimate of fair value.
- *Real estate investment trust*: Determined by the closing price on the last business day of the fiscal year.

The following table summarizes the levels in the fair value hierarchy of CEC's investments at December 31, 2017:

	<u>Level 1</u>	<u>Total</u>
Temporary cash	\$ 27,315	\$ 27,315
Common stock – public	1,645,669	1,645,669
Exchange traded funds – bonds	319,903	319,903
Mutual funds – fixed income	336,563	336,563
Mutual funds – equities	314,952	314,952
Limited partnerships	5,247	5,247
REIT's	21,834	21,834
Totals	<u>\$ 2,671,483</u>	<u>\$ 2,671,483</u>

There were no significant transfers between the levels during the year. CEC's policy is to recognize transfers in and out of the levels at the end of the fiscal year; interim changes in the availability of fair value inputs are not recognized. At December 31, 2017, CEC does not have any investments measured using level 2 or 3 inputs. The

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
Notes to Financial Statements

composition of the investment return reported in the statement of activities is as follows:

Interest and dividends	\$ 10,703
Realized gain	129,433
Unrealized gain	268,787
Investment fees	<u>(20,694)</u>
Total	<u>\$ 388,229</u>

Note 7: Fixed Assets, Net

Fixed Assets, Net at December 31, 2017, are as follows:

Furniture	\$ 25,419
Equipment	19,376
Leasehold Improvements	<u>307,429</u>
Total Cost	352,224
Accumulated Depreciation	<u>(347,086)</u>
Fixed Assets, Net	<u>\$ 5,138</u>

Depreciation expense for the year ended December 31, 2017 was \$1,291.

Note 8: 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 Note 6). 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 new valuation approach based on the previous five year's earnings before income taxes, depreciation and amortization (EBITDA), discounted at 90%, resulting in a \$300,000 reduction in estimated fair value, from \$600,000 to \$300,000, as reported in the Statement of Activities as Change in Valuation of LLC.

As discussed in Note 3, because there are no observable market transactions for assets similar to the LLC and because the LLC cannot be redeemed, the valuation technique used by CEC is a level 3 value measure.

Value of LLC ownership at Beginning of Year	\$ 600,000
Change in estimated fair value	<u>(300,000)</u>
Value of LLC ownership at end of year	<u>\$ 300,000</u>

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
Notes to Financial Statements

CEC's Board of Directors has designated the LLC and any LLC distributions to be included in the quasi-endowment. See Note 10 for description of CEC's spending policy.

Note 9: Restricted Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following amounts at December 31:

	<u>2017</u>	<u>2016</u>
Plastics	\$ 10,000	\$ 35,415
Energy	12,500	-
Food	<u>10,000</u>	<u>26,500</u>
Total	<u>\$ 32,500</u>	<u>\$ 61,915</u>

Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2017 totaled \$130,507 all of which was held in CEC's endowment fund. See Note 10 for discussion of spending policy.

Note 10: Accounting for Endowment

The changes in endowment net assets for the year ended December 31, 2017 are as follows:

NET ASSETS	BOARD DESIGNATED	PERMANENTLY RESTRICTED	TOTAL ENDOWMENT
Beginning of Year	\$ 3,035,714	\$ 125,507	\$ 3,161,221
Contributions	-	5,000	5,000
Investment Income:			
Interest & Dividends	10,704	-	10,704
LLC Distributions	26,664		26,664
Change in Value of LLC	(300,000)	-	(300,000)
Appreciation of Investments	386,105		386,105
Investment Fees	(20,695)		(20,695)
Draws:		-	
Per Spending Policy	(142,113)		(142,113)
Additional, Board Approved	(183,000)	-	(183,000)
LLC Distributions	(26,664)	-	(26,664)
End of Year	<u>\$ 2,786,715</u>	<u>\$ 130,507</u>	<u>\$ 2,917,222</u>

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
Notes to Financial Statements

The net asset composition of the endowment as of December 31, 2017, is as follows:

	Unrestricted	Permanently Restricted	Total
Donor Restricted Fund:			
Permanent Endowment	-	130,507	130,507
Board Designated Fund:			
Quasi-Endowment	2,786,715	-	2,786,715
Total Endowment	<u>\$ 2,786,715</u>	<u>\$ 130,507</u>	<u>\$ 2,917,222</u>

CEC's endowment consists of a single fund established either by donors (referred to as *donor-restricted endowment funds*) and or by resources set aside by the Board of Directors to function as endowments (*referred to as quasi-endowment funds*). Donor-restricted endowment is further divided into those that provide a perpetual source of support for CEC's activities (referred to as *permanent endowments*) and those that are restricted by donors to investment for a specified term (referred to as *term endowments*). As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The state of California enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective January 1, 2009. UPMIFA establishes law for the management and investment of donor-restricted endowment funds. The Board of Directors of CEC has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted permanent endowment funds unless there are explicit donor stipulations to the contrary. As a result of this interpretation, CEC classifies as permanently restricted net assets (a) the original value of gifts donated to all donor-restricted permanent endowments, (b) the original value of any subsequent gifts to donor-restricted permanent endowments, and (c) the original value of accumulations to donor-restricted permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of a donor-restricted permanent endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by CEC. All donor-restricted term endowments are classified as temporarily restricted net assets until the term expires and they are used in accordance with the donor's restrictions on use.

UPMIFA permits CEC to appropriate for expenditure or accumulate so much of a donor-restricted endowment fund as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. In making its determination to appropriate or accumulate, CEC must act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and it must consider, if relevant, the following factors:

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

- The duration and preservation of the endowment fund
- The purposes of CEC and the donor-restricted endowment 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 policy of CEC

Investment Policy

CEC has an investment policy specific to its Endowment Fund, which is monitored by the Investment Committee of its Board of Directors. The investment policy describes the objective for the fund and sets ranges for asset allocation. The principal investment objectives of the Endowment and Quasi-endowment funds are to provide an average total return that equals or exceeds the total of the annual draw established by the Board of Directors plus the rate of inflation, as measured by the CPI. For the Quasi-endowment, a secondary objective is to provide a source of funds for emergencies, to allow bridge funding, or for making strategic investments. In a case when the Board directs such uses of Quasi-endowment funds, the corpus of the Quasi-endowment may be invaded. Actual returns in any given year may vary from this amount. In light of this return requirement, the portfolio is constructed using a total return approach with a significant portion of the funds invested to seek growth of principal over time. The assets are invested for the long term, and a higher short-term volatility in these assets is to be expected and accepted. In December 2015, CEC hired Trillium Asset Management, LLC to manage its investments. Under Trillium's management, the portfolio has screened out investments in fossil fuels, hydro-fracking or oil exploration/drilling/production, and to the extent possible, seeks to invest in companies demonstrating sustainable business practices, including a commitment to corporate governance practices. In particular, the portfolio seeks investment in innovative companies providing renewable energy or energy efficiency, or that value workers and uphold human rights in their global supply chains, or provide visionary leadership.

Spending Policy

The bylaws of CEC provide for a withdrawal of 5% of the average balance of the endowment, measured at the end of each of the last three fiscal years, to fund operations and programs. In addition, the Board of Directors may, at its discretion, vote to draw additional funds from the quasi-endowment to supplement the calculated draw. The endowment policy also allows for all LLC distributions to be drawn from the endowment.

Note 11: Concentrations of Credit Risk

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

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 12: 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, 2017:

2018	\$ 47,587
2019	47,587
2020	<u>47,587</u>
Total Minimum Future Payments Required	<u>\$142,761</u>

Rent expense for the year ended December 31, 2017 was \$65,672.

Note 13: Line of Credit

CEC holds an unsecured \$50,000 line of credit with Montecito Bank & Trust that carries interest at 6.5% per annum (prime + 2%) and matures July 25, 2018. The line of credit, which has never been drawn on, was set up to help smooth the seasonal variability of cash flows.

Note 14: Unrelated Business Income Tax

CEC recorded unrelated business income tax expense of \$2,750 for the year ended December 31, 2017 related to taxes paid on net taxable income of the Investment in LLC.

Note 15: Subsequent Events

Management of CEC has evaluated subsequent events through April 19, 2018, the date on which the financial statements were available to be issued.