



Community Environmental Council

**COMMUNITY ENVIRONMENTAL COUNCIL, INC.
Financial Statements
December 31, 2016 and 2015**



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of- Community Environmental Council

Report on Financial Statements

I have audited the accompanying financial statements of Community Environmental Council (a non-profit corporation), which comprise the statement of financial position as of December 31, 2016, and the related statement of activities and changes in net assets, statement of functional expenses, and statement of cash flows for the year then ended and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Organization's December 31, 2015 financial statements, and my report dated April 6, 2016 expressed an unqualified opinion on those financial statements.

Management's Responsibility 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; this includes the design, implementation, maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I do not express 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.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Environmental Council as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Oak Park, California
March 24, 2017

Thomas H Ridge
Certified Public Accountant

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COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

ASSETS	2016	2015
ASSETS		
Cash and cash equivalents	\$ 153,403	\$ 178,826
Investments	3,205,714	3,430,446
Contributions and other receivables, net	28,986	53,878
Prepaid expenses	5,041	3,325
Property and equipment, net of accumulated depreciation of \$382,858 for 2016 and \$379,529 for 2015	11,126	9,105
Total assets	<u>\$ 3,404,270</u>	<u>\$ 3,675,580</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 13,508	\$ 10,511
Other current liabilities	23,184	18,378
Total liabilities	<u>36,692</u>	<u>28,889</u>
NET ASSETS		
Board designated	3,035,714	3,270,349
Undesignated	144,442	148,807
Total unrestricted net assets	<u>3,180,156</u>	<u>3,419,156</u>
Temporarily restricted assets	61,915	102,028
Permanently restricted assets	125,507	125,507
Total net assets	<u>3,367,578</u>	<u>3,646,691</u>
Total liabilities and net assets	<u>\$ 3,404,270</u>	<u>\$ 3,675,580</u>

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF ACTIVITIES
December 31, 2016 with Comparative Totals as of December 31, 2015

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
OPERATING					
PUBLIC SUPPORT					
Special events, gross	\$ 170,930			\$ 170,930	\$ 127,115
Less: direct costs	<u>(86,827)</u>			<u>(86,827)</u>	<u>(81,536)</u>
Special events, net	84,103	0	0	84,103	45,579
Contributions	182,758			182,758	144,903
Grants and Contracts (government)	25,166			25,166	68,602
Grants and Contracts (private)	<u>86,710</u>	<u>114,759</u>		<u>201,469</u>	<u>254,549</u>
Total public support	378,737	114,759	0	493,496	513,633
REVENUE					
Earth Day program	228,279			228,279	205,970
Solarize program	43,633			43,633	57,778
Other income - see Note 7	<u>53,509</u>			<u>53,509</u>	<u>68,321</u>
Total public support and revenue	704,158	114,759	0	818,917	845,702
Net assets released from restriction	<u>154,872</u>	<u>(154,872)</u>	<u>0</u>	<u>0</u>	<u>0</u>
EXPENSES					
PROGRAM SERVICES	962,831			962,831	1,009,147
SUPPORTING SERVICES					
Management and general	104,241			104,241	70,322
Fundraising	<u>164,036</u>			<u>164,036</u>	<u>130,662</u>
Total supporting services	268,277	0	0	268,277	200,984
Total operating expenses	1,231,108	0	0	1,231,108	1,210,131
Change in net assets from operating activities	<u>(372,078)</u>	<u>(40,113)</u>	<u>0</u>	<u>(412,191)</u>	<u>(364,429)</u>
NONOPERATING					
REVENUE					
Investment income (loss)	<u>152,739</u>	<u>0</u>	<u>0</u>	<u>152,739</u>	<u>(31,509)</u>
Total nonoperating revenue	152,739	0	0	152,739	(31,509)
EXPENSES					
Depreciation	3,329			3,329	25,587
Investment management fees	<u>16,332</u>			<u>16,332</u>	
Total nonoperating expense	19,661	0	0	19,661	25,587
Change in net assets from nonoperating activities	<u>133,078</u>	<u>0</u>	<u>0</u>	<u>133,078</u>	<u>(57,096)</u>
Total change in net assets	(239,000)	(40,113)	0	(279,113)	(421,525)
Net assets, beginning of year	<u>3,419,156</u>	<u>102,028</u>	<u>125,507</u>	<u>3,646,691</u>	<u>4,068,216</u>
Net assets, end of year	<u>\$ 3,180,156</u>	<u>\$ 61,915</u>	<u>\$ 125,507</u>	<u>\$ 3,367,578</u>	<u>\$ 3,646,691</u>

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
December 31, 2016 with Comparative Totals as of December 31, 2015

	2016				
	Program Services				Total Programs Services
	Energy	Outreach & Education	Food	Plastics	
Compensation and related benefits					
Salaries	\$ 220,684	\$ 97,443	\$ 44,039	\$ 15,990	\$ 378,156
Payroll taxes	17,342	7,658	3,461	1,257	29,718
Employee benefits	29,040	12,822	5,795	2,104	49,761
Total compensation and related benefits	<u>267,066</u>	<u>117,923</u>	<u>53,295</u>	<u>19,351</u>	<u>457,635</u>
Other operating expenses					
Accounting and legal	26,772	16,063	2,677	2,008	47,520
Advertising	6,544	5,206	0	17,222	28,972
Bank charges	56	3,900	-	-	3,956
Building rental and repairs	28,527	17,116	2,853	2,139	50,635
Contract services	15,287	154,476	42,445	10,287	222,495
Dues and subscriptions	2,466	5,331	50	0	7,847
Duplicating and printing	1,772	5,419	4,248	604	12,043
Employee relations	4,572	2,743	457	343	8,115
Equipment and software maintenance	0	0	0	15,833	15,833
Equipment rental	1,637	38,467	164	123	40,391
Insurance	4,568	2,741	457	343	8,109
Meetings, conferences and special events	11,662	18,965	503	142	31,272
Outside computer services					
Postage and mailing		12			12
Supplies	741	6,661	249	2,032	9,683
Taxes, licenses and fees	750	1,110			1,860
Travel and automobile	3,658	6,055	805	530	11,048
Utilities and telephone	3,682	1,317	242	164	5,405
Total operating expenses	<u>379,760</u>	<u>403,505</u>	<u>108,445</u>	<u>71,121</u>	<u>962,831</u>
Nonoperating expenses					
Depreciation	1,332	799	132	100	2,363
Investment management fees					
Total nonoperating expenses	<u>1,332</u>	<u>799</u>	<u>132</u>	<u>100</u>	<u>2,363</u>
Total functional expenses 2016	<u>\$ 381,092</u>	<u>\$ 404,304</u>	<u>\$ 108,577</u>	<u>\$ 71,221</u>	<u>\$ 965,194</u>
Total functional expenses 2015	<u>\$ 450,858</u>	<u>\$ 466,261</u>	<u>\$ 79,309</u>	<u>\$ 34,979</u>	<u>\$ 1,031,407</u>

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
December 31, 2016 with Comparative Totals as of December 31, 2015

	2016			2015
	Supporting Services		Total Program and Supporting Services	Total Program and Supporting Services
	Management & General	Fundraising		
Compensation and related benefits				
Salaries	\$ 26,299	\$ 94,196	\$ 498,651	\$ 483,012
Payroll taxes	2,067	7,403	39,188	40,008
Employee benefits	3,461	12,395	65,617	46,805
Total compensation and related benefits	<u>31,827</u>	<u>113,994</u>	<u>603,456</u>	<u>569,825</u>
Other operating expenses				
Accounting and legal	23,862	10,709	82,091	65,885
Advertising	82	2,369	31,423	17,582
Bank charges	189	3,213	7,358	6,710
Building rental and repairs	9,270	11,411	71,316	67,886
Contract services	10,529	1,538	234,562	301,483
Dues and subscriptions	2,290	1,168	11,305	9,403
Duplicating and printing	82	6,900	19,025	13,235
Employee relations	1,486	1,829	11,430	5,862
Equipment and software maintenance	0	0	15,833	9,666
Equipment rental	532	655	41,578	34,862
Insurance	1,485	1,827	11,421	13,980
Meetings, conferences and special events	1,620	5,946	38,838	45,095
Outside computer services	8,942		8,942	5,107
Postage and mailing	525	829	1,366	1,280
Supplies	7,491	664	17,838	24,178
Taxes, licenses and fees	141		2,001	941
Travel and automobile	70	27	11,145	7,226
Utilities and telephone	3,818	957	10,180	9,925
Total operating expenses	<u>104,241</u>	<u>164,036</u>	<u>1,231,108</u>	<u>1,210,131</u>
Nonoperating expenses				
Depreciation	433	533	3,329	25,587
Investment management fees	16,332		16,332	0
Total nonoperating expenses	<u>16,765</u>	<u>533</u>	<u>19,661</u>	<u>25,587</u>
Total functional expenses 2016	<u>\$ 121,006</u>	<u>\$ 164,569</u>	<u>\$ 1,250,769</u>	
Total functional expenses 2015	<u>\$ 73,649</u>	<u>\$ 130,662</u>		<u>\$ 1,235,718</u>

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF CASH FLOWS
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
(Decrease) in net assets	\$ (279,113)	\$ (421,525)
Adjustments to reconcile increase in net assets to cash Provided by (Used by) operating activities:		
Depreciation	3,329	25,587
Unrealized loss (gain) - see Note 8	447,300	130,404
Change in operating assets and liabilities:		
Accounts and contracts receivable	31,683	(12,370)
Pledges receivable	(6,791)	(4,784)
Prepaid expenses	(1,716)	(2,850)
Accounts payable	2,997	(5,213)
Accrued expenses	4,806	(24,515)
Net Cash Provided (Used) by Operating Activities	<u>202,495</u>	<u>(315,266)</u>
Cash Flows from Investing Activities		
Sale of mutual funds	360,000	375,000
Purchase of mutual funds	(582,568)	(97,551)
Purchase of fixed asset	(5,350)	(8,288)
Net Cash Provided (Used) by Investing Activities	<u>(227,918)</u>	<u>269,161</u>
Net Decrease in Cash and Cash Equivalents	(25,423)	(46,105)
Cash and Cash Equivalents at Beginning of Year	178,826	224,931
Cash and Cash Equivalents at End of Year	<u>\$ 153,403</u>	<u>\$ 178,826</u>

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 1: Nature of Activities

Community Environmental Council 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. The Organization 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

Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Temporarily and Permanently Restricted Net Assets/Board Designated Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity and only the income be made available for spending in accordance with donor restrictions. The organization has established board designated net assets to be used in the future for purposes in line with the overall mission of the organization.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions.

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (continued)

accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Organization reports gifts of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Promises To Give (Pledges)

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over their useful lives of three to forty

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (continued)

years. The Organization capitalizes property and equipment over \$1,000.

Not-For-Profit Status

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code. The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2016, 2015 and 2014 are subject to examination by the IRS, generally for three years after they are filed. The Organization evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2016, the Organization had no uncertain tax positions requiring accrual.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable, Grants Receivable and Pledges Receivable

The Organization uses the allowance method to determine uncollectible accounts receivable, grants receivable and pledges receivable. The allowance is based upon prior years' experience and management's analysis of specific outstanding accounts, grants receivable and pledges receivable at year end. Accounts receivable, grants receivable and pledges receivable are only written off if the Organization determines that the outstanding amount cannot be collected. The Organization records accounts receivable when services are performed and revenue is earned. In addition, the Organization's grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized when incurred.

Quasi-Endowment Investment Guidelines

The investment objectives of the endowment are to provide an average total return that equals or exceeds the total of annual

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (continued)

endowment spending percentage established by the Board of Directors plus the rate of inflation, as measured by the CPI.

All Endowment assets shall be invested subject to the guidelines and restrictions set forth below.

(a) Mutual funds – mutual funds may be purchased for the benefit of the endowment.

(b) Common Stocks – must be rated B or better by Standard & Poor's.

(c) Preferred stocks, convertible preferred stocks and convertible bonds – must be BBB/BAA or better as rated by Standard & Poor's or Moody's respectively.

(d) Fixed income securities – must have maturities of ten (10) years or less, quality rating of any debt security must be A or better as rated by Standard & Poor's or Moody's, or be an obligation of the US Government or its agencies.

(e) Short term reserves – commercial paper shall be A-1/P-1 or better as rated by Standard & Poor's or Moody's respectively. CDs must be FDIC insured.

(f) Except for investments in mutual funds and obligations of the U.S. Government or its agencies, no more than 6% (based upon current market value) of the endowment may be invested in the securities of any one issuer.

(g) Bearing in mind the long-term investment horizon for these assets and the historic performance of various assets classes, the following maximum and minimum asset allocation guidelines for marketable securities only will be observed:

<u>Asset Class</u>	<u>Maximum</u>	<u>Minimum</u>
Equities	80%	50%
Fixed Income	45%	15%
Cash & Equivalents	25%	2%

So long as the Endowment holds an interest in non-liquid assets, such as the interest in West Beach Investors Group (Moby Dick), that investment shall not be considered in the allocation of assets as set forth above.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the value of the original gift as of

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (continued)

the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The unrealized gains and endowment investment income on funds not restricted by the donor are classified as temporarily restricted net assets until those funds are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

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 the Organization to retain as a fund for perpetual duration. There were no such deficiencies at December 31, 2016.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. The allocation of the costs is based upon hours spent or square footage occupied.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (continued)

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 the Organization's financial statements for the year ended December 31, 2015, from which the summarized information was derived. Certain reclassifications have been made to these amounts to conform to current year classifications.

Note 3: Accounts and Contracts Receivable

Contracts receivable result from contracts between the Community Environmental Council and the County of Santa Barbara, Southern California Edison, The Gas Company and various solar companies.

	December 31,
	<u>2016</u>
Total contracts receivable	<u>\$ 15,061</u>

Management has recorded an allowance for doubtful accounts of \$5,000 at December 31, 2016.

Note 4: Pledges Receivable

Pledges receivable are recorded at the net present value of the future cash flows. At December 31, 2016, outstanding pledges were due as follows:

	December 31,
	<u>2016</u>
Within one year	\$ 13,925
One to five years	-
More than five years	-
Subtotal	<u>13,925</u>
Less: present value component	-
Less: doubtful accounts	-
Total pledges receivable	<u>\$ 13,925</u>

Management has recorded an allowance for doubtful accounts of \$0 at December 31, 2016 for pledges receivable and anticipates all amounts being fully collectible.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 5: Lease Commitments

On October 29, 2015, CEC entered into a new five year month to month lease with Hutton Foundation that began on January 1, 2016 and will end on December 31, 2020. The base rent will be \$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 the Organization. The following is a schedule by years of future minimum lease payments on non-cancelable operating leases as of December 31, 2016:

Year Ending December 31,	
2017	\$ 47,587
2018	47,587
2019	47,587
2020	<u>47,587</u>
Total Minimum Future Payments Required	<u>\$190,348</u>

Note 6: Concentrations of Credit Risk

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

Note 7: Investment in West Beach Investors Group

On July 18, 2001, a donor made an unrestricted bequest of a 20% common stock interest in a company which 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. The Organization'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 8). 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. The Organization 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. The

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

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

organization paid \$33,333 to acquire the additional shares and now own 33.33%. Effective December 31, 2014, the total investment in West Beach investors Group was recorded at \$600,000, based on a valuation of the restaurant by the CPA firm for West Beach Investors Group.

Note 8: Quasi-Endowment Fund

Over a decade ago, the Board of Directors established a board designated quasi-endowment fund through the sale of several properties and a recycling business. As of December 31, 2015, the funds were invested in various mutual funds at Vanguard and were largely devoid of investments in the fossil fuel industry. At the end of December 2015, CEC hired Trillium Asset Management, LLC to manage its investments, and at the beginning of January, 2016, most of the mutual funds were transferred from Vanguard to Schwab, where they were sold and reinvested, resulting in significant realized gains. Under Trillium's management, the portfolio has further 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.

The by-laws of the Organization provide for a withdrawal of 5% of the average balance of the endowment, measured at the ends of the last three fiscal years, to fund operations and programs. For the year ended December 31, 2016, the Board of Directors voted to withdraw \$360,000 to fund operations and programs that represented 11.84% of the average balance of the last three fiscal years.

The following assets have been included in the board designated quasi-endowment fund at December 31, 2016:

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 8: Quasi-Endowment Fund (continued)

Charles Schwab		
Cash and Deposit Accounts	\$	25,917
Equities		1,654,316
Bond Funds		136,034
Equity Funds		265,171
Other Assets		202,691
Total Assets		2,284,129
Vanguard Federal Money market		277,092
Total Investments		<u>\$ 2,561,221</u>

Realized gains on the sale of mutual funds and stocks for the year ended December 31, 2016 was \$ 558,306. These investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the Statement of Financial Position.

Note that \$125,507 in permanently restricted net assets are also included within the above mutual fund total at December 31, 2016. In addition, the Board of Directors has elected to include in the quasi-endowment the investment in West Beach Investors Group (see Note 7). The total value of the investment in West Beach Investors Group is not subject to the annual 5% withdrawal from the quasi-endowment. Instead, cash distributions from West Beach Investors Group are designated for general operations.

The composition of board designated quasi-endowment net assets and the changes in the board designated net assets as of December 31, 2016 are as follows:

NET ASSETS	BOARD DESIGNATED	PERMANENTLY RESTRICTED	TOTAL
12/31/15	\$ 3,270,349	\$ 125,507	\$ 3,395,856
Contributions	0	0	0
Investment Income	40,760	0	40,760
Investment Expenses	(16,195)	0	(16,195)
Net Appreciation	100,800	0	100,800
Program Expenditures	(360,000)	0	(360,000)
12/31/16	<u>\$ 3,035,714</u>	<u>\$ 125,507</u>	<u>\$ 3,161,221</u>

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 9: Fair Value Measurements

Current accounting guidance establishes and requires disclosure of fair value hierarchy that distinguishes between data obtained from sources independent of the Organization and the Organization's own assumptions about market participant assumptions. The three levels of hierarchy are (1) using quoted market prices in active markets for identical assets or liabilities (Level 1 inputs), (2) significant other observable inputs (Level 2 inputs), and (3) significant unobservable inputs (Level 3). Level 2 inputs can include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the asset or liability, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are typically based on the Organization's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Level 3 fair value measurement for the Investment in West Beach Investors Group (listed below) is based upon a February 13, 2014 valuation obtained by the Organization from a qualified local certified public accountant that specializes in the Santa Barbara California restaurant industry. The valuation was obtained for the December 31, 2013 audit and is still considered valid and accurate at December 31, 2016.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments (see Note 8)	\$ 2,561,221		
Cash and Cash Equivalents	153,402		
Pledges Receivable			\$ 13,925
West Beach Investment Group			600,000
Investment in PFG Inc.	44,494		
Total Assets at Fair Value	<u>\$ 2,759,117</u>		<u>\$ 613,925</u>

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 9: Fair Value Measurements (continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Pledges Receivable	Investment in West Beach Investors Group
Balance January 1, 2016	\$ 7,134	\$ 600,000
Payments received	(7,134)	
Change in value		
New investments		
New Pledges Receivable	13,925	
Balance December 31, 2016	<u>\$ 13,925</u>	<u>\$ 600,000</u>

Note 10: Temporarily Restricted Net Assets:

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

	<u>2016</u>	<u>2015</u>
Plastics	\$ 35,413	\$ 21,084
Food	<u>26,500</u>	<u>80,944</u>
Total	<u>\$ 61,913</u>	<u>\$ 102,028</u>

Note 11: Unrelated Business Income Tax

The Organization recorded unrelated business income tax expense of \$4,389 for the year ended December 31, 2016 related to taxes paid on net investment income.

Note 12: Subsequent Events

Management of the Organization has evaluated subsequent events through March 24, 2017, the date on which the financial statements were available to be issued.