

Community Environmental Council



BOLD CLIMATE ACTION
ACCIÓN CLIMÁTICA AUDAZ

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
Financial Statements
December 31, 2020





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, 2020, 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, 2020, 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.

Stoltey & Associates

Los Olivos, California

March 18, 2021

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2020
(with comparative totals for 2019)

ASSETS	2020	2019
ASSETS		
Cash and Cash Equivalents	\$ 508,844	\$ 139,221
Accounts Receivable	191,656	229,590
Contributions Receivable [Note 2]	167,233	50,649
Receivable - Other	18,500	16,730
Prepaid Expenses	12,366	17,259
Fixed Assets, Net [Note 6]	2,045	2,861
Endowment Assets: [Note 4 & 7]		
Endowment Investments	2,680,746	2,530,687
Investment in WBIG	220,000	290,000
Total Endowment Investments	<u>2,900,746</u>	<u>2,820,687</u>
Total Assets	<u><u>\$3,801,390</u></u>	<u><u>\$3,276,997</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 75,571	\$ 90,214
Accrued Expenses	40,441	34,367
Deferred Income	15,000	10,000
Unrelated Business Tax Payable	-	9,271
Total Liabilities	<u>131,012</u>	<u>143,852</u>
NET ASSETS [Notes 8 and 9]		
Without Donor Restriction:		
Undesignated	530,894	221,582
Board Designated - Quasi Endowment	<u>2,770,239</u>	<u>2,690,180</u>
	3,301,133	2,911,762
With Donor Restrictions:		
Purpose Restrictions	238,738	90,876
Perpetual in Nature - Endowment	<u>130,507</u>	<u>130,507</u>
	369,245	221,383
Total Net Assets	<u>3,670,378</u>	<u>3,133,145</u>
Total Liabilities and Net Assets	<u><u>\$3,801,390</u></u>	<u><u>\$3,276,997</u></u>

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF ACTIVITIES
December 31, 2020
(with Comparative Totals for 2019)

	2020			2019
	Without Donor Restriction	With Donor Restriction	Total	Total
OPERATING				
PUBLIC SUPPORT				
Special Events, Gross	\$ -	\$ -	\$ -	\$ 229,763
Less: Direct Costs	(6,466)	-	(6,466)	(120,668)
Special events, net	(6,466)	-	(6,466)	109,095
Contributions	702,148	54,763	756,911	439,069
Forgiven PPP SBA Loan [Note 12]	135,895	-	135,895	-
Grants	4,999	454,327	459,326	175,653
Total public support	836,576	509,090	1,345,666	723,817
REVENUE				
Government Contracts	371,295	-	371,295	452,711
Earth Day program	63,380	-	63,380	249,899
Solarize program	51,162	-	51,162	51,644
Total public support and revenue	1,322,413	509,090	1,831,503	1,478,071
Net assets released from restriction	371,228	(371,228)	-	-
EXPENSES				
PROGRAM SERVICES	1,383,361	-	1,383,361	1,318,421
SUPPORTING SERVICES				
Management and general	212,299	-	212,299	187,916
Fundraising	257,955	-	257,955	246,490
Total supporting services	470,254	-	470,254	434,405
Total operating expenses	1,853,615	-	1,853,615	1,752,827
Change in net assets from operating activities	(159,974)	137,862	(22,112)	(274,756)
NONOPERATING				
PUBLIC SUPPORT AND REVENUE				
50th Anniversary Campaign [Note 1]	322,500	10,000	332,500	-
Investment income (loss)	396,874	-	396,874	491,150
Distribution from Investment in WBIG	-	-	-	79,992
Change in Valuation of Investment in WBIG	(70,000)	-	(70,000)	-
Total nonoperating public support and revenue	649,374	10,000	659,374	571,142
EXPENSES				
Strategic Planning	47,449	-	47,449	76,375
Depreciation	816	-	816	1,094
Unrelated Business Tax	10,664	-	10,664	-
Bad Debt	-	-	-	6,000
50th Anniversary Campaign Expenses [Note 1]	41,100	-	41,100	-
Total nonoperating expense	100,029	-	100,029	83,469
Change in net assets from nonoperating activities	549,345	10,000	559,345	487,673
Total change in net assets	389,371	147,862	537,233	212,917
Net assets, beginning of year	2,911,762	221,383	3,133,145	2,920,228
Net assets, end of year	\$ 3,301,133	\$ 369,245	\$ 3,670,378	\$ 3,133,145

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
December 31, 2020
(with Comparative Totals for 2019)

	2020								Total Expenses 2019
	Program Services				Total Program Services	Support Services		Total Expenses 2020	
	Energy	Outreach & Education	Food	Other		Management & General	Fundraising		
Compensation and Related Benefits									
Salaries	\$ 288,643	\$ 180,924	\$ 123,372	\$ 85,608	\$ 678,547	\$ 115,980	\$ 141,988	\$ 936,515	\$ 673,222
Payroll Taxes	22,867	14,114	9,643	6,747	53,371	9,787	11,180	74,338	53,957
Employee Benefits	40,764	24,368	16,755	400	82,287	4,164	25,423	111,874	80,801
Total Compensation and Related Benefit	352,274	219,406	149,770	92,755	814,205	129,931	178,591	1,122,727	807,980
Other Operating Expenses									
Accounting and Legal	-	-	-	-	-	44,250	-	44,250	84,880
Advertising	3,678	12,488	-	-	16,166	-	8,621	24,787	13,892
Bank Charges	-	1,125	6	-	1,131	581	4,411	6,123	9,710
Building Rental and Repairs	31,676	19,728	13,467	8,340	73,212	11,683	16,059	100,953	93,111
Contract Services	28,215	143,882	157,297	40,583	369,976	8,120	28,414	406,509	456,796
Dues and Subscriptions	1,289	7,508	12,328	250	21,375	5,830	951	28,155	19,441
Photocopying and Printing	150	1,144	-	222	1,516	-	6,646	8,161	16,413
Employee Relations	1,386	863	589	365	3,204	511	703	4,417	2,718
Equipment and Software Maintenance	7,772	4,841	3,304	2,046	17,963	2,867	3,940	24,770	26,444
Equipment Rental	1,151	717	5,529	303	7,699	424	583	8,707	69,028
Insurance	4,161	2,592	1,769	1,096	9,618	1,535	2,110	13,263	12,833
Meetings, Conferences and Special Events	111	364	573	1,429	2,477	4,479	3,217	10,173	36,906
Postage and Mailing	16	1	8	-	25	360	586	971	1,819
Supplies	1,650	9,327	11,245	13,467	35,689	240	1,231	37,160	82,912
Taxes, Licenses, Fees and (Refunds)	-	(75)	-	-	(75)	35	-	(40)	2,690
Travel and Automobile	431	71	269	210	981	145	95	1,221	7,422
Utilities and Telephone	3,548	2,210	1,508	934	8,200	1,309	1,799	11,308	7,832
Total Operating Expenses	437,506	426,191	357,663	162,000	1,383,361	212,299	257,955	1,853,615	1,752,827
Nonoperating Expenses									
Depreciation	256	159	109	67	592	94	130	816	1,094
Unrelated business tax	-	-	-	-	-	10,664	-	10,664	-
Bad Debt	-	-	-	-	-	-	-	-	6,000
50th Anniversary Campaign Expenses	-	-	-	-	-	-	41,100	41,100	-
Strategic Planning	14,888	9,273	6,330	3,920	34,410	5,491	7,548	47,449	76,375
Total Nonoperating Expenses	15,144	9,432	6,439	3,987	35,002	16,250	48,778	100,029	83,469
Total Functional Expenses 2020	<u>\$ 452,650</u>	<u>\$ 435,623</u>	<u>\$ 364,102</u>	<u>\$ 165,988</u>	<u>\$ 1,418,363</u>	<u>\$ 228,549</u>	<u>\$ 306,733</u>	<u>\$ 1,953,644</u>	
Total Functional Expenses 2019	<u>\$ 457,937</u>	<u>\$ 475,102</u>	<u>\$ 316,610</u>	<u>\$ 123,493</u>	<u>\$ 1,373,142</u>	<u>\$ 200,789</u>	<u>\$ 262,365</u>		<u>\$ 1,836,296</u>

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

STATEMENTS OF CASH FLOWS

December 31, 2020

(with Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 537,233	\$ 212,917
Adjustments to reconcile increase in net assets to cash Provided by (Used by) operating activities:		
Depreciation	816	1,094
Gain (loss) on investments	(294,628)	(454,113)
Change in operating assets and liabilities:		
Accounts receivable	37,934	(88,060)
Contributions receivable	(116,584)	9,351
Receivable - other	(1,770)	-
Prepaid expenses	4,893	(14,103)
Accounts payable	(14,643)	19,940
Accrued expenses	6,074	1,464
Deferred income	5,000	10,000
Unrelated business tax payable	(9,271)	(5,729)
Net Cash Provided (Used) by Operating Activities	<u>155,054</u>	<u>(307,239)</u>
Cash Flows from Investing Activities		
Proceeds from sale of securities	555,747	582,903
Purchase of securities	(341,178)	(369,440)
Net Cash Provided (Used) by Investing Activities	<u>214,569</u>	<u>213,463</u>
Net Decrease in Cash and Cash Equivalents	369,623	(93,776)
Cash and Cash Equivalents at Beginning of Year	139,221	232,997
Cash and Cash Equivalents at End of Year	<u>\$ 508,844</u>	<u>\$ 139,221</u>

See accompanying notes.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

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

Nature of Activities

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

ENGAGING THE COMMUNITY:

CEC's outreach efforts seek to build individual climate leadership and personal action with youth and adults on issues such as preventing and adapting to climate change, climate justice, and our energy, food and plastics initiatives. CEC hosts or sponsors more than 80 webinars, films, lectures, panels and other events each year on topics related to our mission. CEC speaks regularly at local and state government hearings, as well as in school classrooms to encourage personal action on environmental issues. CEC organizes the Santa Barbara Earth Day Festival, which typically attracts more than 35,000 attendees and 200 environmental vendors each year. CEC also engages the community through social media and more traditional media.

ENERGY:

Promoting renewable energy development: CEC works to plan for and promote the shift to electricity generation from clean, renewable and local sources in the tri-county region. This includes programs and advocacy efforts to advance the adoption of solar, wind, and wave power, as well as energy efficiency, through individual projects and local government policies. Promoting energy efficient transportation: CEC works to plan for and promote the shift toward efficient cars powered by clean energy, such as electric vehicles and hydrogen fuel cell vehicles in the tri-county region. CEC also promotes community plans that design communities for people not cars, emphasizing pedestrian trails, bike lanes, car sharing, bus services, and other traffic reduction methods.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 1: **Summary of Significant Accounting Policies (continued)**

FOOD:

Promoting a low-carbon, resilient food system: CEC works to plan for and promote the reduction of greenhouse gas emissions from the food system in Santa Barbara and Ventura counties. This includes programs and advocacy efforts to advance the adoption of regenerative farming practices and the use of renewable energy and/or energy efficient technologies by food system providers. CEC also promotes the reduction of methane-causing food waste disposal in landfills.

OTHER:

CEC works to support and build regional capacity to implement community-identified projects that build resilience to key climate threats, such as wildfire, extreme heat, more intense storms, and sea level rise. CEC holds bilingual webinars and roundtables to seek community input and push local and state agencies to take substantive action toward climate policies that enhance diversity, equity, inclusion and justice. To advance these efforts, CEC co-founded and participates in several regional networks on climate justice and climate resilience. CEC also works to plan for and promote the education of single use plastics in Santa Barbara county. This includes programs and advocacy efforts to reduce the use of single use plastic bags, water bottles and straws through partnerships with grocery stores, schools and restaurants. CEC also educates students and the broader community about reducing other forms of consumer waste.

50TH ANNIVERSARY CAMPAIGN:

For over 50 years, the Community Environmental Council has been a leader of the modern environmental movement, driving local action to affect global change. Looking forward, CEC has created a bold plan to advance transformative and equitable solutions to the climate crisis and build a vibrant and resilient Central Coast region. To fuel this plan, CEC has launched a \$12 million “50TH Anniversary Campaign” that will build our capacity to lead, partner and act.

Prior-Year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but are not presented by net assets class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with CEC’s financial statements for the year ended December 31, 2019 from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consists of cash on hand, cash in banks, and cash in money market funds and excludes cash

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (continued)

and cash equivalents held for investment. Cash equivalents classified as investments include money market funds.

Accounts Receivable

CEC has made a \$5,000 provision for an allowance for doubtful accounts as of December 31, 2020 and 2019 based on management's analysis of the potential credit risk of funding agencies, historical trends, and other information. CEC does not require collateral from its funding agencies.

Contributions and Bequests and Pledges Receivable

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

Fixed Assets

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

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

Endowment Investments

Endowment investments consist of investments purchased with the following:

- 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.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (continued)

- Board-Designated Quasi-Endowments, are resources set aside by the Board of Directors for an indeterminate period to operate in a manner similar to a Donor-Restricted Permanent Endowment. Because a Board-Designated Endowment results from an internal designation, it can be spent upon action of the Board of Directors.

In accordance with GAAP, CEC accounts for its marketable securities at fair value using market values of identical securities. CEC holds a minority interest in West Beach Investors Group, a California corporation ("WBIG"), which operates a restaurant in Santa Barbara, California. CEC values their ownership in WBIG at the estimated fair value using the income approach. Information about fair value of investments is discussed in Note 4.

Net Assets

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

Net Assets without Donor Restrictions

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

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.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (continued)

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 WBIG (see Note 7), changes in value of Investment in WBIG, depreciation expense and 50TH Anniversary Campaign public support and expenses are included as non-operating activities.

Revenue and Revenue Recognition

Exchange Transactions

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. CEC retrospectively adopted the standard on January 1, 2020. The implementation did not have a material impact on the balances reported as of December 31, 2019.

CEC recognizes revenue from sales of consulting and other services ratably over the period of time the services are performed, which corresponds with progress toward complete satisfaction of the performance obligation using a time-based measure. 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, 2020 that CEC expects to recognize as revenue in the next three years is \$646,792, with \$258,710 in 2021, \$304,247 in 2022 and \$83,835 in 2023.

The beginning and ending related contract balances are as follows:

	<u>12/31/2020</u>	<u>12/31/2019</u>
Receivables	\$191,655	\$229,590
Deferred revenue	\$15,000	\$10,000

Due to COVID-related Special Events postponements, no deferred revenue that was included in the contract liability balance for the year ended December 31, 2019 was recognized in the year ended December 31, 2020.

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

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 1: **Summary of Significant Accounting Policies (continued)**

a right of return, are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to CEC's program services, administration, and fundraising activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. CEC records donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the years ended December 31, 2020 and 2019. CEC receives approximately 2,000 volunteer hours per year.

Advertising Costs

Advertising costs are expensed as incurred and approximated \$24,787 and \$13,982 during the years ended December 31, 2020 and 2019, respectively.

Functional Expenses

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

Tax Exempt Status

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

Uncertain Tax Positions

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

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (continued)

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 uncollectible accounts
- Fair value of contributions receivable

Financial Instruments and Credit Risk

CEC manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by 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, bequests and promises to give is considered to be limited due to high historical collection rates. Investments are made by diversified investment managers whose performance is monitored by CEC and the Finance & Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Finance & Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of CEC.

Subsequent Events

Management has evaluated and identified no subsequent events requiring disclosure through March 18, 2021, the date that the financial statements were available to be issued.

Note 2: Contributions Receivable

Unconditional promises to give are included in the financial statements as contributions receivable and contributions revenue of the appropriate net asset category. Future receipt of contributions receivable is expected to be collected in the year ending December 31, 2021.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 3: Conditional Pledges

On November 25, 2020, CEC received a \$1 for \$1 matching grant from the James S. Bower Foundation to support CEC's work to address climate change. The maximum amount of the matching grant is \$1,000,000, payable over four years at up to \$62,500 per quarter. CEC had received \$382,000 in matching funds as of March 18, 2021, the date that the financial statements were available to be issued.

Note 4: Fair Value Measurements and Disclosures

CEC reports certain assets and liabilities at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

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

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

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

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 4: Fair Value Measurements and Disclosures (continued)

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, 2020:

	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Operating Assets:				
Contributions				
Receivable	<u>\$ 167,233</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 167,233</u>
Endowment Assets:				
Endowment				
investments:				
Cash and				
equivalents	15,649	15,649	-	-
Equities	1,641,538	1,641,538	-	-
Bond fund	371,090	371,090	-	-
Equity funds	267,655	267,655	-	-
ETFs	375,028	375,028	-	-
Other Assets	<u>9,786</u>	<u>9,786</u>	<u>-</u>	<u>-</u>
Endowment				
Investments	2,680,746	2,680,746	-	-
Investment in WBIG	<u>220,000</u>	<u>-</u>	<u>-</u>	<u>220,000</u>
Total Endowment				
Assets	<u>\$ 2,900,746</u>	<u>\$ 2,680,746</u>	<u>\$ -</u>	<u>\$ 220,000</u>

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 4: Fair Value Measurements and Disclosures (continued)

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, 2020:

	Contributions Receivable	Investment in WBIG
Balance, beginning of year	\$ 50,649	\$ 290,000
Additions	308,284	-
Collections	(191,700)	-
Fair value adjustment	-	(70,000)
Balance, end of year	<u>\$ 167,233</u>	<u>\$ 220,000</u>

Note 5: Liquidity and Availability

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

Cash and Cash Equivalents	\$ 508,844
Accounts Receivable	191,656
Contributions Receivable	167,233
Less: Long-term restrictions	(106,666)
Receivable – Other	18,500
Endowment spending-rate distributions and appropriations	<u>211,193</u>
Total	<u>\$ 990,760</u>

CEC's Endowment funds consist of Donor-Restricted Endowments and Funds designated by the Board as Endowments. CEC's Endowment is subject to an annual spending rate of 5% as described in Note 8. Although CEC does not intend to spend from this Board-Designated Quasi-Endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

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

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 6: Fixed Assets

Fixed Assets at December 31, 2020 and 2019 are summarized by major classifications as follows:

	2020	2019
Furniture	\$ 25,419	\$ 25,419
Equipment	19,376	19,376
Leasehold improvements	307,429	307,429
	<u>352,224</u>	<u>352,224</u>
Accumulated Depreciation	(350,179)	(349,363)
Fixed Assets, Net	<u>\$ 2,045</u>	<u>\$ 2,861</u>
Depreciation Expense	<u>\$ 861</u>	<u>\$ 1,094</u>

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

On July 18, 2001, a donor made an unrestricted donation of a 20% common stock interest in a California corporation that owns a local waterfront restaurant. On July 5, 2001, an appraisal was prepared which approximated the fair market value of the corporation to be \$1,400,000. CEC's stock ownership share of the fair market value of the corporation was \$280,000. The Board of Directors included this asset as part of the Quasi-Endowment (see Notes 4 and 8). In 2006, one of the shareholders of the corporation 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 corporation 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 corporation on a pro rata basis. CEC paid \$33,333 to acquire the additional shares and now owns 33.33%. 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, 2020, management estimates a fair value of \$220,000 for CEC's Investment in WBIG.

Note 8: 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

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 8: Endowment Funds (continued)

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, 2020, 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, 2020 or 2019.

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

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 8: Endowment Funds (continued)

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 2020 and 2019, 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, 2020 are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment Net Assets, Beginning of Year	\$ 2,690,180	\$ 130,507	\$ 2,820,687
Investment income:			
Interest and dividends	49,263	-	49,263
Unrealized gains on investments	194,929	-	194,929
Realized gains on sales of investments	99,699	-	99,699
Investment fees	(17,183)	-	(17,183)
Withdrawals:			
Draw per spending policy	(123,649)	-	(123,649)
Additional Board approved draw	(123,000)	-	(123,000)
Endowment Net Assets, End of Year	\$ 2,770,239	\$ 130,507	\$ 2,900,746

Note 9: Net Assets with Donor Restrictions

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

	2020	2019
Restricted for specific purpose:		
Energy programs	4,000	-
Outreach and Education programs	30,000	-
Food related programs	138,738	61,687
Other programs	66,000	29,189
Total Purpose Restricted	238,738	90,876
Perpetual in nature:		
Subject to spending policy	130,507	130,507
Total	\$ 369,245	\$ 221,383

Note 10: Line of Credit

CEC holds an unsecured \$50,000 line of credit with Montecito Bank & Trust that carried interest at 5.25% per annum at December 31, 2020 (prime + 2%) and matures July 2021. The line of credit, which has never been drawn on, was set up to help smooth the seasonal variability of cash flows. The Line of Credit had no balance at December 31, 2020.

COMMUNITY ENVIRONMENTAL COUNCIL, INC.

Notes to Financial Statements

Note 11: Lease Commitments

On November 18, 2020, CEC entered into a ten-year lease with Hutton Parker Foundation that began on January 1, 2021 and will end on December 31, 2030. Base rent for the first year is \$8,455 per month or \$101,460 annually. Base rent for the remaining nine years is \$10,664 per month or \$127,968 annually. Insurance and maintenance expenses covering the leased facilities are the obligations of CEC. The total rent over the ten-year period of \$1,253,172 represents the total future minimum lease payments on non-cancelable operating leases as of December 31, 2020.

Rent expense for the year ended December 31, 2020 was \$97,386 which included common area operating expenses of \$22,956, storage rental of \$3,348 and Tenant Improvements of \$1,008.

Note 12: Payroll Protection Program Loan and Forgiveness

CEC was granted a \$135,895 loan under the Paycheck Protection Program “PPP” administered by a Small Business Administration (SBA) approved partner. The uncollateralized loan is fully guaranteed by the Federal government. CEC initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. CEC has recognized \$135,895 as “Forgiven PPP SBA Loan” public support revenue for the year ended December 31, 2020.

Note 13: Customer and Credit Risk Concentrations

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

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

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