

**ENVIRONMENTAL DEFENSE CENTER**  
**FINANCIAL STATEMENTS**  
**MARCH 31, 2017**

# ENVIRONMENTAL DEFENSE CENTER

March 31, 2017

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Environmental Defense Center  
Santa Barbara, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Environmental Defense Center (a nonprofit organization), which comprise the statement of financial position as of March 31, 2017, and the related statements of activities and changes in net assets, 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 Environmental Defense Center as of March 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**

We have previously audited Environmental Defense Center March 31, 2016 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated October 31, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*McGowan Guntermann*

Santa Barbara, California

February 5, 2018

**ENVIRONMENTAL DEFENSE CENTER****STATEMENT OF FINANCIAL POSITION**

March 31, 2017

(With Comparative Totals for March 31, 2016)

**ASSETS**

	2017	2016
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 491,730	\$ 600,088
Accounts receivable	20,767	29,667
Bequests receivable	-	42,946
Prepaid expenses	7,480	10,772
Other current assets	1,005	1,005
Total Current Assets	520,982	684,478
<b>INVESTMENTS</b>	1,513,267	1,184,726
<b>PROPERTY AND EQUIPMENT</b>		
Land	338,242	338,242
Building and improvements	464,747	459,547
Furnishings and equipment	58,127	68,600
Library	12,509	12,509
	873,625	878,898
Less: Accumulated depreciation	(377,210)	(371,210)
Net Property and Equipment	496,415	507,688
<b>TOTAL ASSETS</b>	<u>\$ 2,530,664</u>	<u>\$ 2,376,892</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 6,198	\$ 25,837
Accrued expenses	49,749	49,749
Deferred revenue	53,080	103,263
Total Current Liabilities	109,027	178,849
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	693,471	795,462
Board designated	870,151	589,225
Total Unrestricted	1,563,622	1,384,687
Temporarily restricted	192,964	148,305
Permanently restricted	665,051	665,051
Total Net Assets	2,421,637	2,198,043
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 2,530,664</u>	<u>\$ 2,376,892</u>

The accompanying notes are an integral part of these financial statements.

# ENVIRONMENTAL DEFENSE CENTER

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended March 31, 2017

(With Comparative Totals for the Year Ended March 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
<b>PUBLIC SUPPORT AND REVENUE</b>					
Public Support					
Fundraising events - gross revenue	\$ 282,591	\$ -	\$ -	\$ 282,591	\$ 245,808
Fundraising events - in-kind contributions, goods	60,138	-	-	60,138	80,437
Less costs of direct benefits to donors	(160,040)	-	-	(160,040)	(200,864)
Net revenues from fundraising events	182,689	-	-	182,689	125,381
Contributions	426,404	47,834	-	474,238	481,200
Grants	318,369	-	-	318,369	402,577
In-kind contributions, services	29,621	-	-	29,621	53,252
Total Public Support	957,083	47,834	-	1,004,917	1,062,410
Revenues					
Program service	158,570	-	-	158,570	220,707
Interest and dividend	15,678	5,042	-	20,720	30,176
Unrealized gain (loss) on value of securities	70,437	79,501	-	149,938	(183,625)
Realized gain on sale of securities	10,000	11,287	-	21,287	33,406
Other	3,726	-	-	3,726	160
Total Revenues	258,411	95,830	-	354,241	100,824
Net assets released from restrictions	99,005	(99,005)	-	-	-
Total Public Support and Revenues	1,314,499	44,659	-	1,359,158	1,163,234
<b>EXPENSES</b>					
Program	877,494	-	-	877,494	850,692
Management and general	126,733	-	-	126,733	130,678
Fundraising	131,337	-	-	131,337	195,903
Total Expenses	1,135,564	-	-	1,135,564	1,177,273
<b>CHANGE IN NET ASSETS</b>	178,935	44,659	-	223,594	(14,039)
<b>NET ASSETS, APRIL 1</b>	1,384,687	148,305	665,051	2,198,043	2,212,082
<b>NET ASSETS, MARCH 31</b>	\$ 1,563,622	\$ 192,964	\$ 665,051	\$ 2,421,637	\$ 2,198,043

The accompanying notes are an integral part of these financial statements.

**ENVIRONMENTAL DEFENSE CENTER****STATEMENT OF CASH FLOWS**

For the Year Ended March 31, 2017

(With Comparative Totals for the Year Ended March 31, 2016)

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 223,594	\$ (14,039)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,473	17,068
Unrealized (gain) loss on value of securities	(149,938)	183,625
Realized gain on sale of securities	(21,287)	(33,406)
(Increase) decrease in:		
Accounts receivable	8,900	(3,489)
Bequests receivable	42,946	(42,946)
Prepaid expenses and deposits	3,292	(8,622)
Other assets	-	(200)
Increase (decrease) in:		
Accounts payable	(19,639)	(7,387)
Accrued expenses	-	3,087
Deferred revenue	<u>(50,183)</u>	<u>863</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>54,158</u>	<u>94,554</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(5,200)	(5,796)
Purchase of securities	(754,357)	(735,063)
Proceeds from sale of securities	<u>597,041</u>	<u>750,470</u>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(162,516)</u>	<u>9,611</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(108,358)	104,165
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<u>600,088</u>	<u>495,923</u>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<u>\$ 491,730</u>	<u>\$ 600,088</u>

The accompanying notes are an integral part of these financial statements.

# ENVIRONMENTAL DEFENSE CENTER

## NOTES TO FINANCIAL STATEMENTS

### Note 1 – ORGANIZATION

The Environmental Defense Center (EDC) stands as the only nonprofit, public interest, environmental law firm between Los Angeles and San Francisco. One of only a handful of similarly focused 501(c)(3) organizations nationwide, EDC's role is specialized even beyond this small number. EDC is unique due to the breadth of its work and grassroots focus to empower individuals and organizations to participate in the processes that determine environmental protection. Founded as a response to the 1969 Santa Barbara Oil Spill, EDC advocates, educates, and provides legal services to community groups working to protect the environment throughout Ventura, Santa Barbara and San Luis Obispo Counties. Across its 40 year history, EDC has represented more than 120 different nonprofit organizations, providing free and low cost legal services to groups small and large, local and national.

EDC selects cases and projects that will protect the Santa Barbara Channel, preserve open spaces and wildlife, ensure clean water and advance action on issues of climate and energy.

Since its founding, EDC staff and volunteers have led some of the most significant environmental efforts across California's Central Coast, setting precedents and impacting policy decisions far beyond our region, across the state and the nation. Among its highest profile successes, EDC helped permanently preserve more than 100,000 acres of exceptional habitat, succeeded with an unprecedented effort to retire 40 offshore oil leases, stopped three separate attempts to import Liquefied Natural Gas through our coast and won the first-ever environmental assessment for hydraulic fracturing and acidizing from offshore oil platforms.

### Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Accounting

The financial statements of EDC have been prepared on the accrual basis of accounting. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand and the amounts in checking, savings, money market accounts and certificates of deposits.

#### Cash Held on Behalf of Others

Cash held on behalf of others represents cash held by EDC that has been received from other agencies for future third party expenses.

#### Investments

Investments in marketable securities with readily determinable fair values and all investments in marketable debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Donated securities are recorded at their estimated value at date of receipt.



# ENVIRONMENTAL DEFENSE CENTER

## NOTES TO FINANCIAL STATEMENTS

### Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair market value at the time of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Absent donor restrictions regarding how long those donated assets must be maintained, EDC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. EDC reclassifies temporarily restricted net assets to unrestricted net assets at that time. It is management's policy to capitalize certain purchases and donations with a useful life greater than one year and a value greater than \$1,000.

Depreciation is computed using the straight-line method over estimated useful lives as follows:

Building and improvements	7 - 39 years
Furnishing and equipment	5 - 7 years
Library	5 years

Depreciation expense for the year ended March 31, 2017, totaled \$16,473.

#### Contributions and Grants

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, EDC reports the support as unrestricted.

#### Estimates

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

Significant estimates used in preparing these financial statements include:

- Allocation of certain expenses by function
- Value of donated goods and services
- Depreciable lives and estimated residual value of property and equipment

# ENVIRONMENTAL DEFENSE CENTER

## NOTES TO FINANCIAL STATEMENTS

### Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Income Taxes

EDC is exempt from taxes on income under Internal Revenue Code section 501(c)(3) and California Revenue and Taxation Code 23701(d), therefore no amounts for income taxes are reflected in the accompanying financial statements. EDC is not a private foundation for income tax purposes. EDC is not aware of any transactions that would affect its tax-exempt status.

EDC evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of March 31, 2017, EDC had no uncertain tax positions requiring accrual.

EDC files tax returns in California and U.S. federal jurisdictions. EDC is no longer subject to U.S. federal, state and local tax examinations by tax authorities for years before 2013 and 2012, respectively.

#### Financial Statement Presentation

In accordance with generally accepted accounting principles, EDC 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.

#### Unrestricted Net Assets

Unrestricted net assets consist of funds free of any donor-imposed restrictions and which the governing board has discretionary control for use in carrying on the general operations

#### Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions and other inflows of funds temporarily subject to donor-imposed restrictions. Earnings on temporarily restricted net assets are reported as an increase in temporarily restricted net assets. The restrictions are temporary in that they are expected to expire with the passage of time or be satisfied and removed by actions of EDC that fulfill donor stipulations. When the restriction expires or are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as “net assets released from restrictions”.

#### Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of EDC. Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the endowment fund assets can be used to support EDC's general activities and are reported with temporarily restricted amounts on the statement of activities, until such time the earnings are appropriated for expenditure.

# ENVIRONMENTAL DEFENSE CENTER

## NOTES TO FINANCIAL STATEMENTS

### Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Donated Services

A significant number of volunteers have contributed their services to EDC to further its programs and objectives. Only those services provided by attorneys, law clerks and other professionals have been valued and recorded in these financial statements.

Attorneys, law clerks, interns and graduate students provided approximately 910 hours of pro-bono services in the current fiscal year. EDC has reported the services in the accompanying financial statements at their estimated fair market value of \$29,621.

#### Subsequent Events

EDC has evaluated subsequent events through February 5, 2018, the date which the financial statements were available to be issued.

### Note 3 – CONCENTRATIONS AND RISK

#### Credit Risk

EDC maintains cash balances at various financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 for each insured financial institution. At March 31, 2017, the Organization had uninsured cash balances of \$48,780.

#### Concentrations

The majority of EDC's funding is obtained from individuals, corporations, and foundations in Santa Barbara, Ventura and San Luis Obispo counties, and the majority of its cases relate to environmental issues in those areas.

### Note 4 – INVESTMENTS

Investments at March 31, 2017, are recorded at market value based upon quoted market prices and are summarized as follows:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Cash	\$ 158,001	\$ 158,001	\$ -
Stocks	781,477	1,095,725	314,248
Mutual Funds	<u>243,584</u>	<u>259,541</u>	<u>15,957</u>
Total	<u>\$ 1,183,062</u>	<u>\$ 1,513,267</u>	<u>\$ 330,205</u>

## ENVIRONMENTAL DEFENSE CENTER

### NOTES TO FINANCIAL STATEMENTS

#### Note 4 – INVESTMENTS (continued)

The following summarizes the net change in unrealized gain on investments:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Balance at beginning of year	<u>\$ 1,004,459</u>	<u>\$ 1,184,726</u>	<u>\$ 180,267</u>
Balance at end of year	<u>\$ 1,183,062</u>	<u>\$ 1,513,267</u>	<u>330,205</u>
Net change in unrealized gain			<u>\$ 149,938</u>

The following summarizes the investment return and its classification in the statement of activities for the year ended March 31, 2017:

Interest and dividend income	\$ 20,720
Unrealized gain on value of securities	149,938
Realized gain on sale of securities	21,287
Investment fees	<u>(11,211)</u>
Total Investment Return	<u>\$ 180,734</u>

#### Note 5 – FAIR VALUE MEASUREMENT

EDC has established a framework for measuring fair value and expanding disclosures about fair value measurements. Accounting principles define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

Level 3: Unobservable inputs that are supported by little or no market activity;

Where quoted market prices are available in an active market, securities are classified with Level 1 of the valuation hierarchy. Level 1 securities include highly-liquid mutual funds, corporate bonds and publically traded securities. EDC did not classify any assets in Level 2 or 3 as of March 31, 2017.

# ENVIRONMENTAL DEFENSE CENTER

## NOTES TO FINANCIAL STATEMENTS

### Note 5 – FAIR VALUE MEASUREMENT (continued)

The following is a description of the valuation methodologies and presentation of assets measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy at March 31, 2017:

*Cash held for investment* – Cash held for investment purposes includes money market funds and cash equivalent assets, and is valued at face value.

*Equities and Mutual funds* – Equities and mutual funds include fixed income mutual funds as well as a variety of publically traded stocks from various industries invested for both growth and value. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Cash held for investment	\$ 158,001	\$ -	\$ -	\$ 158,001
Common stock				
Consumer	390,794	-	-	390,794
Financial	153,759	-	-	153,759
Exchange fund	49,449	-	-	49,449
Services	45,164	-	-	45,164
Industrial	31,226	-	-	31,226
Information technology	287,454	-	-	287,454
Telecommunication	51,508	-	-	51,508
Utilities	47,035	-	-	47,035
Other stock	88,786	-	-	88,786
Total common stock	<u>1,145,175</u>	<u>-</u>	<u>-</u>	<u>1,145,175</u>
Mutual funds				
Fixed income	120,256	-	-	120,256
Growth fund	65,354	-	-	65,354
Blended funds	<u>24,481</u>	<u>-</u>	<u>-</u>	<u>24,481</u>
Total mutual funds	<u>210,091</u>	<u>-</u>	<u>-</u>	<u>210,091</u>
Total assets measured at fair value	<u>\$ 1,513,267</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,513,267</u>

# ENVIRONMENTAL DEFENSE CENTER

## NOTES TO FINANCIAL STATEMENTS

### Note 6 – LEASES

EDC signed a lease in January 2014 to lease a color copier. The lease term is for sixty months beginning February 2014, and ending January 2019, at a monthly rent expense of \$348.

The future minimum lease payments are as follows for the years ending March 31:

2017	\$ 4,176
2018	<u>3,480</u>
Total	<u>\$ 7,656</u>

### Note 7 – QUASI-ENDOWMENT

EDC performed a capital campaign in 1998 and 1999 which has allowed EDC to continue to serve its community more effectively. The Board of directors has designated the unused balance of monies raised from that capital campaign and from other campaigns and year-end fund balances totaling \$870,151, as a quasi-endowment, cash reserve which may be used to fund operations.

EDC's total endowment as of March 31, 2017, is \$1,631,032, including the quasi-endowment of \$870,151, temporarily restricted net assets of \$95,830, and the permanently restricted net assets of \$665,051. The funds are invested in a variety of investment positions, including cash, money market accounts, certificate of deposits and mutual funds.

### Note 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at March 31, 2017, are restricted for the following programmatic areas:

Fracking	\$ 28,995
Whales and Shipping	7,195
Ryerson Water Intern	4,000
Coastal Fund	3,153
Watershed	4,000
Ormond Beach	2,013
MPA Stewardship	34,445
Ventura Oil and Gas	13,333
Endowment Allocations	<u>95,830</u>
	<u>\$ 192,964</u>

### Note 9 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at March 31, 2017, consist of \$665,051, the income from which is to fund programs at EDC.

# ENVIRONMENTAL DEFENSE CENTER

## NOTES TO FINANCIAL STATEMENTS

### Note 10 – EMPLOYEE BENEFITS PLAN

EDC has established a SIMPLE IRA retirement plan for its employees. All full and part-time employees are eligible to participate. Employees may reduce their salary by the amount they contribute to their individual SIMPLE IRA account, established by the employee at a qualified custodial agency, to the extent allowed by law. EDC will contribute a matching contribution to each participating employee's account equal to the amount of the employee's salary reduction contribution up to a limit of 3% of the employee's total compensation for the calendar year. Total expense for the year ended March 31, 2017, was \$16,237.

### Note 11 – ENDOWMENT FUNDS

EDC's endowment consists of three funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. As required by United States Generally Accepted Accounting Principals (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Interpretation of Relevant Law

The Board of Directors of EDC has interpreted the California adopted Universal Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, EDC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment 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 the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by EDC in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with California UPMIFA, EDC 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 EDC 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 the appreciation of investments
- (6) Other resources of EDC
- (7) The investment policies of EDC

# ENVIRONMENTAL DEFENSE CENTER

## NOTES TO FINANCIAL STATEMENTS

### Note 11 – ENDOWMENT FUNDS (continued)

For the year ended March 31, 2017, endowment net asset composition by type of fund is:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ -	\$ 95,830	\$ 665,051	\$ 760,881
Board-restricted	<u>870,151</u>	<u>-</u>	<u>-</u>	<u>870,151</u>
Total endowment funds	<u>\$ 870,151</u>	<u>\$ 95,830</u>	<u>\$ 665,051</u>	<u>\$ 1,631,032</u>

Changes in endowment net assets for the year ended March 31, 2017 are:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 589,225	\$ -	\$ 665,051	\$ 1,254,276
Net investment return (investment income, realized and unrealized gains)	84,904	95,830	-	180,734
Contributions	196,022	-	-	196,022
Transfers to decrease board designated endowment	-	-	-	-
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 870,151</u>	<u>\$ 95,830</u>	<u>\$ 665,051</u>	<u>\$ 1,631,032</u>



# ENVIRONMENTAL DEFENSE CENTER

## NOTES TO FINANCIAL STATEMENTS

### Note 11 – ENDOWMENT FUNDS (continued)

#### Return Objectives and Risk Parameters

EDC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that EDC must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. EDC expects its endowment funds, over time, to provide an average annual rate of return of approximately four percent. Actual returns in any given year may vary from this amount.

#### Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, EDC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). EDC targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

#### Spending Policy and How the Investment Objectives Relate to Spending Policy

EDC has a policy of annually appropriating for distribution an amount of four percent of the previous year's average endowment fund balance, or the current year earnings, whichever is lower. In some instances, the Board may decide to appropriate an amount greater than its stated policy if it is specifically deemed prudent to do so. In establishing this policy, EDC considered the long-term expected return on its endowment. Accordingly, over the long term, EDC expects the current spending policy to allow its endowment to grow at an average of five percent annually. This is consistent with EDC's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

### Note 12 – RECLASSIFICATION

Certain amounts from the March 31, 2016 financial statements have been reclassified to conform to the March 31, 2017 financial statement presentation.

### Note 13 – COMPARATIVE AMOUNTS

The amounts shown for March 31, 2016 in the accompanying financial statements are included to provide a basis for comparison with March 31, 2017 and are not intended to present all information necessary for a fair presentation of the March 31, 2016, financial statements in conformity with accounting principles generally accepted in the United States of America.