



**ENVIRONMENTAL DEFENSE CENTER**  
**FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

# ENVIRONMENTAL DEFENSE CENTER

March 31, 2018

## TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| Independent Auditor's Report                      | 1 - 2       |
| Financial Statements:                             |             |
| Statement of Financial Position                   | 3           |
| Statement of Activities and Changes in Net Assets | 4           |
| Statement of Cash Flows                           | 5           |
| Notes to Financial Statements                     | 6 - 15      |

## **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, 2018, 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, 2018, 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, 2017, financial statements, and we expressed an unmodified audit opinion on those statements in our report dated February 5, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*McGowan Guntermann*

Santa Barbara, California

February 4, 2019

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

March 31, 2018

(With Comparative Totals for March 31, 2017)

**ASSETS**

|                                | 2018                | 2017                |
|--------------------------------|---------------------|---------------------|
| <b>CURRENT ASSETS</b>          |                     |                     |
| Cash and cash equivalents      | \$ 826,556          | \$ 491,730          |
| Accounts receivable            | 93,008              | 20,767              |
| Prepaid expenses               | 7,480               | 7,480               |
| Other current assets           | 1,005               | 1,005               |
| Total Current Assets           | 928,049             | 520,982             |
| <b>INVESTMENTS</b>             | 1,680,558           | 1,513,267           |
| <b>PROPERTY AND EQUIPMENT</b>  |                     |                     |
| Land                           | 338,242             | 338,242             |
| Building and improvements      | 484,646             | 464,747             |
| Furnishings and equipment      | 19,104              | 58,127              |
| Library                        | 12,509              | 12,509              |
|                                | 854,501             | 873,625             |
| Less: Accumulated depreciation | (351,786)           | (377,210)           |
| Net Property and Equipment     | 502,715             | 496,415             |
| <b>TOTAL ASSETS</b>            | <u>\$ 3,111,322</u> | <u>\$ 2,530,664</u> |

**LIABILITIES AND NET ASSETS**

|   |                     |                     |
|---|---------------------|---------------------|
| <b>CURRENT LIABILITIES</b>              |                     |                     |
| Accounts payable                        | \$ 3,291            | \$ 6,198            |
| Accrued expenses                        | 63,444              | 49,749              |
| Deferred revenue                        | 25,088              | 53,080              |
| Total Current Liabilities               | 91,823              | 109,027             |
| <b>NET ASSETS</b>                       |                     |                     |
| Unrestricted                            |                     |                     |
| Undesignated                            | 1,162,729           | 693,471             |
| Board designated                        | 986,044             | 870,151             |
| Total Unrestricted                      | 2,148,773           | 1,563,622           |
| Temporarily restricted                  | 205,675             | 192,964             |
| Permanently restricted                  | 665,051             | 665,051             |
| Total Net Assets                        | 3,019,499           | 2,421,637           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <u>\$ 3,111,322</u> | <u>\$ 2,530,664</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, 2018

(With Comparative Totals for the Year Ended March 31, 2017)

|   | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | 2018<br>Total       | 2017<br>Total       |
|---|---------------------|---------------------------|---------------------------|---------------------|---------------------|
| <b>PUBLIC SUPPORT AND REVENUE</b>                 |                     |                           |                           |                     |                     |
| Public Support                                    |                     |                           |                           |                     |                     |
| Fundraising events - gross revenue                | \$ 351,772          | \$ -                      | \$ -                      | \$ 351,772          | \$ 282,591          |
| Fundraising events - in-kind contributions, goods | 61,434              | -                         | -                         | 61,434              | 60,138              |
| Less costs of direct benefits to donors           | <u>(202,306)</u>    | <u>-</u>                  | <u>-</u>                  | <u>(202,306)</u>    | <u>(160,040)</u>    |
| Net revenues from fundraising events              | 210,900             | -                         | -                         | 210,900             | 182,689             |
| Contributions                                     | 801,145             | -                         | -                         | 801,145             | 474,238             |
| Grants  | 365,733             | -                         | -                         | 365,733             | 318,369             |
| In-kind contributions, services                   | <u>25,265</u>       | <u>-</u>                  | <u>-</u>                  | <u>25,265</u>       | <u>29,621</u>       |
| Total Public Support                              | <u>1,403,043</u>    | <u>-</u>                  | <u>-</u>                  | <u>1,403,043</u>    | <u>1,004,917</u>    |
| Revenues  |                     |                           |                           |                     |                     |
| Program service                                   | 301,596             | -                         | -                         | 301,596             | 158,570             |
| Interest and dividend                             | 22,424              | 7,729                     | -                         | 30,153              | 20,720              |
| Loss on disposal of assets                        | (916)               | -                         | -                         | (916)               | -                   |
| Unrealized gain on value of securities            | 9,827               | 8,593                     | -                         | 18,420              | 149,938             |
| Realized gain on sale of securities               | 79,095              | 69,162                    | -                         | 148,257             | 21,287              |
| Other   | <u>481</u>          | <u>-</u>                  | <u>-</u>                  | <u>481</u>          | <u>3,726</u>        |
| Total Revenues                                    | <u>412,507</u>      | <u>85,484</u>             | <u>-</u>                  | <u>497,991</u>      | <u>354,241</u>      |
| Net assets released from restrictions             | <u>72,773</u>       | <u>(72,773)</u>           | <u>-</u>                  | <u>-</u>            | <u>-</u>            |
| Total Public Support and Revenues                 | <u>1,888,323</u>    | <u>12,711</u>             | <u>-</u>                  | <u>1,901,034</u>    | <u>1,359,158</u>    |
| <b>EXPENSES</b>                                   |                     |                           |                           |                     |                     |
| Program   | 1,030,870           | -                         | -                         | 1,030,870           | 877,494             |
| Management and general                            | 133,357             | -                         | -                         | 133,357             | 126,733             |
| Fundraising                                       | <u>138,945</u>      | <u>-</u>                  | <u>-</u>                  | <u>138,945</u>      | <u>131,337</u>      |
| Total Expenses                                    | <u>1,303,172</u>    | <u>-</u>                  | <u>-</u>                  | <u>1,303,172</u>    | <u>1,135,564</u>    |
| <b>CHANGE IN NET ASSETS</b>                       | 585,151             | 12,711                    | -                         | 597,862             | 223,594             |
| <b>NET ASSETS, APRIL 1</b>                        | <u>1,563,622</u>    | <u>192,964</u>            | <u>665,051</u>            | <u>2,421,637</u>    | <u>2,198,043</u>    |
| <b>NET ASSETS, MARCH 31</b>                       | <u>\$ 2,148,773</u> | <u>\$ 205,675</u>         | <u>\$ 665,051</u>         | <u>\$ 3,019,499</u> | <u>\$ 2,421,637</u> |

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

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

For the Year Ended March 31, 2018

(With Comparative Totals for the Year Ended March 31, 2017)

|  | 2018              | 2017              |
|--|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                   |                   |
| Change in net assets   | \$ 597,862        | \$ 223,594        |
| Adjustments to reconcile change in net assets to net cash<br>provided by operating activities: |                   |                   |
| Depreciation   | 17,983            | 16,473            |
| Unrealized gain on value of securities   | (18,420)          | (149,938)         |
| Loss on disposal of assets   | 916               | -                 |
| Realized gain on sale of securities  | (148,257)         | (21,287)          |
| (Increase) decrease in:  |                   |                   |
| Accounts receivable  | (13,741)          | 8,900             |
| Bequests receivable  | (58,500)          | 42,946            |
| Prepaid expenses and deposits  | -                 | 3,292             |
| Increase (decrease) in:  |                   |                   |
| Accounts payable   | (2,907)           | (19,639)          |
| Accrued expenses   | 13,695            | -                 |
| Deferred revenue   | (27,992)          | (50,183)          |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>   | <u>360,639</u>    | <u>54,158</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                   |                   |
| Purchase of property and equipment   | (25,199)          | (5,200)           |
| Purchase of securities   | (1,279,635)       | (754,357)         |
| Proceeds from sale of securities   | <u>1,279,021</u>  | <u>597,041</u>    |
| <b>NET CASH USED BY INVESTING ACTIVITIES</b>   | <u>(25,813)</u>   | <u>(162,516)</u>  |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>   | 334,826           | (108,358)         |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>   | <u>491,730</u>    | <u>600,088</u>    |
| <b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>   | <u>\$ 826,556</u> | <u>\$ 491,730</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 more than 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.

#### 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, 2018, totaled \$17,983.

#### 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, 2018, 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 2014 and 2013, 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 840 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 \$25,265.

#### Subsequent Events

EDC has evaluated subsequent events through February 4, 2019, the date which the financial statements were available to be issued.

### Note 3 – CONCENTRATIONS AND RISK

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, 2018, 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         | \$ 332,985          | \$ 332,985          | \$ -                   |
| Stocks       | 654,521             | 991,676             | 337,155                |
| Mutual Funds | <u>344,427</u>      | <u>355,897</u>      | <u>11,470</u>          |
| Total        | <u>\$ 1,331,933</u> | <u>\$ 1,680,558</u> | <u>\$ 348,625</u>      |

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>\$ 1,183,062</u> | <u>\$ 1,513,267</u> | <u>\$ 330,205</u>             |
| Balance at end of year        | <u>\$ 1,331,933</u> | <u>\$ 1,680,558</u> | <u>348,625</u>                |
| Net change in unrealized gain |                     |                     | <u>\$ 18,420</u>              |

## ENVIRONMENTAL DEFENSE CENTER

### NOTES TO FINANCIAL STATEMENTS

#### Note 4 – INVESTMENTS (continued)

The following summarizes the investment return and its classification in the statement of activities for the year ended March 31, 2018:

|  |                   |
|--|-------------------|
| Interest and dividend income           | \$ 30,153         |
| Unrealized gain on value of securities | 18,420            |
| Realized gain on sale of securities    | 148,257           |
| Investment fees                        | <u>(13,586)</u>   |
| Total Investment Return                | <u>\$ 183,244</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, 2018.

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, 2018:

*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.

# ENVIRONMENTAL DEFENSE CENTER

## NOTES TO FINANCIAL STATEMENTS

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

| <u>Description</u>                  | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>        |
|-------------------------------------|---------------------|----------------|----------------|---------------------|
| Investments                         |                     |                |                |                     |
| Cash held for investment            | \$ 332,985          | \$ -           | \$ -           | \$ 332,985          |
| Common stock                        |                     |                |                |                     |
| Consumer                            | 359,723             | -              | -              | 359,723             |
| Financial                           | 216,209             | -              | -              | 216,209             |
| Exchange fund                       | 84,742              | -              | -              | 84,742              |
| Services                            | 31,200              | -              | -              | 31,200              |
| Industrial                          | 97,405              | -              | -              | 97,405              |
| Information technology              | 152,422             | -              | -              | 152,422             |
| Other stock                         | 49,975              | -              | -              | 49,975              |
| Total common stock                  | <u>991,676</u>      | <u>-</u>       | <u>-</u>       | <u>991,676</u>      |
| Mutual funds                        |                     |                |                |                     |
| Fixed income                        | 118,825             | -              | -              | 118,825             |
| Growth fund                         | 64,483              | -              | -              | 64,483              |
| Blended funds                       | 172,589             | -              | -              | 172,589             |
| Total mutual funds                  | <u>355,897</u>      | <u>-</u>       | <u>-</u>       | <u>355,897</u>      |
| Total assets measured at fair value | <u>\$ 1,680,558</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 1,680,558</u> |

### 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:

|      |          |
|------|----------|
| 2018 | \$ 3,480 |
|------|----------|

### 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 \$986,044, as a quasi-endowment, cash reserve which may be used to fund operations.

EDC's total endowment as of March 31, 2018, is \$1,801,234, including the quasi-endowment of \$986,044, temporarily restricted net assets of \$150,139, 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.

# ENVIRONMENTAL DEFENSE CENTER

## NOTES TO FINANCIAL STATEMENTS

### Note 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at March 31, 2018, are restricted for the following programmatic areas:

|                       |                   |
|-----------------------|-------------------|
| Fracking              | \$ 28,995         |
| Whales and Shipping   | 7,195             |
| Ryerson Water Intern  | 4,000             |
| Ormond Beach          | 2,013             |
| Ventura Oil and Gas   | 13,333            |
| Endowment Allocations | <u>150,139</u>    |
|                       | <u>\$ 205,675</u> |

### Note 9 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at March 31, 2018, consist of \$665,051, the income from which is to fund programs at EDC.

### Note 10 – EMPLOYEE BENEFIT 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, 2018, was \$17,625.

### 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.

# ENVIRONMENTAL DEFENSE CENTER

## NOTES TO FINANCIAL STATEMENTS

### Note 11 – ENDOWMENT FUNDS (continued)

#### 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

For the year ended March 31, 2018, endowment net asset composition by type of fund is:

|                       | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|-----------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Donor-restricted      | \$ -                | \$ 150,139                        | \$ 665,051                        | \$ 815,190          |
| Board-restricted      | <u>986,044</u>      | <u>-</u>                          | <u>-</u>                          | <u>986,044</u>      |
| Total endowment funds | <u>\$ 986,044</u>   | <u>\$ 150,139</u>                 | <u>\$ 665,051</u>                 | <u>\$ 1,801,234</u> |

# ENVIRONMENTAL DEFENSE CENTER

## NOTES TO FINANCIAL STATEMENTS

### Note 11 – ENDOWMENT FUNDS (continued)

Changes in endowment net assets for the year ended March 31, 2018 are:

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets,<br>beginning of year  | \$ 870,151          | \$ 95,830                         | \$ 665,051                        | \$ 1,631,032        |
| Net investment return<br>(investment income,<br>realized and<br>unrealized gains) | 97,760              | 85,484                            | -                                 | 183,244             |
| Contributions   | 18,133              | -                                 | -                                 | 18,133              |
| Appropriation of<br>endowment assets<br>for expenditure                           | <u>-</u>            | <u>(31,175)</u>                   | <u>-</u>                          | <u>(31,175)</u>     |
| Endowment net assets,<br>end of year  | <u>\$ 986,044</u>   | <u>\$ 150,139</u>                 | <u>\$ 665,051</u>                 | <u>\$ 1,801,234</u> |

### 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 five 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.



# ENVIRONMENTAL DEFENSE CENTER

## NOTES TO FINANCIAL STATEMENTS

### Note 11 – ENDOWMENT FUNDS (continued)

#### 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 or less 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, 2017, financial statements have been reclassified to conform to the March 31, 2018, financial statement presentation.

### Note 13 – COMPARATIVE AMOUNTS

The amounts shown for March 31, 2017 in the accompanying financial statements are included to provide a basis for comparison with March 31, 2018, and are not intended to present all information necessary for a fair presentation of the March 31, 2017, financial statements in conformity with accounting principles generally accepted in the United States of America.