



environmental
DEFENSE CENTER

ENVIRONMENTAL DEFENSE CENTER
FINANCIAL STATEMENTS
MARCH 31, 2019

ENVIRONMENTAL DEFENSE CENTER

March 31, 2019

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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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, 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Environmental Defense Center as of March 31, 2019, 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's March 31, 2018, financial statements, and we expressed an unmodified audit opinion on those statements in our report dated February 4, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, California

February 11, 2020

ENVIRONMENTAL DEFENSE CENTER

STATEMENT OF FINANCIAL POSITION

March 31, 2019

(With Comparative Totals for March 31, 2018)

ASSETS

	2019	(Memo) 2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 884,082	\$ 826,556
Accounts bequests receivable	75,183	93,008
Prepaid expenses	7,480	7,480
Other current assets	1,005	1,005
Total Current Assets	<u>967,750</u>	<u>928,049</u>
INVESTMENTS	<u>2,804,001</u>	<u>1,680,558</u>
PROPERTY AND EQUIPMENT		
Land	338,242	338,242
Building and improvements	484,646	484,646
Furnishings and equipment	27,577	19,104
Library	12,509	12,509
	<u>862,974</u>	<u>854,501</u>
Less: Accumulated depreciation	<u>(369,489)</u>	<u>(351,786)</u>
Net Property and Equipment	<u>493,485</u>	<u>502,715</u>
TOTAL ASSETS	<u>\$ 4,265,236</u>	<u>\$ 3,111,322</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 9,407	\$ 3,291
Accrued expenses	66,040	63,444
Deferred revenue	9,748	25,088
Total Current Liabilities	<u>85,195</u>	<u>91,823</u>
NET ASSETS		
Without donor restrictions		
Undesignated	1,273,153	1,162,729
Board designated	2,062,946	986,044
Total without donor restrictions	<u>3,336,099</u>	<u>2,148,773</u>
With Donor Restrictions	<u>843,942</u>	<u>870,726</u>
Total Net Assets	<u>4,180,041</u>	<u>3,019,499</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,265,236</u>	<u>\$ 3,111,322</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, 2019

(With Comparative Totals for the Year Ended March 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	(Memo) 2018 Total
PUBLIC SUPPORT AND REVENUE				
Public Support				
Fundraising events - gross revenue	\$ 346,516	\$ -	\$ 346,516	\$ 351,772
Fundraising events - in-kind contributions, goods	47,585	-	47,585	61,434
Less costs of direct benefits to donors	<u>(220,110)</u>	<u>-</u>	<u>(220,110)</u>	<u>(202,306)</u>
Net revenues from fundraising events	173,991	-	173,991	210,900
Contributions	1,614,779	20,864	1,635,643	801,145
Grants	314,250	-	314,250	365,733
In-kind contributions, services	<u>72,734</u>	<u>-</u>	<u>72,734</u>	<u>25,265</u>
Total Public Support	<u>2,175,754</u>	<u>20,864</u>	<u>2,196,618</u>	<u>1,403,043</u>
Revenues				
Program service	147,669	-	147,669	301,596
Investment income, net of expenses of \$12,302 and 13,586	54,725	45,243	99,968	183,244
Loss on disposal of assets	-	-	-	(916)
Other	<u>306</u>	<u>-</u>	<u>306</u>	<u>481</u>
Total Revenues	<u>202,700</u>	<u>45,243</u>	<u>247,943</u>	<u>484,405</u>
Net assets released from restrictions	<u>92,891</u>	<u>(92,891)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>2,471,345</u>	<u>(26,784)</u>	<u>2,444,561</u>	<u>1,887,448</u>
EXPENSES				
Program	1,019,351	-	1,019,351	1,030,870
Management and general	144,118	-	144,118	119,771
Fundraising	<u>120,550</u>	<u>-</u>	<u>120,550</u>	<u>138,945</u>
Total Expenses	<u>1,284,019</u>	<u>-</u>	<u>1,284,019</u>	<u>1,289,586</u>
CHANGE IN NET ASSETS	1,187,326	(26,784)	1,160,542	597,862
NET ASSETS, APRIL 1	<u>2,148,773</u>	<u>870,726</u>	<u>3,019,499</u>	<u>2,421,637</u>
NET ASSETS, MARCH 31	<u>\$ 3,336,099</u>	<u>\$ 843,942</u>	<u>\$ 4,180,041</u>	<u>\$ 3,019,499</u>

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

ENVIRONMENTAL DEFENSE CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended March 31, 2019

(With Comparative Totals for the Year Ended March 31, 2018)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2019 Total</u>	<u>(Memo) 2018 Total</u>
EXPENSES					
Salaries and wages	\$ 659,763	\$ 92,041	\$ 64,142	\$ 815,946	\$ 748,807
Payroll taxes	54,811	7,647	5,329	67,787	45,610
Benefits	93,165	16,528	9,802	119,495	126,028
Payroll processing	18,890	2,361	2,361	23,612	39,353
Contract program services	37,525	-	-	37,525	144,091
Program travel and lodging	3,523	-	-	3,523	2,835
Printing and photocopies	6,947	868	868	8,683	6,541
Library, research and subscriptions	12,662	1,583	1,583	15,828	14,478
Filing fees and transcripts	1,290	161	161	1,612	1,609
Bar fees	2,021	253	253	2,527	2,545
Intern and fellowship stipends	9,289	-	-	9,289	2,750
Rent	2,552	319	319	3,190	3,469
Insurance	3,346	5,023	418	8,787	8,723
Repair and maintenance	14,203	1,775	1,775	17,753	9,585
Utilities	3,727	466	466	4,659	3,948
Postage and shipping	1,388	173	173	1,734	2,520
Supplies and materials	2,121	265	265	2,651	3,457
Office equipment	8,253	1,032	1,032	10,317	805
Computer and technology	14,372	1,797	1,797	17,966	19,017
Telephone and internet	8,412	1,052	1,052	10,516	5,467
Professional services	39,338	4,917	4,917	49,172	38,011
Continuing education and travel	2,078	260	260	2,598	4,717
Other operating expenses	4,696	544	1,145	6,385	7,235
Board meetings and activities	-	3,181	-	3,181	1,681
Newsletter	-	-	7,024	7,024	7,924
Outreach and marketing	-	-	2,324	2,324	7,240
Direct mailing and appeals	-	-	7,643	7,643	8,139
Donor acknowledgement	-	-	3,569	3,569	5,018
Depreciation	14,979	1,872	1,872	18,723	17,983
TOTAL EXPENSES	<u>\$ 1,019,351</u>	<u>\$ 144,118</u>	<u>\$ 120,550</u>	<u>\$ 1,284,019</u>	<u>\$ 1,289,586</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, 2019

(With Comparative Totals for the Year Ended March 31, 2018)

		(Memo)
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,160,542	\$ 597,862
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,723	17,983
Unrealized (gain) loss on value of securities	317,661	(18,420)
Loss on disposal of assets	-	916
Realized gain on sale of securities	(367,570)	(148,257)
Contributions restricted for long-term investment	(20,864)	-
(Increase) decrease in:		
Accounts receivable	17,826	(13,741)
Bequests receivable	-	(58,500)
Increase (decrease) in:		
Accounts payable	6,116	(2,907)
Accrued expenses	2,596	13,695
Deferred revenue	(15,340)	(27,992)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,119,690	360,639
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(9,494)	(25,199)
Purchase of securities	(3,931,824)	(1,279,635)
Proceeds from sale of securities	2,858,290	1,279,021
NET CASH USED BY INVESTING ACTIVITIES	(1,083,028)	(25,813)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	20,864	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	20,864	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	57,526	334,826
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	826,556	491,730
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 884,082	\$ 826,556

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.

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

During the year ended March 31, 2019, EDC adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; recognition of underwater endowment funds as a reduction in net assets with donor restrictions; and reporting investment income net of external and direct internal investment expenses. The guidance also enhances disclosures for board designated amounts, compositions of net assets with donor restrictions and how the restrictions affect the use of resources, qualitative and quantitative information about the liquidity and availability of financial assets to meet general expenditures within one year of the balance sheet (statement of financial position) date, and expenses by both their natural and functional classification, including methods used to allocate costs among program and support functions and underwater endowments.

Due to the adoption of ASU 2016-14 as of March 31, 2019, net assets have been reclassified as of March 31, 2018, as follows:

Net Asset Classification 3/31/18	ASU 2016-14 Classifications		Total Net Assets
	Without Donor Restrictions	With Donor Restrictions	
Unrestricted	\$ 2,148,773	\$ -	\$ 2,148,773
Temporarily Restricted	-	205,675	205,675
Permanently Restricted	<u>-</u>	<u>665,051</u>	<u>665,051</u>
Net Assets as previously presented	2,148,773	870,726	3,019,499
Net assets as reported after adoption of ASU 2016-14	<u>\$ 2,148,773</u>	<u>\$ 870,726</u>	<u>\$ 3,019,499</u>

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Description of Net Assets

EDC reports information regarding its financial position and activities in two classes of net assets - with donor restrictions and without donor restrictions - based on the existence or absence of donor-imposed restrictions.

Without Donor Restrictions

Net assets without donor restrictions represent net assets that are not subject to donor-imposed time or use restrictions. Net assets without donor restrictions include board designated funds.

With Donor Restrictions

Net assets with donor restrictions represent net assets that are subject to donor-imposed time or use restrictions. Net assets with donor restrictions generally include contributions and bequests receivable and planned gifts. Earnings on net assets with donor restrictions are reported as an increase in net assets with donor restrictions. Earnings on donor-restricted endowment funds that have not yet been appropriated are also classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as “Net assets released from restrictions.” The change in value of the underlying assets is recorded as an unrealized gain or loss in net assets with donor restrictions on the Statement of Activities. Net assets with donor restrictions also consist of those donor-restricted endowments held by EDC as defined under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

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 net assets without donor restrictions 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 net assets with donor restrictions.

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 net assets with donor restrictions to net assets without donor restrictions 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, 2019, totaled \$18,723.

Contributions and Grants

All contributions and grants are considered to be available for net assets without donor restrictions 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 net assets with donor restrictions and increase that net asset class. However, if a restriction is fulfilled in the same time period in which the contribution is received, EDC reports the support as net assets without donor restrictions.

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, 2019, 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 2015 and 2014, respectively.

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 1,459 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 \$43,770.

Subsequent Events

EDC has evaluated subsequent events through February 11, 2020, 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.

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

Note 4 – INVESTMENTS

Investments at March 31, 2019, 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/(Loss)</u>
Cash	\$ 182,399	\$ 182,399	\$ -
Stocks	1,110,897	1,137,993	27,096
Fixed income	929,741	955,126	25,385
Mutual funds	<u>550,000</u>	<u>528,483</u>	<u>(21,517)</u>
Total	<u>\$ 2,773,037</u>	<u>\$ 2,804,001</u>	<u>\$ 30,964</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>\$ 1,331,933</u>	<u>\$ 1,680,558</u>	<u>\$ 348,625</u>
Balance at end of year	<u>\$ 2,773,037</u>	<u>\$ 2,804,001</u>	<u>30,964</u>
Net change in unrealized loss			<u>\$ (317,661)</u>

The following summarizes the investment return and its classification in the statement of activities for the year ended March 31, 2019:

Interest and dividend income	\$ 62,361
Unrealized loss on value of securities	(317,661)
Realized gain on sale of securities	367,570
Investment fees	<u>(12,302)</u>
Total Investment Return	<u>\$ 99,968</u>

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

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, 2019.

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, 2019:

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 publicly 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.

Fixed Income – Fixed income includes corporate and government bonds and are valued at the closing price reported on the active market on which the investments are traded.

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	\$ 182,399	\$ -	\$ -	\$ 182,399
Stocks	1,137,993	-	-	1,137,993
Fixed income	955,126	-	-	955,126
Mutual funds	<u>528,483</u>	<u>-</u>	<u>-</u>	<u>528,483</u>
Total investments measured at fair value				
	<u>\$ 2,804,001</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,804,001</u>

Note 6 – LEASES

EDC entered into an agreement in February 2019 to lease a color copier. The lease term is for sixty months beginning February 2019, and ending January 2024, at a monthly rent expense of \$385.

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

2020	\$ 4,620
2021	4,620
2022	4,620
2023	4,620
2024	<u>3,850</u>
Total	<u>\$ 22,330</u>

Total rent expense, including the color copier lease, totaled \$7,440 for the year ended March 31, 2019.

Note 7 – ENDOWMENT

EDC's total endowment as of March 31, 2019, is \$2,903,445, including the board designated endowment of \$2,062,946 and net assets with donor restrictions of \$840,499. The funds are invested in a variety of investment positions, including cash, money market accounts, certificate of deposits, equities, bonds and mutual funds.

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

Note 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at March 31, 2019, are restricted for the following areas:

Ormond Beach	\$ 2,013
Los Padres Target Shooting	1,430
Unappropriated Endowment Earnings	154,584
Endowment Contributions	<u>685,915</u>
	<u>\$ 843,942</u>

Note 9 – 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, 2019, was \$17,912.

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

Note 10 – 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 donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by EDC in a manner consistent with the standard for 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

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.

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

Note 10 – ENDOWMENT FUNDS (continued)

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 appropriating distribution twice a year, in the sixth and twelfth months of the fiscal year in the amount of 2% the average total portfolio value on the last day of each of the six months prior to the month in which the distribution is to be made. 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.

As of March 31, 2019, endowment net assets totaled \$2,903,445, consisting of total original restricted gift endowment contributions of \$685,915, accumulated earnings of \$154,584 and board designated endowment assets of \$2,062,946.

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NOTES TO FINANCIAL STATEMENTS

Note 11 – LIQUIDITY

Financial assets available to meet cash needs for general expenditure for the following year are comprised of current assets and investments, adjusted for amounts unavailable due to illiquidity, endowments and other funds spending policy appropriations beyond one year, and current liabilities payable to vendors, financial institutions, and nonprofit organizations.

Financial assets available to meet cash needs for general expenditures within one year as of March 31, 2019:

Current assets	
Cash and cash equivalents available within one year	\$ 884,082
Accounts and bequests receivable	75,183
Other current assets	<u>8,485</u>
Total Current Assets	<u>967,750</u>
Investments	2,804,001
Less investments unavailable for general expenditures within one year:	
Endowments and other funds subject to spending policy appropriations beyond one year:	
With donor restrictions	<u>(840,499)</u>
Total Investments Available	<u>1,963,502</u>
Current liabilities	<u>(85,368)</u>
Financial assets available to meet cash needs for general expenditures within one year as of March 31, 2019	<u>\$ 2,845,884</u>

Note 12 – RECLASSIFICATION

Certain amounts from the March 31, 2018, financial statements have been reclassified to conform to the March 31, 2019, financial statement presentation.

Note 13 – COMPARATIVE AMOUNTS

The amounts shown for March 31, 2018 in the accompanying financial statements are included to provide a basis for comparison with March 31, 2019, and are not intended to present all information necessary for a fair presentation of the March 31, 2018, financial statements in conformity with accounting principles generally accepted in the United States of America.