



environmental
DEFENSE CENTER

**ENVIRONMENTAL DEFENSE CENTER
FINANCIAL STATEMENTS
MARCH 31, 2020**

ENVIRONMENTAL DEFENSE CENTER

March 31, 2020

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

111 E. Victoria Street, 2nd Floor, Santa Barbara, CA 93101, (805) 962-9175, Fax: (805) 880-0350, www.mcgowan.com

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, 2020, 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Environmental Defense Center's March 31, 2019, financial statements, and we expressed an unmodified audit opinion on those statements in our report dated February 11, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, California

January 5, 2021

ENVIRONMENTAL DEFENSE CENTER

STATEMENT OF FINANCIAL POSITION

March 31, 2020

(With Comparative Totals for March 31, 2019)

ASSETS

	2020	(Memo) 2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,111,281	\$ 884,082
Accounts and bequests receivable	229,387	75,183
Prepaid expenses	7,480	7,480
Other current assets	<u>1,005</u>	<u>1,005</u>
Total Current Assets	<u>1,349,153</u>	<u>967,750</u>
INVESTMENTS	<u>2,955,120</u>	<u>2,804,001</u>
PROPERTY AND EQUIPMENT		
Land	338,242	338,242
Building and improvements	484,646	484,646
Furnishings and equipment	32,480	27,577
Library	<u>12,509</u>	<u>12,509</u>
	867,877	862,974
Less: Accumulated depreciation	<u>(387,154)</u>	<u>(369,489)</u>
Net Property and Equipment	<u>480,723</u>	<u>493,485</u>
TOTAL ASSETS	<u>\$ 4,784,996</u>	<u>\$ 4,265,236</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 121,500	\$ 9,407
Accrued expenses	62,462	66,040
Deferred revenue	<u>84,926</u>	<u>9,748</u>
Total Current Liabilities	<u>268,888</u>	<u>85,195</u>
NET ASSETS		
Without donor restrictions		
Undesignated	1,430,184	1,273,153
Board designated	<u>2,062,788</u>	<u>2,062,946</u>
Total without donor restrictions	3,492,972	3,336,099
With Donor Restrictions	<u>1,023,136</u>	<u>843,942</u>
Total Net Assets	<u>4,516,108</u>	<u>4,180,041</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,784,996</u>	<u>\$ 4,265,236</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, 2020

(With Comparative Totals for the Year Ended March 31, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	(Memo) 2019 Total
PUBLIC SUPPORT AND REVENUE				
Public Support				
Fundraising events - gross revenue	\$ 313,641	\$ -	\$ 313,641	\$ 346,516
Fundraising events - in-kind contributions, goods	63,178	-	63,178	47,585
Less costs of direct benefits to donors	<u>(282,823)</u>	<u>-</u>	<u>(282,823)</u>	<u>(220,110)</u>
Net revenues from fundraising events	93,996	-	93,996	173,991
Contributions	600,301	275,529	875,830	1,635,643
Grants	421,243	-	421,243	314,250
In-kind contributions, services	<u>132,474</u>	<u>-</u>	<u>132,474</u>	<u>72,734</u>
Total Public Support	<u>1,248,014</u>	<u>275,529</u>	<u>1,523,543</u>	<u>2,196,618</u>
Revenues				
Program service	236,635	-	236,635	147,669
Investment income, net of expenses of \$20,212 and \$12,302	(15,943)	(6,335)	(22,278)	99,968
Other	<u>358</u>	<u>-</u>	<u>358</u>	<u>306</u>
Total Revenues	<u>221,050</u>	<u>(6,335)</u>	<u>214,715</u>	<u>247,943</u>
Net assets released from restrictions	<u>90,000</u>	<u>(90,000)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>1,559,064</u>	<u>179,194</u>	<u>1,738,258</u>	<u>2,444,561</u>
EXPENSES				
Program	1,133,067	-	1,133,067	1,019,351
Management and general	143,949	-	143,949	144,118
Fundraising	<u>125,175</u>	<u>-</u>	<u>125,175</u>	<u>120,550</u>
Total Expenses	<u>1,402,191</u>	<u>-</u>	<u>1,402,191</u>	<u>1,284,019</u>
CHANGE IN NET ASSETS	156,873	179,194	336,067	1,160,542
NET ASSETS, APRIL 1	<u>3,336,099</u>	<u>843,942</u>	<u>4,180,041</u>	<u>3,019,499</u>
NET ASSETS, MARCH 31	<u>\$ 3,492,972</u>	<u>\$ 1,023,136</u>	<u>\$ 4,516,108</u>	<u>\$ 4,180,041</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, 2020

(With Comparative Totals for the Year Ended March 31, 2019)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	2020 <u>Total</u>	(Memo) 2019 <u>Total</u>
EXPENSES					
Salaries and wages	\$ 649,584	\$ 90,691	\$ 62,630	\$ 802,905	\$ 815,946
Payroll taxes	51,664	7,213	4,981	63,858	67,787
Benefits	114,079	18,426	11,331	143,836	119,495
Payroll processing	29,690	3,711	3,711	37,112	23,612
Contract program services	132,090	-	-	132,090	37,525
Program travel and lodging	7,491	-	-	7,491	3,523
Printing and photocopies	9,340	1,168	1,168	11,676	8,683
Library, research and subscriptions	13,037	1,630	1,630	16,297	15,828
Filing fees and transcripts	2,598	325	325	3,248	1,612
Bar fees	2,348	294	294	2,936	2,527
Intern and fellowship stipends	12,814	-	-	12,814	9,289
Rent	2,904	363	363	3,630	3,190
Insurance	3,330	4,821	416	8,567	8,787
Repair and maintenance	15,326	1,916	1,916	19,158	17,753
Utilities	4,220	528	528	5,276	4,659
Postage and shipping	1,869	234	234	2,337	1,734
Supplies and materials	1,598	200	200	1,998	2,651
Office equipment	669	84	84	837	10,317
Computer and technology	14,487	1,811	1,811	18,109	17,966
Telephone and internet	3,130	391	391	3,912	10,516
Professional services	37,014	4,627	4,627	46,268	49,172
Continuing education and travel	1,964	246	246	2,456	2,598
Other operating expenses	6,636	738	740	8,114	6,385
Board meetings and activities	-	2,634	-	2,634	3,181
Newsletter	-	-	5,958	5,958	7,024
Outreach and marketing	-	-	9,578	9,578	2,324
Direct mailing and appeals	-	-	5,960	5,960	7,643
Donor acknowledgement	-	-	4,155	4,155	3,569
Depreciation	15,185	1,898	1,898	18,981	18,723
TOTAL EXPENSES	<u>\$ 1,133,067</u>	<u>\$ 143,949</u>	<u>\$ 125,175</u>	<u>\$ 1,402,191</u>	<u>\$ 1,284,019</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, 2020

(With Comparative Totals for the Year Ended March 31, 2019)

	2020	(Memo) 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 336,067	\$ 1,160,542
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,981	18,723
Unrealized loss on value of securities	185,070	317,661
Realized gain on sale of securities	(105,463)	(367,570)
Contributions restricted for long-term investment	(250,529)	(20,864)
(Increase) decrease in:		
Accounts receivable	(154,204)	17,826
Increase (decrease) in:		
Accounts payable	112,093	6,116
Accrued expenses	(3,578)	2,596
Deferred revenue	<u>75,178</u>	<u>(15,340)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>213,615</u>	<u>1,119,690</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(6,219)	(9,494)
Purchase of securities	(1,719,118)	(3,931,824)
Proceeds from sale of securities	<u>1,488,392</u>	<u>2,858,290</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(236,945)</u>	<u>(1,083,028)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	<u>250,529</u>	<u>20,864</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>250,529</u>	<u>20,864</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	227,199	57,526
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>884,082</u>	<u>826,556</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 1,111,281</u>	<u>\$ 884,082</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.

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.

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Description of Net Assets (continued)

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.

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.

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

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, 2020, totaled \$18,891.

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

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, 2020, EDC had no uncertain tax positions requiring accrual.

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

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 2016 and 2015, 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 2,300 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 \$132,474.

Subsequent Events

EDC has evaluated subsequent events through January 5, 2021, the date which the financial statements were available to be issued.

Note 3 – INVESTMENTS

Investments at March 31, 2020, 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	\$ 347,223	\$ 347,223	\$ -
Stocks	1,171,739	1,054,604	(117,135)
Fixed income	798,822	834,314	35,492
Mutual funds	<u>793,738</u>	<u>718,979</u>	<u>(74,759)</u>
Total	<u>\$ 3,111,522</u>	<u>\$ 2,955,120</u>	<u>\$ (156,402)</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>\$ 2,775,333</u>	<u>\$ 2,804,001</u>	\$ 28,668
Balance at end of year	<u>\$ 3,111,522</u>	<u>\$ 2,955,120</u>	<u>(156,402)</u>
Net change in unrealized loss			<u>\$ (185,070)</u>

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

Note 3 – INVESTMENTS (continued)

The following summarizes the investment return and its classification in the statement of activities for the year ended March 31, 2020:

Interest and dividend income	\$ 77,541
Unrealized loss on value of securities	(185,070)
Realized gain on sale of securities	105,463
Investment fees	<u>(20,212)</u>
Total Investment Return	<u>\$ (22,278)</u>

Note 4 – 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 publicly traded securities. EDC did not classify any assets in Level 2 or 3 as of March 31, 2020.

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

Note 4 – 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, 2020:

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.

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Cash held for investment	\$ 347,223	\$ -	\$ -	\$ 347,223
Stocks	1,054,604	-	-	1,054,604
Fixed income	834,314	-	-	834,314
Mutual funds	<u>718,979</u>	<u>-</u>	<u>-</u>	<u>718,979</u>
Total investments measured at fair value	<u>\$ 2,955,120</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,955,120</u>

Note 5 – 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 Principles (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 5 – 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 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.

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 5 – ENDOWMENT FUNDS (continued)

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. For years ending after March 31, 2020, the amount available for appropriation during each fiscal year shall be calculated by applying the policy spending rate (4%) to the average of the previous three calendar year's ending endowment values. 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, 2020, endowment net assets totaled \$3,067,735, consisting of total original restricted gift endowment contributions of \$915,580, accumulated earnings of \$89,367 and board designated endowment assets of \$2,062,788.

Note 6 – ENDOWMENT

EDC's total endowment as of March 31, 2020, is \$3,067,735, including the board designated endowment of \$2,062,788 and net assets with donor restrictions of \$1,004,947. The funds are invested in a variety of investment positions, including cash, money market accounts, certificate of deposits, equities, bonds and mutual funds.

Note 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at March 31, 2020, are restricted for the following areas:

Programs	\$ 18,189
Unappropriated Endowment Earnings	89,367
Endowment Contributions	<u>915,580</u>
	<u>\$ 1,023,136</u>

Note 8 – 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.

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

Note 8 – LEASES (continued)

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

2024	\$ 4,620
2022	4,620
2023	4,620
2024	<u>3,850</u>
Total	<u>\$ 17,710</u>

Total rent expense, including the color copier lease, totaled \$7,440 for the year ended March 31, 2020.

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 make 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, 2020, was \$18,734.

Note 10 – 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 and financial institutions.

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

Note 10 – LIQUIDITY (continued)

Financial assets available to meet cash needs for general expenditures within one year as of March 31, 2020:

Current assets	
Cash and cash equivalents available within one year	\$ 1,111,281
Accounts and bequests receivable	229,387
Other current assets	<u>8,485</u>
Total Current Assets	<u>1,349,153</u>
Investments	2,955,120
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>(1,004,947)</u>
Total Investments Available	<u>1,950,173</u>
Current liabilities	<u>(268,888)</u>
Financial assets available to meet cash needs for general expenditures within one year as of March 31, 2020	<u>\$ 3,030,438</u>

Note 11 – UNCERTAINTIES, RISK AND CONCENTRATIONS

Credit Risk

EDC maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 for each insured financial institution. At March 31, 2020, EDC had uninsured cash balances of approximately \$149,000.

Uncertainties

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. Since March 11, 2020, EDC's operations have been modified, including office closures and staff working remotely when possible.

The Organization cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact EDC's financial position, changes in net assets and cash flows in 2021 and the future.

ENVIRONMENTAL DEFENSE CENTER

NOTES TO FINANCIAL STATEMENTS

Note 11 – UNCERTAINTIES, RISK AND CONCENTRATIONS (continued)

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 12 – SBA LOAN UNDER PAYCHECK PROTECTION PROGRAM

On May 11, 2020, EDC received loan funding of \$145,367 under the Paycheck Protection Program as allowed under the CARES Tax Act, related to the 2020 COVID-19 pandemic. The loan allows for the loan proceeds to be used on allowable costs for EDC.

The loan will be fully forgiven if the funds are used for payroll costs, rent and utilities and at least 60% of the forgiven amount must be used for payroll. Loan payments will also be deferred for six months. No collateral or personal guarantees were required.

Forgiveness will be based on maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease. The loan has a maturity of five years and an interest rate of 1%. EDC intends to comply with all regulations to allow for the loan to be fully forgiven.

Note 13 – RECLASSIFICATION

Certain amounts from the March 31, 2019, financial statements have been reclassified to conform to the March 31, 2020, financial statement presentation.

Note 14 – COMPARATIVE AMOUNTS

The amounts shown for March 31, 2019 in the accompanying financial statements are included to provide a basis for comparison with March 31, 2020, and are not intended to present all information necessary for a fair presentation of the March 31, 2019, financial statements in conformity with accounting principles generally accepted in the United States of America.