ECOLOGY CENTER

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Ecology Center
Ann Arbor, Michigan

Opinion

We have audited the accompanying consolidated financial statements of Ecology Center (a nonprofit corporation), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ecology Center as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ecology Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ecology Center's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ecology Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ecology Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Respectfully,

Bennett & Associates CPAs PLLC

Ann Arbor, Michigan
April 22, 2021

	2020	2019
ASSETS		
Cash and cash equivalents	$ 653,009	$ 1,030,041
Accounts receivable, net of allowance	912,298	559,799
Grants receivable	1,207,300	257,500
ReUse Center inventory	-	46,682
Prepaid expenses	55,756	49,835
Investments		
Short-term	703,150	277,222
Held for endowment purposes	283,024	237,295
	986,174	514,517
Property and equipment, net of accumulated depreciation	1,981,244	877,580
Contract acquisition costs, net of accumulated amortization	140,697	-
TOTAL ASSETS	$ 5,936,478	$ 3,335,954
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 196,426	$ 380,617
Accrued liabilities	222,247	237,773
Refundable advances under Paycheck Protection Program	641,700	-
Line of credit	-	100,135
Notes payable	1,222,032	287,754
TOTAL LIABILITIES	2,282,405	1,006,279
NET ASSETS		
Without donor restrictions		
Undesignated	417,304	1,107,677
Board designated	84,611	83,911
	501,915	1,191,588
With donor restrictions	3,152,158	1,138,087
TOTAL NET ASSETS	3,654,073	2,329,675
TOTAL LIABILITIES AND NET ASSETS	$ 5,936,478	$ 3,335,954

	2020	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE AND SUPPORT		
Curbside collection contracts	$ 2,521,873	$ 2,185,778
Drop-off facilities revenue, including fees, and sales of materials collected at the Drop Off Station and Recovery Yard	1,640,114	2,017,237
City of Ann Arbor Materials Recovery Facility contract revenue	1,728,685	1,995,335
ReUse Center revenue	189,493	932,731
Roll-off container fees	424,957	743,850
Education services	103,999	174,104
Special events, net of expenses of $0 and $43,740 in 2020 and 2019, respectively	-	28,321
Grants and contributions	259,096	209,670
Value of material donated to ReUse Center	96,029	560,185
Other revenue and support	65,029	82,466
Net assets released from restrictions	1,277,608	1,257,811
TOTAL REVENUE AND SUPPORT WITHOUT DONOR RESTRICTIONS	8,306,883	10,187,488
EXPENSES		
Program services	8,000,131	8,984,909
Supporting services		
Management and general	767,046	915,339
Fundraising	84,581	101,061
TOTAL EXPENSES	8,851,758	10,001,309
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE GAINS AND LOSSES	(544,875)	186,179
GAINS AND LOSSES		
Net gain/(loss) on disposal of property and equipment	(144,798)	(12,108)
TOTAL GAINS AND LOSSES	(144,798)	(12,108)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(689,673)	174,071
NET ASSETS WITH DONOR RESTRICTIONS		
Grants and contributions	3,245,950	739,767
Investment return	45,729	43,673
Net assets released from restrictions	(1,277,608)	(1,257,811)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	2,014,071	(474,371)
CHANGE IN NET ASSETS	1,324,398	(300,300)
NET ASSETS AT BEGINNING OF YEAR	2,329,675	2,629,975
NET ASSETS AT END OF YEAR	$ 3,654,073	$ 2,329,675

	Program Services	Supporting Services: Management and General	Supporting Services: Fund-Raising	Total 2020	Total 2019
Grants to Organizations	$ 180,000	$ -	$ -	$ 180,000	$ 105,000
Employee Compensation					
Salaries and wages	2,504,951	268,975	41,846	2,815,772	3,300,018
Employee benefits	608,943	56,962	13,908	679,813	652,560
Payroll taxes	181,702	18,113	3,208	203,023	255,539
	3,295,596	344,050	58,962	3,698,608	4,208,117
Other Expenses					
Accounting fees	99,194	143,343	-	242,537	226,793
Legal fees	16,739	5,538	-	22,277	12,159
Contract trucking	26,429	-	-	26,429	47,666
Fees for services - other	184,410	11,771	10,990	207,171	209,332
Fees for services - MRF	1,444,189	-	-	1,444,189	1,647,259
Advertising	3,534	-	-	3,534	8,912
Office expenses	247,416	43,429	2,728	293,573	433,777
Information technology	18,836	23,763	-	42,599	52,441
Occupancy	519,038	58,374	7,458	584,870	629,329
Disposal fees	306,840	-	-	306,840	430,499
Travel	9,851	127	338	10,316	38,940
Urban Wood, mulch and compost purchases	52,039	-	-	52,039	238,594
Equipment operating costs	943,748	90,470	-	1,034,218	636,743
Conferences and meetings	8,843	5,108	42	13,993	54,971
Interest	60,798	-	-	60,798	21,500
Depreciation and amortization	189,593	10,689	1,478	201,760	203,843
Insurance	192,910	26,756	631	220,297	169,343
Value of materials donated to ReUse Center	142,711	-	-	142,711	560,185
Taxes - sales	5,267	-	-	5,267	46,804
All other	52,150	3,628	1,954	57,732	62,842
Total expenses	8,000,131	767,046	84,581	8,851,758	10,045,049
Less expenses included with revenues on the statement of activities	-	-	-	-	(43,740)
Total expenses included in the expense section of the statement of activities	$ 8,000,131	$ 767,046	$ 84,581	$ 8,851,758	$ 10,001,309

	Program Services	Supporting Services: Management and General	Supporting Services: Fund-Raising	Total 2019
Grants to Organizations	$ 105,000	$ -	$ -	$ 105,000
Employee Compensation				
Salaries and wages	2,853,454	376,099	70,465	3,300,018
Employee benefits	592,540	49,119	10,901	652,560
Payroll taxes	224,661	25,461	5,417	255,539
	3,670,655	450,679	86,783	4,208,117
Other Expenses				
Accounting fees	48,989	177,804	-	226,793
Legal fees	7,930	4,229	-	12,159
Contract trucking	47,666	-	-	47,666
Fees for services - other	183,361	10,612	15,359	209,332
Fees for services - MRF	1,647,259	-	-	1,647,259
Advertising	8,912	-	-	8,912
Office expenses	347,185	79,399	7,193	433,777
Information technology	17,139	35,302	-	52,441
Occupancy	552,800	66,752	9,777	629,329
Disposal fees	430,499	-	-	430,499
Travel	38,616	244	80	38,940
Urban Wood, mulch and compost purchases	238,594	-	-	238,594
Equipment operating costs	591,803	44,940	-	636,743
Conferences and meetings	22,427	10,435	22,109	54,971
Interest	21,500	-	-	21,500
Depreciation and amortization	190,701	11,219	1,923	203,843
Insurance	147,288	21,356	699	169,343
Value of materials donated to ReUse Center	560,185	-	-	560,185
Taxes - sales	46,804	-	-	46,804
All other	59,596	2,368	878	62,842
Total expenses	8,984,909	915,339	144,801	10,045,049
Less expenses included with revenues on the statement of activities	-	-	(43,740)	(43,740)
Total expenses included in the expense section of the statement of activities	$ 8,984,909	$ 915,339	$ 101,061	$ 10,001,309

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,324,398	$ (300,300)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	201,760	203,843
Realized and unrealized (gain)/loss on investments	(35,342)	(31,831)
(Gain)/loss on disposal of property and equipment	144,798	12,108
(Increase)/decrease in inventory of donated goods	46,682	(2,021)
Change in:		
Accounts receivable, net of allowance	(352,499)	(110,543)
Prepaid expenses	(5,921)	2,929
Grants receivable	(949,800)	559,500
Accounts payable	(184,191)	330,125
Accrued liabilities	(15,526)	59,908
Refundable advances under Paycheck Protection Program	641,700	-
Outflows for contract acquisition costs	(140,697)	-
Grant revenue restricted to purchase of equipment	(726,750)	-
Net cash from (used for) operating activities	(51,388)	723,718
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(327,212)	(100,810)
Proceeds from sales of property and equipment	3,550	10,000
Purchases of investments	(438,545)	(301,391)
Proceeds from sales of investments	2,230	12,327
Net cash used for investing activities	(759,977)	(379,874)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (repayments) under line of credit	(100,135)	(100,000)
Principal payments on notes	(122,432)	(142,965)
Outflows for debt issuance costs	(69,850)	-
Collection of grant funds restricted to purchase of equipment	726,750	-
Net cash from (used for) financing activities	434,333	(242,965)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(377,032)	100,879
BEGINNING CASH AND CASH EQUIVALENTS	1,030,041	929,162
ENDING CASH AND CASH EQUIVALENTS	$ 653,009	$ 1,030,041

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2020	2019
Cash paid for interest	$ 56,803	$ 21,500
Notes payable issued for purchase of property and equipment	$ 1,126,560	$ -

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Ecology Center is a 501(c)(3) nonprofit organization that develops innovative solutions for healthy people and a healthy planet. Its work is based on the belief that the central question of our time is how human beings are going to thrive in the world without destroying the earth's ability to sustain us. In the face of enormous environmental challenges, virtually all sectors of our society are now scrambling to create solutions, and the Ecology Center plays a critical role in advancing the best models.

The Ecology Center's key strategies are to educate consumers to help keep their families healthy and safe; to push corporations to use clean energy and make safe products; to provide people with innovative services that promote healthy people and a healthy planet; and to work with policymakers to establish laws that protect communities and the environment.

Today, from offices and facilities in Ann Arbor and Detroit, the Ecology Center runs campaigns and initiatives in the following areas:

- **Safe and Healthy Materials**, a set of projects and campaigns to redesign consumer products, and to transform our materials economy so that it is safe for people and the food web. The Ecology Center's role is to test products to promote demand for safer alternatives; advocate for the elimination of lead poisoning in the Great Lakes; organize communities to address PFAS contamination; and use community science methods to reduce air pollution in Detroit. We leverage the size of the health care industry, and the status of health care professionals as opinion leaders to frame our issues in terms of health, with a special focus on children's health. These projects include the nationally acclaimed **Healthy Stuff.org**, a consumer database about toxic chemicals in consumer products.
- **Energy and Climate Change,** policy campaigns and projects at the local, state, and regional levels, designed to rapidly phase out the use of fossil fuels, stabilize the concentration of carbon dioxide in the atmosphere, and ward off the worst impacts of climate change. Our role is to champion energy affordability and electric vehicle infrastructure in state policy venues; to develop innovative municipal clean energy programs and policies; to mobilize diverse stakeholders to participate in public policy debates in Michigan and the Midwest; and to bring regional expertise to those forums.
- **Recycling and Zero Waste**, environmental education and advocacy to promote expanded mission-based recycling in Michigan, and to develop initiatives that envision a non-consumptive society, a dematerialized economy, and a world without waste. In 1970, the Ecology Center developed one of the country's first community-based recycling programs. Today the Ecology Center's role is helping effect a cultural transformation in the way we design, consume, and dispose of products, with a focus on "better, not more." In this field, our direct services are provided in Ann Arbor and southeast Michigan - and our education and advocacy efforts have broader scope.

Unlike most of its peer advocacy organizations, the Ecology Center also incorporates green social enterprise into our strategies. These ventures advance the organization's core environmental mission and strategies, demonstrate the real-world viability of green business, and generate funds for environmental programs. Currently, the green services are managed by our nonprofit subsidiary, Recycle Ann Arbor:

- **Recycling and Reuse Services**, including a recycling collection service for residents and businesses, a recycling processing service, recycling drop-off stations, and a construction waste recycling service. These services are managed by **Recycle Ann Arbor (RAA)**, a wholly-owned nonprofit subsidiary of the Ecology Center. The Ecology Center is the sole member of Recycle Ann Arbor.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Ecology Center and its controlled organization, Recycle Ann Arbor, for the years ended December 31, 2020 and 2019. All significant intercompany transactions have been eliminated.

Basis of Accounting

The consolidated financial statements of Ecology Center have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Net Assets

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

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. It is at least reasonably possible that the significant estimates used will change within the next year.

Cash Equivalents

Ecology Center considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Management has established an allowance for uncollectible trade accounts receivable based on evaluation of collectability of outstanding accounts receivable.

Agency Transactions

As a service to some other organizations, Ecology Center receives and disburses funds for them, acting as an agent. These funds belong to others, and Ecology Center, having no claim to them, records neither income nor expenses in its financial statements pursuant to these transactions.

Property and Equipment

Property and equipment are recorded at cost when purchased and at estimated fair market value when donated. Depreciation on property and equipment is provided on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 15 years. Ecology Center has a set capitalization policy where new property and equipment over $2,000 is capitalized and those under the limit are expensed. RAA capitalizes new property and equipment over $3,000. Repair costs that materially add to the value of, substantially prolong the useful life of, or adapt the asset to a new or different use are also capitalized.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

Investments
Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Donated Material
RAA's ReUse Center receives donations of materials that are then offered for sale. The donated material is recorded at fair value. The fair value of donated materials is considered to be equal to the value received when the materials are sold.

ReUse Center inventory consists of donated materials available for sale and is estimated to be equal to one month's sales. The ReUse Center closed due to COVID restrictions in March 2020 and closed permanently in September 2020.

Revenue Recognition
Ecology Center recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration in which it expects to be entitled in exchange for those goods or services.

Ecology Center's contracts generally do not contain contingent revenue or warranties, and contract modifications are generally minimal.

<u>Grants and contributions</u>
Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

<u>Curbside collection contracts</u>
Performance obligations related to curbside collection contracts consist of weekly curbside collection services to single-family, multi-family and business units within the City of Ann Arbor, and are transferred to the customer over time. RAA bills monthly in accordance with the contract terms, so contract receivables may exist at year end. The contract terms are straightforward and do not involve significant judgment in the timing or amount of revenue recognized.

<u>Drop-off facility user fees, sales of collected material, ReUse Center revenue, roll-off container fees</u>
Drop-off facility user fees, sales of collected materials, ReUse Center sales and roll-off container fees are recognized at a point in time as the sales are made or services are provided. Some fees are billed to customers rather than collected at the time of the transaction, so contract receivables may exist at year-end.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

City of Ann Arbor Materials Recovery Facility contract revenue
RAA provides contract services to the City of Ann Arbor for materials handling at the City's Materials Recovery Facility (MRF). RAA accepts all the recycling material collected by the City of Ann Arbor and loads the material into long-haul trucks for delivery to processing plants. RAA is the prime contractor and subcontracts the hauling and processing of the material.

Performance obligations related to MRF operation contract revenue are transferred to the customer over time, billed monthly in accordance with the contract terms, so contract receivables may exist at year end. The contract terms are straightforward and do not involve significant judgment in the timing or amount of revenue recognized. The contract includes a rebate to the City based on the amount realized from sale of the processed materials. The rebate is calculated monthly and netted against the revenue earned.

Disaggregation of revenue

	2020	2019
Recognized over time	$ 4,250,558	$ 4,181,113
Recognized at a point in time	2,358,563	3,867,922
	$ 6,609,121	$ 8,049,035

Contract receivables are shown on the statement of financial position as accounts receivable.

Capitalized contract acquisition costs totaled $140,697 and $0 at December 31, 2020 and 2019, respectively. Amortization of these costs will begin when the MRF facility begins materials processing and will be amortized ratably over the remainder of the contract. There was no amortization recorded in 2020. Capitalization of contract acquisition costs involves judgement regarding which costs were incremental in acquiring the contract.

Presentation of Sales Tax
The State of Michigan imposes a sales tax on all of RAA's sales to non-exempt customers. RAA collects that sales tax and remits the entire amount to the state. RAA's accounting policy is to include the tax collected and remitted to the state in revenue and cost of sales. The amount of sales tax expense was $5,267 and $46,804 in 2020 and 2019, respectively.

Advertising Costs
Advertising costs are expensed as incurred.

Functional Allocation of Expenses
The cost of providing various programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses are summarized and categorized based upon their functional classification as either program or supporting services. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and insurance, which are allocated on a square-footage basis, as well as salaries, wages, employee benefits, and fees for services, which are allocated on the basis of estimates of time and effort.

Income Tax Status
Ecology Center and RAA are considered separate entities for tax purposes and are both exempt from federal income taxes under provisions of the Internal Revenue Code Section 501(c)(3). Donations to either organization qualify for the charitable contribution deduction. Neither is considered a private foundation.

Ecology Center and RAA file their own Form 990 returns.

Subsequent Events
Subsequent events have been evaluated through April 22, 2021, the date the financial statements were available to be issued.

NOTE B - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2020 and 2019, comprise the following:

	2020	2019
Financial assets:		
Cash and cash equivalents	$ 653,009	$ 1,030,041
Accounts receivable, net of allowance	912,298	559,799
Grants receivable	1,207,300	257,500
Short-term investments	703,150	277,222
Investments held for endowment purposes	283,024	237,295
Total financial assets	3,758,781	2,361,857
Less financial assets held to meet donor-imposed restrictions:		
Purpose-restricted net assets	(2,142,384)	(900,792)
Donor-restricted endowment funds	(283,024)	(237,295)
Less board-designated endowment funds	(84,611)	(83,911)
Amount available for general expenditures within one year	$ 1,248,762	$ 1,139,859

The above table reflects donor-restricted and board-designated endowment funds as unavailable because it is the organization's intention to invest those resources for the long-term support of the organization. However, in the case of need, the Board of Directors could appropriate resources from either the donor-restricted funds ($283,024, of which $52,487 is the original gift) or from its board-designated endowment fund ($84,611). Note O provides more information about those funds and about the spending policies for all endowment funds.

As part of its liquidity management plan, Ecology Center has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. RAA can also draw upon an available line of credit (as discussed in Note H).

NOTE C - GRANTS RECEIVABLE

Grants receivable consist of unconditional promises to give from private foundations. Management considers all unconditional promises to give fully collectible. Unconditional promises to give are estimated to be collected as follows at December 31:

	2020	2019
Within one year	$ 707,300	192,500
In one to five years	500,000	65,000
Over five years	-	-
	$ 1,207,300	$ 257,500

NOTE D - CHANGES IN VALUATION ALLOWANCE FOR TRADE ACCOUNTS RECEIVABLE

Changes in the valuation allowance for trade accounts receivable are:

	2020	2019
Beginning balance	$ 19,500	$ 20,000
Provision for realization losses	55	-
Recoveries / (Write-offs)	(55)	(500)
Ending balance	$ 19,500	$ 19,500

Accounts receivable 90 days or more past due totaled $331,289 at December 31, 2020.

NOTE E - INVESTMENTS

Investments are stated at December 31 as follows:

	2020	2019
At fair value:		
Mutual funds		
Neuberger Berman	$ 114,459	$ 95,876
Domini	74,833	57,292
Pax World	68,732	59,127
Total investments at fair value	258,024	212,295
At unamortized cost:		
Certificates of deposit	728,150	302,222
Total investments	$ 986,174	$ 514,517

Mutual funds are valued at the net asset value provided by the investment manager, which is the value that would be received if the funds were redeemed at the financial statement date. All investments at fair value are classified as Level 1 in the fair value hierarchy established in FASB ASC 820 *Fair Value Measurement*. Fair values for Level 1 assets are taken from quoted prices in active markets.

Investment returns are as follows:

	2020	
	Without Donor Restrictions	With Donor Restrictions
Dividends and interest	$ 6,699	$ 10,387
Net realized and unrealized gains/(losses)	-	35,342
Total investment return	$ 6,699	$ 45,729

	2019	
	Without Donor Restrictions	With Donor Restrictions
Dividends and interest	$ 11,850	$ 11,842
Net realized and unrealized gains/(losses)	-	31,831
Total investment return	$ 11,850	$ 43,673

Investment expenses are not material.

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2020	2019
Leasehold improvements	$ 310,369	$ 353,031
Curbside equipment	136,819	136,819
MRF work in progress and equipment deposit	1,217,196	-
Office equipment	233,640	233,640
Vehicles	11,825	11,825
Commercial equipment	101,059	101,059
DOS equipment	254,392	258,362
ReUse Center equipment	-	64,180
Recovery yard equipment	1,702,569	1,768,776
	3,967,869	2,927,692
Less accumulated depreciation	(1,986,625)	(2,050,112)
	$ 1,981,244	$ 877,580

Substantially all of RAA's property and equipment, with a net book value of approximately $1,926,000, is collateral for various notes payable.

NOTE G - RETIREMENT PLANS

Ecology Center has established a Tax Sheltered Annuity Plan under Section 403(b) of the Internal Revenue Code for all eligible employees. Employees can elect to defer a portion of their wages under the requirements of the Internal Revenue Code. Ecology Center will match 200% of the employee's contribution, not to exceed 5% of the employee's compensation, to be paid no later than 60 days after year-end. For 2020 and 2019, expense under the retirement plan was $45,325 and $44,252, respectively.

RAA sponsors two defined contribution plans (the Plans) covering all employees with 90 days of service who agree to make contributions to the Plans. One plan is for non-union employees. The other plan is for union employees. There is no required employer contribution.

RAA's expense related to retirement plans totaled $0 in both 2020 and 2019.

NOTE H - LINE OF CREDIT

RAA has a $500,000 line of credit with Level One Bank, at the bank's prime rate +1.00%, (but not less than 5%). The interest rate at December 31, 2020 was 5.00%. There was $0 and $100,135 outstanding on the line of credit at December 31, 2020 and 2019, respectively. The line of credit is secured by substantially all assets and cross-collateralized with other loans from Level One Bank. This line of credit agreement is dated May 18, 2020 and will continue until all RAA's loans with Level One Bank are paid in full, or until RAA and Level One Bank agree in writing to terminate the line.

NOTE I - REFUNDABLE ADVANCES UNDER PAYCHECK PROTECTION PROGRAM

On April 27, 2020, Ecology Center was granted a loan from Level One Bank in the amount of $194,100, and on April 13, 2020, RAA was granted a loan from Level One Bank in the amount of $447,600, both pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

Under the terms of the PPP, certain amounts of the loans may be forgiven if they are used for qualifying expenses as described in the CARES Act. Management estimates that the loans will be forgiven in full and is accounting for them as conditional government grants. The entire balances are included in refundable advances on the statement of financial position. Once conditions for forgiveness have been substantially met, the amounts forgiven will be recognized as revenue.

NOTE J - NOTES PAYABLE

Notes payable consists of the following at December 31:

	2020	2019
Promissory note to local bank, payable at $5,251 monthly until November 2020. 5% interest. Secured by all assets.	$ -	$ 56,167
Promissory note to local bank, payable at $2,173 monthly. 5.25% interest. Secured by all assets.	14,807	39,389
Promissory note to local bank, payable at $1,964 monthly until September 2023. 5.50% interest. Secured by all assets.	60,021	75,694
Promissory note to finance corporation, payable at $2,809 monthly until January 2024. 7.10% interest. Secured by equipment purchased with the funds.	90,494	116,504
Promissory note to finance corporation, payable at $1,950 monthly until February 2026. 4.15% interest. Secured by equipment purchased with the funds.	106,560	-
$5.1 million credit facility with a local bank for purchase of equipment for Materials Recovery Facility. Funds under this facility are drawn as needed to pay for equipment. Payments are interest only for the first year. Secured by equipment purchased with the funds.	1,020,000	-
	1,291,882	287,754
Less: Unamortized debt issuance costs	(69,850)	-
	$ 1,222,032	$ 287,754

Aggregate principal payments in the succeeding years are as follows:

2021	$ 81,313
2022	177,893
2023	175,798
2024	127,396
2025	128,319
Thereafter	601,163
Total principal payments	$ 1,291,882

In 2021, RAA has entered into an additional credit facility for the MRF project and is expecting additional borrowings for purchase of its Jackson Road location and for purchase or lease of trucks for curbside collection.

NOTE K - LEASES

Operating Leases

Ecology Center leases its office space in Ann Arbor under a seven-year operating lease ending in May 2023. Ecology Center also leases office space in Detroit under a month to month operating lease. Rental expense under these leases was $118,806 and $119,982 in 2020 and 2019, respectively.

RAA leases its office and operations facilities under a five-year operating lease that ended in March 2020, and was extended for an additional one year that ended in March 2021. Rental expense under this lease was $261,197 and $262,014 in 2020 and 2019, respectively.

RAA also leases its Jackson Road location under a five-year operating lease ending in May 2023. Rental expense under this lease was $72,000 in both 2020 and 2019. RAA also leases several trucks for its curbside collection operation under monthly leases.

At the date of these financial statements, RAA is negotiating for the purchase of the Jackson Road location. The purchase is expected to be finalized in May 2021.

Future minimum rental payments required under building and office equipment leases are as follows:

2021	$	261,147
2022		189,103
2023		79,195
2024		-
2025		-
Thereafter		-
Total payments	$	529,445

Sublease

Ecology Center subleased a portion of its office space under a yearly lease agreement that ended May 31, 2020. The sublease was not renewed. Payments received under this sublease totaled $5,620 and $19,320 in 2020 and 2019, respectively.

NOTE L - CONCENTRATIONS

Major Customers

Revenue from various contracts with the City of Ann Arbor totaled $4,327,499 and $4,278,977 in 2020 and 2019, respectively. Accounts receivable from the City of Ann Arbor totaled $752,241 and $406,025 at December 31, 2020 and 2019, respectively.

The curbside collection revenue is based on the number of single families served and multi-family and commercial carts processed. The Materials Recovery Facility (MRF) revenue is from managing the operations at the Ann Arbor Materials Recovery Facility.

In 2020, a new contract was entered into with the City of Ann Arbor that continues RAA's management of the operations of the MRF, and also authorizes RAA to rebuild the facility so that materials can be processed on-site. RAA expects to invest approximately $7 million in the facility for site improvements and equipment and begin on-site processing of material in November 2021.

RAA, under an agreement with the City of Ann Arbor, used various pieces of equipment purchased and owned by the City. RAA has not capitalized these assets and the value of their use is not included in revenue. In 2021, new contract terms will require RAA to provide and maintain this equipment.

Cash Balances

Cash accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank. At December 31, 2020, cash deposited with financial institutions exceeded the federally insured limit by $121,227 for Ecology Center and $155,927 for RAA.

Labor Supply

Sixteen of Ecology Center's employees are covered by a collective bargaining agreement with the United Auto Workers Union which expires July 1, 2024. RAA has a labor contract with the UAW affecting Recycle Ann Arbor employees. The current agreement expires April 30, 2021.

NOTE M - BOARD DESIGNATED NET ASSETS

Board designated net assets are available for the following purposes at December 31:

	2020	2019
Mary Beth Doyle Memorial Fund	$ 48,669	$ 48,669
Rebecca Head Memorial Fund	35,942	35,242
	$ 84,611	$ 83,911

NOTE N - NET ASSETS WITH DONOR RESTRICTIONS

At December 31, net assets with donor restrictions are restricted for the following purposes or periods:

	2020	2019
Subject to expenditure for specified purpose:		
Ecology Center programs	$ 2,142,384	$ 900,792
MRF equipment purchases	726,750	-
	2,869,134	900,792
Endowments:		
Subject to NFP endowment spending policy and appropriation:		
Ecology Center Endowment Fund	257,030	215,521
Marilyn Thayer Library Endowment	25,994	21,774
Total endowments	283,024	237,295
	$ 3,152,158	$ 1,138,087

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2020 and 2019:

	2020	2019
Satisfaction of purpose restrictions		
Ecology Center programs	$ 1,277,408	$ 1,248,991
	1,277,408	1,248,991
Restricted-purpose spending-rate distributions and appropriations		
Ecology Center programs	200	8,820
	200	8,820
	$ 1,277,608	$ 1,257,811

NOTE O - ENDOWMENT

Ecology Center's endowment (the Endowment) consists of four individual funds established for a variety of purposes. The Endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Ecology Center has interpreted the Michigan Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2020 and 2019, there were no such donor stipulations. As a result of this interpretation, Ecology Center retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by Ecology Center in a manner consistent with the standard of prudence prescribed by UPMIFA. Ecology Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of Ecology Center and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Ecology Center
- The investment policies of Ecology Center.

Endowment Composition by Type of Fund

The following schedule summarizes the endowment net asset composition by type of fund as of December 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 84,611	$ -	$ 84,611
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	52,487	52,487
Accumulated investment gains	-	230,537	230,537
Total funds	$ 84,611	$ 283,024	$ 367,635

The following schedule summarizes the endowment net asset composition by type of fund as of December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 83,911	$ -	$ 83,911
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	52,487	52,487
Accumulated investment gains	-	184,808	184,808
Total funds	$ 83,911	$ 237,295	$ 321,206

NOTE O - ENDOWMENT, *continued*

Change in Endowment Net Assets

The changes in endowment net assets for the years ended December 31, 2020 are presented in the following schedule:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 83,911	$ 237,295	$ 321,206
Net investment return	-	45,729	45,729
Contributions	-	900	900
Amounts appropriated for expenditure	-	(900)	(900)
Other changes	700	-	700
Net assets, end of year	$ 84,611	$ 283,024	$ 367,635

The changes in endowment net assets for the years ended December 31, 2019 are presented in the following schedule:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 103,735	$ 193,622	$ 297,357
Net investment return	-	43,673	43,673
Contributions	-	8,820	8,820
Amounts appropriated for expenditure	(19,824)	(8,820)	(28,644)
Other changes	-	-	-
Net assets, end of year	$ 83,911	$ 237,295	$ 321,206

Return Objectives and Risk Parameters

Ecology Center 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 Ecology Center must hold in perpetuity.

Under this policy, as approved by the Board of Directors, the Ecology Center's goal is to earn a stable and predictable amount of current income from the endowment, while reinvesting additional interest in years when Ecology Center's investments do well.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Ecology Center 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). Ecology Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTE O - ENDOWMENT, *continued*

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Ecology Center's policy is to transfer funds annually from its endowment to its general fund in an amount equal to 4% of the once-a-year average balance for the past four years. The amount will be measured on an "4-point/4-year" average. This average is based on the value of the endowment at 12/31 for previous years 1-3, and at 9/30 for the 4th year.

Transfers will not be made if doing so would bring the account value below the original endowment investment amount to be held in perpetuity. Also, the director and/or board may opt out of this annual transfer if the account value has recently fallen and/or for any other reason that is deemed to be in the best interests of the Ecology Center and/or the endowment principal in the account.

This is consistent with Ecology Center's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

NOTE P - NEW ACCOUNTING PRONOUNCEMENTS

The FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will require recognition of an asset and liability for most leases entered into by lessees. ASU No. 2016-02 will be effective beginning in 2022. Ecology Center is currently evaluating the impact the adoption of ASU No. 2016-02 will have on its consolidated financial statements.

NOTE Q - SUBSEQUENT EVENTS

In early 2021, EC and RAA were granted additional loans from Level One Bank in the amounts of $531,775 and $200,335, respectively, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The loans are eligible for partial or total forgiveness by the SBA.

In March 2021, RAA finalized an $800,000 credit facility with the Closed Loop Fund for purchase of equipment of the Materials Recovery Facility.

In January 2021, the curbside collection contract with the City of Ann Arbor was renewed through 2026. Terms of the contract will require RAA to provide the trucks used for collection and bear the costs of their maintenance.

At the date of these financial statements, RAA is negotiating the purchase of its Jackson Road location and related financing.