ECOLOGY CENTER

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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 consolidated 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 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 consolidated 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 consolidated 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
June 29, 2023

	2022	2021
ASSETS		
Cash and cash equivalents	$ 952,824	$ 1,240,105
Accounts receivable, net of allowance	1,029,849	737,930
Grants receivable	463,523	680,124
Prepaid expenses	51,598	10,879
Short-term investments	550,246	853,399
Operating lease right-of-use asset, net	50,871	-
Property and equipment, net of accumulated depreciation	9,927,789	10,069,775
Contract acquisition costs, net of accumulated amortization	123,761	139,394
Endowment		
Cash and cash equivalents	85,061	85,061
Investments	263,706	336,306
TOTAL ASSETS	$ 13,499,228	$ 14,152,973
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 579,549	$ 724,254
Accrued liabilities	457,139	400,897
Refundable advances under Paycheck Protection Program	-	200,335
Refundable advances under supply agreements	122,842	50,000
Operating lease liability	51,155	-
Line of credit	-	-
Notes payable	8,802,743	9,125,315
TOTAL LIABILITIES	10,013,428	10,500,801
NET ASSETS		
Without donor restrictions		
Undesignated	1,584,185	1,520,884
Designated by the Board for endowment	85,061	85,061
	1,669,246	1,605,945
With donor restrictions		
Endowment	263,706	336,306
Purpose restrictions	1,552,848	1,709,921
	1,816,554	2,046,227
TOTAL NET ASSETS	3,485,800	3,652,172
TOTAL LIABILITIES AND NET ASSETS	$ 13,499,228	$ 14,152,973

		2022		2021
NET ASSETS WITHOUT DONOR RESTRICTIONS				
REVENUE AND SUPPORT				
Contracts with the City of Ann Arbor:				
Curbside collection contracts	$	2,581,700	$	2,551,632
Materials Recovery Facility		992,674		1,169,458
Fees from customers to dispose of materials, including fees for rolloff containers		3,325,259		2,757,179
Sales of recovered materials		2,430,185		274,889
Education services		122,439		103,486
Grants received under Paycheck Protection Program		200,335		1,173,475
Grants and contributions		210,687		215,184
Gifts-in-kind		180,000		180,000
Special events, net of expenses of $33,365 and $28,731 2022 and 2021, respectively		18,846		21,587
Other revenue and support		36,777		83,406
Net assets released from restrictions		1,781,807		2,433,379
TOTAL REVENUE AND SUPPORT WITHOUT DONOR RESTRICTIONS		11,880,709		10,963,675
EXPENSES				
Program services		10,490,756		9,016,546
Supporting services				
Management and general		1,113,279		747,561
Fundraising		161,734		110,807
TOTAL EXPENSES		11,765,769		9,874,914
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE GAINS AND LOSSES		114,940		1,088,761
GAINS AND LOSSES				
Net gain/(loss) on disposal of property and equipment		(51,639)		15,269
TOTAL GAINS AND LOSSES		(51,639)		15,269
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		63,301		1,104,030
NET ASSETS WITH DONOR RESTRICTIONS				
Grants and contributions		1,614,734		1,274,166
Investment return		(62,600)		53,282
Net assets released from restrictions		(1,781,807)		(2,433,379)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		(229,673)		(1,105,931)
CHANGE IN NET ASSETS		(166,372)		(1,901)
NET ASSETS AT BEGINNING OF YEAR		3,652,172		3,654,073
NET ASSETS AT END OF YEAR	$	3,485,800	$	3,652,172

	Program Services	Supporting Services: Management and General	Supporting Services: Fund-Raising	Total 2022	Total 2021
Grants to Organizations	$ 257,020	$ -	$ -	$ 257,020	$ 306,378
Employee Compensation					
Salaries and wages	3,283,714	460,094	120,954	3,864,762	3,137,719
Employee benefits	698,563	68,219	12,778	779,560	675,078
Payroll taxes	253,558	35,575	9,214	298,347	233,814
	4,235,835	563,888	142,946	4,942,669	4,046,611
Other Expenses					
Accounting fees	145,942	147,205	-	293,147	294,759
Legal fees	6,634	1,972	-	8,606	27,330
Contract trucking	83,804	-	-	83,804	10,152
Fees for services - other	584,528	15,641	12,959	613,128	519,063
Fees for services - MRF	101,641	-	-	101,641	956,984
Advertising	3,001	107	-	3,108	26,744
Office expenses	459,491	48,533	5,011	513,035	386,168
Information technology	50,725	53,259	-	103,984	72,150
Occupancy	615,974	67,103	30,515	713,592	710,104
Disposal fees	456,752	-	-	456,752	373,648
Travel	22,193	1,234	712	24,139	14,860
Equipment operating costs	1,454,527	22	-	1,454,549	1,205,990
Conferences and meetings	29,185	49,292	471	78,948	30,809
Interest	406,141	-	-	406,141	151,317
Depreciation and amortization	1,256,249	66,880	1,200	1,324,329	451,780
Insurance	180,271	24,690	849	205,810	217,826
All other	140,843	73,453	436	214,732	100,972
	10,490,756	1,113,279	195,099	11,799,134	9,903,645
Less expenses included with revenues on the statement of activities	-	-	(33,365)	(33,365)	(28,731)
Total expenses included in the expense section of the statement of activities	$ 10,490,756	$ 1,113,279	$ 161,734	$ 11,765,769	$ 9,874,914

	Program Services	Supporting Services Management and General	Supporting Services Fund-Raising	Total 2021
Grants to Organizations	$ 306,378	$ -	$ -	$ 306,378
Employee Compensation				
Salaries and wages	2,747,108	317,678	72,933	3,137,719
Employee benefits	608,149	54,797	12,132	675,078
Payroll taxes	204,615	23,597	5,602	233,814
	3,559,872	396,072	90,667	4,046,611
Other Expenses				
Accounting fees	174,744	120,015	-	294,759
Legal fees	20,660	6,670	-	27,330
Contract trucking	10,152	-	-	10,152
Fees for services - other	479,963	13,721	25,379	519,063
Fees for services - MRF	956,984	-	-	956,984
Advertising	26,744	-	-	26,744
Office expenses	337,346	38,333	10,489	386,168
Information technology	34,621	37,529	-	72,150
Occupancy	642,631	58,656	8,817	710,104
Disposal fees	373,648	-	-	373,648
Travel	12,853	1,478	529	14,860
Equipment operating costs	1,205,764	226	-	1,205,990
Conferences and meetings	16,761	13,193	855	30,809
Interest	151,317	-	-	151,317
Depreciation and amortization	427,649	23,036	1,095	451,780
Insurance	192,026	25,114	686	217,826
All other	86,433	13,518	1,021	100,972
	9,016,546	747,561	139,538	9,903,645
Less expenses included with revenues on the statement of activities	-	-	(28,731)	(28,731)
Total expenses included in the expense section of the statement of activities	$ 9,016,546	$ 747,561	$ 110,807	$ 9,874,914

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (166,372)	$ (1,901)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Operating lease right-of-use asset amortization	119,074	-
Depreciation and amortization	1,324,329	451,780
Realized and unrealized (gain)/loss on investments	77,155	(31,124)
(Gain)/loss on disposal of property and equipment	51,639	(15,269)
Change in:		
Accounts receivable, net of allowance	(291,919)	174,368
Grants receivable	335,641	527,176
Prepaid expenses	(40,719)	44,877
Accounts payable	(144,705)	527,828
Accrued liabilities	56,242	178,650
Refundable advances under Paycheck Protection Program	(200,335)	(441,365)
Refundable advances under supply agreements	72,842	50,000
Operating lease liability	(118,790)	-
Grant revenue restricted to purchase of equipment	(249,118)	(31,588)
Net cash from operating activities	824,964	1,433,432
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(924,389)	(1,360,633)
Proceeds from sales of property and equipment	-	16,154
Purchases of investments	(26,775)	(181,260)
Proceeds from sales of investments	325,373	8,853
Net cash used for investing activities	(625,791)	(1,516,886)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds	153,100	1,006,621
Principal payments on notes	(769,632)	(282,598)
Collection of grant funds restricted to purchase of equipment	130,078	31,588
Net cash from (used for) financing activities	(486,454)	755,611
NET CHANGE IN CASH AND CASH EQUIVALENTS	(287,281)	672,157
BEGINNING CASH AND CASH EQUIVALENTS	1,325,166	653,009
ENDING CASH AND CASH EQUIVALENTS	$ 1,037,885	$ 1,325,166

Ending cash and cash equivalents is presented on the consolidated statement of financial position as:

	2022	2021
Cash and cash equivalents	$ 952,824	$ 1,240,105
Endowment		
Cash and cash equivalents	85,061	85,061
	$ 1,037,885	$ 1,325,166

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2022	2021
Cash paid for interest	$ 406,141	$ 248,508
Interest capitalized	$ -	$ 104,909
Purchase of property and equipment by issuance of debt	$ 293,960	$ 7,179,612
Grant revenue recognized from forgiveness of PPP funds	$ 200,335	$ 1,173,475

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:

- **Zero Waste Services** - includes a recycling collection service for residents and businesses, a materials recovery facility, a recycling drop-off station, a construction waste recycling service, and an Eco-Park to develop new zero waste enterprises. 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, 2022 and 2021. 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 accounts receivable. Management has established an allowance for uncollectible 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.

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.

Grants and contributions

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.

Grants, including forgivable loans under the Paycheck Protection Program (PPP loans), are considered conditional contributions. Revenue is recognized as the conditions are met. For most grants, conditions are considered met when allowable expenses are incurred. For PPP loans, conditions are considered met when forgiveness is granted by the lending institution.

Conditional grants whose conditions haven't been met at December 31, 2022 total $176,794.

Curbside collection contracts

Performance obligations related to the curbside collection contract 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. The curbside collection revenue is based on the number of single families served and multi-family and commercial carts processed. The contract expires in June 2026. 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.

Materials Recovery Facility contract

RAA provides contract services to the City of Ann Arbor for materials handling and managing the operations at the Ann Arbor Materials Recovery Facility (MRF). The contract expires in December 2030. RAA accepts all the recycling material collected by the City of Ann Arbor and processes them at the MRF. On-site processing at the MRF began December 1, 2021, upon completion of RAA's rebuild of the facility. Prior to this, RAA loaded the recycling material collected by the City of Ann Arbor into long-haul trucks for delivery to processing plants. RAA was the prime contractor and subcontracted 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.

Fees from Customers to Dispose of Materials

Drop-off and Recovery Yard facility user fees 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*

Sales of Recovered Materials

Sales of materials that have been recovered via collection contracts or customer disposal are sorted and processed as necessary then sold at current market prices. Revenue is recognized at a point in time, generally when the materials are shipped. Most shipments are billed to customers, so contract receivables may exist at year end.

Disaggregation of Revenue from Contracts with Customers

	2022	2021
Recognized over time	$ 3,574,374	$ 3,721,090
Recognized at a point in time	5,877,883	3,135,554
	$ 9,452,257	$ 6,856,644

Contract Balances

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

Contract liabilities are shown on the consolidated statement of financial position as refundable advances under supply agreements.

Capitalized contract acquisition costs, net of accumulated amortization, totaled $123,761 and $139,394 at December 31, 2022 and 2021, respectively. Amortization of these costs began when the MRF facility began materials processing and are being amortized ratably over the remainder of the contract. Capitalization of contract acquisition costs involves judgement regarding which costs were incremental in acquiring the contract.

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 consolidated statement of activities and consolidated 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.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

Subsequent events have been evaluated through June 29, 2023, 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, 2022 and 2021, comprise the following:

	2022	2021
Financial assets:		
Cash and cash equivalents	$ 952,824	$ 1,240,105
Accounts receivable, net of allowance	1,029,849	737,930
Grants receivable	463,523	680,124
Short-term investments	550,246	853,399
Cash and cash equivalents held for endowment purposes	85,061	85,061
Investments held for endowment purposes	263,706	336,306
Total financial assets	3,345,209	3,932,925
Less financial assets held to meet donor-imposed restrictions:		
Purpose-restricted net assets	(1,552,848)	(1,709,921)
Donor-restricted endowment funds	(263,706)	(336,306)
Less board-designated endowment funds	(85,061)	(85,061)
Amount available for general expenditures within one year	$ 1,443,594	$ 1,801,637

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 ($263,706, of which $52,487 is the original gift) or from its board-designated endowment fund ($85,061). Note Q 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 primarily from private foundations. Management considers all unconditional promises to give fully collectible. Payments are expected within one year.

NOTE D - CHANGES IN VALUATION ALLOWANCE FOR ACCOUNTS RECEIVABLE

Changes in the valuation allowance for accounts receivable are:

	2022	2021
Beginning balance	$ 19,500	$ 19,500
Provision for realization losses	-	-
Recoveries / (Write-offs)	-	-
Ending balance	$ 19,500	$ 19,500

Accounts receivable 90 days or more past due totaled $63,739 at December 31, 2022.

NOTE E - INVESTMENTS

Investments are stated at December 31 as follows:

		2022		2021
At fair value:				
Mutual funds				
Neuberger Berman	$	104,977	$	141,279
Domini		67,448		90,774
Pax World		66,212		79,253
Total investments at fair value		238,637		311,306
At unamortized cost:				
Certificates of deposit		575,315		878,399
Total investments	$	813,952	$	1,189,705

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:

	2022			
		Without Donor Restrictions		With Donor Restrictions
Dividends and interest	$	4,122	$	15,725
Net realized and unrealized gains/(losses)		1,170		(78,325)
Total investment return	$	5,292	$	(62,600)

	2021			
		Without Donor Restrictions		With Donor Restrictions
Dividends and interest	$	2,392	$	22,158
Net realized and unrealized gains/(losses)		-		31,124
Total investment return	$	2,392	$	53,282

Investment expenses are not material.

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2022	2021
Land	$ 685,504	$ 685,504
Buildings and improvements	710,942	710,942
Leasehold improvements	132,889	132,889
Curbside equipment	2,354,440	2,336,453
MRF work in progress and equipment deposit	246,769	-
MRF equipment and improvements	7,053,427	6,186,048
Office equipment	193,403	198,250
Commercial equipment	101,059	101,059
DOS equipment and improvements	258,392	258,392
Recovery yard equipment	1,652,527	1,677,217
	13,389,352	12,286,754
Less accumulated depreciation	(3,461,563)	(2,216,979)
	$ 9,927,789	$ 10,069,775

Substantially all of RAA's property and equipment, with a net book value of approximately $9.9 million, 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 2022 and 2021, expense under the retirement plan was $58,733 and $52,780, 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. The employer match was reinstated in 2021. Employer contributions totaled $47,475 and $26,643 in 2022 and 2021, respectively.

NOTE H - LINE OF CREDIT

RAA has a $500,000 line of credit with First Merchants Bank, at the bank's prime rate +1.00%, (but not less than 5%). The interest rate at December 31, 2022 was 8.5%. There was $0 outstanding on the line of credit at both December 31, 2022 and 2021. The line of credit is secured by substantially all assets and cross-collateralized with other loans from First Merchants Bank. This line of credit agreement is dated May 18, 2020 and will continue until all of RAA's loans with First Merchants Bank are paid in full, or until RAA and First Merchants Bank agree in writing to terminate the line.

NOTE I - NOTES PAYABLE

Notes payable consists of the following at December 31:

	2022	2021
Promissory note to First Merchants Bank, payable at $1,964 monthly until September 2023. 5.50% interest. Secured by all assets.	$ 17,279	$ 39,231
Promissory note to Caterpillar Financial Services Corporation, payable at $2,809 monthly until January 2024. 7.10% interest. Secured by equipment purchased with the funds.	40,029	62,021
Promissory note to Alta Equipment Company, payable at $1,950 monthly until February 2026. 4.15% interest. Secured by equipment purchased with the funds.	68,115	87,402
$5.1 million credit facility with First Merchants 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. Thereafter payments are $47,222 principal plus interest monthly until November 2030. Secured by equipment purchased with the funds, then all assets.	4,486,111	4,760,412
Promissory note to Closed Loop rPET Fund, LP. Payments are interest only for the first year. Thereafter payments are $9,605 monthly until March 2031. 6.00% interest. Secured by all assets. Subordination is junior to Materials Recovery Facility loan.	733,333	800,000
Promissory note to First Merchants Bank, payable at $5,840 monthly. Balloon payment due May 2026. Interest 4.25%. Secured by real property purchased with funds, cross collateralized with all First Merchants Bank loans.	888,316	919,388
Promissory note to Levine Family Foundation, payable at $4,293 monthly until May 2051. Interest 8.00%.	577,077	582,197
Promissory note to The Huntington National Bank, payable at $27,741 monthly. Balloon payment due July 2026. Interest 4.26%. Secured by trucks purchased with funds. First priority in collateral and proceeds; no sales or junior liens.	1,589,106	1,848,288
Promissory note to The Huntington National Bank, payable at $1,343 monthly until June 2026. Interest 4.26%. Secured by equipment purchased with funds. First priority in collateral and proceeds; no sales or junior liens.	54,601	68,074

NOTE I - **NOTES PAYABLE, *continued***

Promissory note to The Huntington National Bank, payable at $526 monthly until September 2026. Interest 4.26%. Secured by equipment purchased with funds. First priority in collateral and proceeds; no sales or junior liens.	22,269	27,505
Promissory note to Navitas Credit Corporation, payable for 60 payments at $2,751 monthly until November 2026. Interest 5.0%. Loan is noncancellable with all remaining payments of principal and interest due with early payoff. Secured by equipment purchased with funds. First priority in collateral and proceeds; no sales or junior liens.	117,181	-
Promissory note to Regents Capital Corporation, payable for 20 payments at $13,025 quarterly until December 2026. Interest 6.78%. Any early payoff requires all remaining payments of principal and interest. Secured by equipment purchased with funds. First priority in collateral and proceeds; no sales or junior liens.	190,808	-
Promissory note to John Deere Financial, payable at $1,927 monthly until January 2027. Interest 7.20%. Secured by equipment purchased with funds. First priority in collateral and proceeds; no sales or junior liens.	79,960	-
	8,864,185	9,194,518
Less: Unamortized debt issuance costs	(61,442)	(69,203)
	$ 8,802,743	$ 9,125,315

Aggregate principal payments in the succeeding years are as follows:

2023	$ 1,148,881
2024	1,120,873
2025	1,134,535
2026	2,308,776
2027	665,098
Thereafter	2,486,022
Total principal payments	$ 8,864,185

NOTE J - REFUNDABLE ADVANCES UNDER PAYCHECK PROTECTION PROGRAM

In April 2020, Ecology Center and RAA were granted loans from Level One Bank in the amounts of $194,100 and $447,600, respectively, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020. Ecology Center and RAA received notices of forgiveness from the Small Business Administration for these PPP loans for the full amounts effective June 23, 2021 and May 12, 2021, respectively.

In January 2021, Ecology Center and RAA were granted second PPP loans from Level One Bank in the amounts of $200,335 and $531,775, respectively. Ecology Center and RAA received notices of forgiveness from the Small Business Administration for these PPP loans for the full amounts effective May 20, 2022 and December 13, 2021, respectively.

Under the terms of the PPP, certain amounts of the loans were eligible for forgiveness if they are used for qualifying expenses as described in the CARES Act. Management estimated that the loans would be forgiven in full and accounted for them as conditional government grants. The entire balances are included in refundable advances on the consolidated statement of financial position when granted and before forgiveness. Once conditions for forgiveness had been substantially met, the amounts forgiven were recognized as revenue. Cash receipt of PPP funds are classified as operating cash flows.

NOTE K - REFUNDABLE ADVANCES UNDER SUPPLY AGREEMENTS

In 2021, RAA entered into supply agreements with two customers. Both agreements were effective November 1, 2021, and have 10-year terms. RAA received a $50,000 advance under one agreement in 2021, and a $100,000 advance on the other in 2022. The advances are recorded as liabilities until repaid.

The advances will be repaid to the customers through a $.01 per pound discount on purchases of certain plastic materials. The purchases are to be made at market prices, less the discount until the advances are repaid. One agreement calls for a minimum of $10,000 to be repaid per year, whether through purchase discount or payment.

NOTE L - LEASES

New Accounting Pronouncements

On January 1, 2022 Ecology Center adopted new guidance under Accounting Standards Codification (ASC) Topic 842, *Leases*. Under the new guidance Ecology Center recognizes right-of-use assets and lease liabilities for leases with terms greater than 12 months. Leases are now classified as either finance or operating leases which dictates whether lease expense is recognized based on an effective interest method or straight-line-basis over the term of the lease. Ecology Center adopted Topic 842 using the modified retrospective method and applied the new guidance to the lease that existed as of January 1, 2022 (the date of initial application). As a result, Ecology Center recorded a right-of-use asset of $169,945 and lease liability of $169,945 at January 1, 2022. The adoption did not have a significant impact on Ecology Center's net assets, results of activities, or cash flows.

Operating Leases

Ecology Center is leasing approximately 5,000 square feet of office space and five parking spaces located at 339 East Liberty Street, Suite 200, Ann Arbor, Michigan 48104 under an extended lease which originally commenced May 1, 2011. The lease was renewed effective June 1, 2018 through May 31, 2023. Monthly lease payments at December 31, 2022 are $9,840 plus $500 for the parking spaces. Ecology Center classified this lease as an operating lease and used a 4.25% discount rate.

Amounts recognized in the financial statements for the operating lease are as follows for the year ended December 31, 2022:

Lease cost	$	123,399
Cash paid for amounts included in measurement of lease liability	$	123,115

NOTE L - LEASES, *continued*

As of December 31, 2022, future payments due under the operating lease were $51,700. Also, the remaining lease term was 5 months with a weighted-average discount rate of 4.25%.

Ecology Center also leases office space in Detroit under a month-to-month lease, in which both the Ecology Center and the lessor each have the right to terminate the lease without permission from the other party and without significant penalty. Rental expense under the month-to-month lease was $5,871 in both 2022 and 2021.

The MRF land and building shell are being leased from the City of Ann Arbor for $100 per year. RAA is responsible for all capital and operating costs of rebuilding and operating the MRF. This lease agreement became effective in September 2020 upon execution of the Services Agreement with the City of Ann Arbor that authorized RAA to rebuild the facility so that materials could be processed on-site. On-site processing began December 1, 2021. The term of the lease coincides with RAA's MRF Services Agreement, ending in 2030.

RAA leased its Industrial Road office and operations facilities under an operating lease that ended in March 2021. RAA vacated this space at the end of the lease and relocated to the MRF. Rental expense under this lease was $89,340 in 2021.

RAA leased its Jackson Road property until purchasing it in May of 2021. Rental expense under this lease was $30,000 in 2021.

RAA also leased several trucks for its curbside collection operation under monthly leases. These leases ended in 2021, and RAA purchased some of the leased trucks.

Subsequent Events

Lease Extension
Ecology Center entered into a lease extension agreement which commenced on January 31, 2023 for the 5,000 square feet of office space located at 339 East Liberty Street, Suite 200, Ann Arbor, Michigan 48104. The extension term is from May 31, 2023 to May 31, 2028. Monthly lease payments will begin at the monthly rate of $10,036 with 2% annual increases and an addition $625 per month for five parking spaces.

Sublease
Ecology Center entered into a sublease agreement for a portion of its office space for the period February 1, 2023 and ending May 31, 2028. Payments to be received under this sublease will be $2,741 per month for the first 16 months with a 2% annual increase, thereafter.

NOTE M - CONTRIBUTED NONFINANCIAL ASSETS (GIFTS-IN-KIND)

For the years ended December 31, 2022 and 2021, contributed nonfinancial assets recognized within the consolidated statement of activities included:

	2022	2021
MRF facilities lease	$ 180,000	$ 180,000

RAA recognized contributed nonfinancial assets within revenue, including contributed use of facilities Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed Use of MRF Facilities

Under a land and building lease agreement and services agreement with the City of Ann Arbor, the City of Ann Arbor is leasing to RAA the premises commonly known as the MRF. Under the terms of the lease agreement, RAA pays $100 per year for use of the premises. In valuing the contributed use of the MRF facilities, RAA estimated the fair value on the basis of what RAA would have paid to the City of Ann Arbor for the year had the services agreement been terminated early by the City due to non-appropriation.

Per the agreement with the City of Ann Arbor, in the event that the services agreement is terminated for non-appropriation and the lease term is extended, the agreed-upon monthly rent for both 2022 and 2021 was $15,000. RAA accounts for this below-market lease as a conditional contribution and recognizes in-kind revenue and expense as the conditions are met.

NOTE N - CONCENTRATIONS

Major Customers

Revenue from various contracts with the City of Ann Arbor totaled $3,605,197 and $3,782,570 in 2022 and 2021, respectively. Accounts receivable from the City of Ann Arbor totaled $589,251 and $473,612 at December 31, 2022 and 2021, respectively.

Cash Balances

Cash accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank. At times, balances may exceed the FDIC limit. Management does not believe Ecology Center or RAA is exposed to any significant credit risk in the cash accounts.

Labor Supply

Eighteen 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 RAA employees. The current agreement expires April 30, 2024.

NOTE O - BOARD DESIGNATED NET ASSETS

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

	2022	2021
Mary Beth Doyle Memorial Fund	$ 48,669	$ 48,669
Rebecca Head Memorial Fund	36,392	36,392
	$ 85,061	$ 85,061

NOTE P - NET ASSETS WITH DONOR RESTRICTIONS

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

	2022	2021
Purpose restrictions, available for spending:		
Ecology Center programs	$ 1,343,643	$ 1,709,921
MRF equipment purchases	209,205	-
	1,552,848	1,709,921
Endowment Funds, which must be appropriated by the Board of Directors before use:		
Donors specified for the general use of the organization, time restricted until appropriated (original gift $52,487)	263,706	336,306
Total Endowment Funds managed by the organization	263,706	336,306
	$ 1,816,554	$ 2,046,227

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, 2022 and 2021:

	2022	2021
Satisfaction of purpose restrictions		
Ecology Center programs	$ 1,731,894	$ 1,675,041
MRF equipment purchases	39,913	758,338
	1,771,807	2,433,379
Restricted-purpose spending-rate distributions and appropriations		
Ecology Center programs	10,000	-
	10,000	-
	$ 1,781,807	$ 2,433,379

NOTE Q - 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, 2022 and 2021, 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, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 85,061	$ -	$ 85,061
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	-	211,219	211,219
Total funds	$ 85,061	$ 263,706	$ 348,767

The following schedule summarizes the endowment net asset composition by type of fund as of December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 85,061	$ -	$ 85,061
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	-	283,819	283,819
Total funds	$ 85,061	$ 336,306	$ 421,367

NOTE Q - ENDOWMENT, *continued*

Change in Endowment Net Assets

The changes in endowment net assets for the years ended December 31, 2022 are presented in the following schedule:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 85,061	$ 336,306	$ 421,367
Net investment return	-	(62,600)	(62,600)
Contributions	-	-	-
Additional board designation	-	-	-
Amounts appropriated for expenditure	-	(10,000)	(10,000)
Other changes	-	-	-
Net assets, end of year	$ 85,061	$ 263,706	$ 348,767

The changes in endowment net assets for the years ended December 31, 2021 are presented in the following schedule:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 84,611	$ 283,024	$ 367,635
Net investment return	-	53,282	53,282
Contributions	-	-	-
Additional board designation	450	-	450
Amounts appropriated for expenditure	-	-	-
Other changes	-	-	-
Net assets, end of year	$ 85,061	$ 336,306	$ 421,367

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 Q - 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 a "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.