

Consolidated financial statements of:

ECOLOGY CENTER AND SUBSIDIARY

Years ended
December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of the Ecology Center and its subsidiary (collectively referred to as the Ecology Center), which comprise the consolidated statement of financial position as of December 31, 2023, and the related consolidated statement of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Ecology Center as of December 31, 2023, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Ecology Center to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The consolidated financial statements of the Ecology Center, as of and for the year ended December 31, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on June 29, 2023.

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 the Ecology Center's ability to continue as a going concern for 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 GAAS 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 GAAS, 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 the 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 the 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.

*Schechter-DokkenKanter
Andrews & Selcer Ltd.*

July 2, 2024

Minneapolis, MN

ECOLOGY CENTER AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31

	<u>2023</u>	<u>2022</u>		<u>2023</u>	<u>2022</u>
Assets:			Liabilities and net assets:		
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 2,143,093	\$ 952,824	Accounts payable	\$ 528,403	\$ 553,063
Accounts receivable, net of allowance	1,367,257	1,029,849	Grant payables	33,500	25,333
Grants receivable, current portion	1,481,231	463,523	Accrued liabilities	392,782	458,291
Inventory	71,248	-	Refundable advances under supply agreements	95,051	122,842
Prepaid expenses	164,865	51,597	Line of credit	318,946	-
Short-term investments	-	550,246	Operating lease liability, current portion	105,932	51,155
			Notes payable, current portion	1,172,187	1,140,869
Total current assets	<u>5,227,694</u>	<u>3,048,039</u>	Total current liabilities	<u>2,646,801</u>	<u>2,351,553</u>
			Operating lease liability, net of current portion	412,211	-
			Notes payable, net of current portion and debt issuance fees	6,584,644	7,661,874
Grants receivable, net of discount and current portion	388,187	-			
Property and equipment, net of accumulated depreciation	8,949,430	9,927,789	Total liabilities	<u>9,643,656</u>	<u>10,013,427</u>
Operating lease right-of-use asset	515,276	50,871			
Contract acquisition costs, net of accumulated amortization	108,128	123,761	Net assets:		
Endowment:			Without donor restrictions:		
Cash and cash equivalents	24,937	85,061	Undesignated	2,227,636	1,584,185
Investments	294,751	263,706	Designated by the Board for endowment	85,311	85,061
				<u>2,312,947</u>	<u>1,669,246</u>
Total long-term assets	<u>10,280,709</u>	<u>10,451,188</u>	With donor restrictions:		
			Endowment:		
			Original gift amounts to be maintained in perpetuity	52,487	52,487
			Accumulated earnings available for appropriation under the endowment spending policy	267,201	211,219
				<u>319,688</u>	<u>263,706</u>
			Purpose and time restrictions	3,232,112	1,552,848
				<u>3,551,800</u>	<u>1,816,554</u>
			Total net assets	<u>5,864,747</u>	<u>3,485,800</u>
Total assets	<u>\$ 15,508,403</u>	<u>\$ 13,499,227</u>	Total liabilities and net assets	<u>\$ 15,508,403</u>	<u>\$ 13,499,227</u>

See notes to consolidated financial statements.

ECOLOGY CENTER AND SUBSIDIARY

 CONSOLIDATED STATEMENTS OF ACTIVITIES
 YEARS ENDED DECEMBER 31

	2023			2022		
	Without restrictions	With donor restrictions	Total	Without restrictions	With donor restrictions	Total
Revenues and support:						
Contracts with City of Ann Arbor:						
Curbside collection contracts	\$ 2,715,530		\$ 2,715,530	\$ 2,581,700		\$ 2,581,700
Materials Recovery Facility	1,295,890		1,295,890	992,674		992,674
Fees from customers to dispose of materials, including fees for rolloff containers	4,189,484		4,189,484	3,325,257		3,325,257
Sales of recovered materials	1,574,822		1,574,822	2,763,672		2,763,672
Education services	219,878		219,878	145,479		145,479
Grants received under Paycheck Protection Program	-		-	200,335		200,335
Grants and contributions	829,624	\$ 3,900,340	4,729,964	210,686	\$ 1,614,734	1,825,420
Net investment return	22,804	55,982	78,786	4,741	(62,600)	(57,859)
In-kind contributions	180,000		180,000	180,000		180,000
Special events, net of costs of direct benefits to donors of \$33,897 and \$33,365 in 2023 and 2022, respectively	24,056		24,056	18,846		18,846
Other revenue	92,418		92,418	32,034		32,034
Net assets released from restrictions	2,221,076	(2,221,076)	-	1,781,807	(1,781,807)	-
Total revenue and support	13,365,582	1,735,246	15,100,828	12,237,231	(229,673)	12,007,558
Cost of goods sold, processing and shipping costs	(860,561)		(860,561)	(828,768)		(828,768)
Total revenue and support less cost of goods sold	12,505,021	1,735,246	14,240,267	11,408,463	(229,673)	11,178,790
Expenses:						
Program services	9,867,368		9,867,368	10,076,970		10,076,970
Management and general	1,850,237		1,850,237	1,106,158		1,106,158
Fundraising	143,715		143,715	162,034		162,034
Total expenses	11,861,320		11,861,320	11,345,162		11,345,162
Change in net assets	643,701	1,735,246	2,378,947	63,301	(229,673)	(166,372)
Net assets, beginning	1,669,246	1,816,554	3,485,800	1,605,945	2,046,227	3,652,172
Net assets, ending	\$ 2,312,947	\$ 3,551,800	\$ 5,864,747	\$ 1,669,246	\$ 1,816,554	\$ 3,485,800

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

ECOLOGY CENTER AND SUBSIDIARY

YEARS ENDED DECEMBER 31

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,378,947	\$ (166,372)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,360,147	1,316,567
Accretion of debt financing costs	7,761	7,762
Realized and unrealized (gain) loss on investments	(55,982)	77,155
Loss on disposal of property and equipment	-	51,639
Change in present value discount on grants receivable	34,220	-
Change in:		
Accounts receivable, net of allowance	(337,408)	(291,919)
Grants receivable	(1,543,880)	335,641
Grant revenue restricted to purchase of equipment	(167,246)	(249,118)
Inventory	(71,248)	-
Prepaid expenses	(113,268)	(40,719)
Accounts payable	(24,660)	(100,038)
Grants payable	8,167	(44,667)
Accrued liabilities	(65,509)	56,242
Refundable advances under Paycheck Protection Program	-	(200,335)
Refundable advances under supply agreements	(27,791)	72,842
Operating leases, right-of-use assets and lease liabilities	2,583	284
Net cash provided by operating activities	<u>1,384,833</u>	<u>824,964</u>
Cash flows from investing activities:		
Purchase of:		
Property and equipment	(366,155)	(924,389)
Investments	-	(26,775)
Proceeds from sale of investments	575,183	325,373
Net cash provided by (used in) investing activities	<u>209,028</u>	<u>(625,791)</u>
Cash flows from financing activities:		
Change in line of credit	318,946	-
Loan proceeds	98,150	153,100
Principal payments on notes	(1,151,823)	(769,632)
Collection of grant funds restricted to purchase of equipment	271,011	130,078
Net cash used in financing activities	<u>(463,716)</u>	<u>(486,454)</u>
Net change in cash and cash equivalents and restricted cash	1,130,145	(287,281)
Cash and cash equivalents and restricted cash, beginning of year	<u>1,037,885</u>	<u>1,325,166</u>
Cash and cash equivalents and restricted cash, end of year	<u>\$ 2,168,030</u>	<u>\$ 1,037,885</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31

ECOLOGY CENTER AND SUBSIDIARY

	<u>2023</u>	<u>2022</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 411,783</u>	<u>\$ 406,141</u>
Purchase of property and equipment by issuance of debt	<u>\$ 98,150</u>	<u>\$ 293,960</u>
Grant revenue recognized from forgiveness of PPP funds		<u>\$ 200,335</u>
Supplemental disclosures for noncash investing and financing activities:		
Lease liabilities arising from obtaining right of use assets	<u>\$ 518,143</u>	<u>\$ 51,155</u>

ECOLOGY CENTER AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31

	2023				2022			
	Program services	Support services		Total	Program services	Support services		Total
		Management and general	Fundraising			Management and general	Fundraising	
Grants to Organization	\$ 415,250	\$ -	\$ -	\$ 415,250	\$ 257,020	\$ -	\$ -	\$ 257,020
Salaries and wages	3,497,317	965,684	76,777	4,539,778	3,284,713	460,094	120,954	3,865,761
Employee benefits	689,337	136,512	15,080	840,929	705,683	61,098	12,778	779,559
Payroll taxes	279,711	69,929	5,861	355,501	253,558	35,575	9,214	298,347
	<u>4,466,365</u>	<u>1,172,125</u>	<u>97,718</u>	<u>5,736,208</u>	<u>4,243,954</u>	<u>556,767</u>	<u>142,946</u>	<u>4,943,667</u>
Fees for services:								
Accounting	-	127,478	-	127,478	145,942	147,205	-	293,147
Legal	2,549	850	-	3,399	6,634	1,972	-	8,606
Contract trucking	94,380	-	-	94,380	83,804	-	-	83,804
Other	227,230	41,883	13,411	282,524	607,268	15,641	13,259	636,168
MRF	43,040	-	-	43,040	101,641	-	-	101,641
Advertising	12,710	1,496	-	14,206	3,001	107	-	3,108
Office expense	417,027	99,769	4,582	521,378	403,575	48,533	5,011	457,119
Information technology	157,294	141,859	2,816	301,969	85,568	53,259	-	138,827
Repair and maintenance	137,864	-	-	137,864	205,289	-	-	205,289
Occupancy	382,094	100,769	39,081	521,944	410,684	67,103	30,515	508,302
Disposal fees	450,737	-	-	450,737	456,753	-	-	456,753
Travel	40,765	3,977	2,002	46,744	22,193	1,234	712	24,139
Equipment operating costs	1,477,846	5,137	6,025	1,489,008	1,475,652	22	-	1,475,674
Conferences and meetings	48,954	656	6,405	56,015	29,186	49,292	471	78,949
Cost of goods sold, sales of materials	356,530	-	-	356,530	333,489	-	-	333,489
Interest	411,783	-	-	411,783	406,141	-	-	406,141
Depreciation and amortization	1,288,019	70,103	2,025	1,360,147	1,256,249	66,880	1,200	1,324,329
Insurance	282,256	84,135	1,925	368,316	180,271	24,690	849	205,810
Other	15,236	-	1,622	16,858	191,424	73,453	436	265,313
	<u>10,727,929</u>	<u>1,850,237</u>	<u>177,612</u>	<u>12,755,778</u>	<u>10,905,738</u>	<u>1,106,158</u>	<u>195,399</u>	<u>12,207,295</u>
Less cost of goods sold, included with revenue on the statements of activities	(860,561)	-	-	(860,561)	(828,768)	-	-	(828,768)
Less expenses included with revenues on the statements of activities	-	-	(33,897)	(33,897)	-	-	(33,365)	(33,365)
	<u>\$ 9,867,368</u>	<u>\$ 1,850,237</u>	<u>\$ 143,715</u>	<u>\$ 11,861,320</u>	<u>\$ 10,076,970</u>	<u>\$ 1,106,158</u>	<u>\$ 162,034</u>	<u>\$ 11,345,162</u>

See notes to consolidated financial statements.

1. Nature of business and 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.

1. Nature of business and 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, 2023 and 2022. All significant intercompany transactions have been eliminated. Ecology Center and Recycle Ann Arbor are collectively referred therein after as the Organization.

Basis of accounting:

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

Basis of presentation:

The financial statement presentation follows the accounting standards for not-for-profit organizations. Under these standards, an organization is required to report information regarding its financial position and activities according to two classes of net assets depending on the existence and/or nature of any donor restrictions as follows: net assets without donor restrictions and net assets with donor restrictions.

Change in accounting principle:

The FASB issued Accounting Standards Update (ASU) No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which the Organization adopted on January 1, 2023. The guidance replaces the incurred loss methodology and creates a new “current expected credit loss” (CECL) model applicable to trade accounts receivable and allowance for credit losses. Under the CECL model, the allowance for credit losses reflects the entity’s current estimate of the contractual cash flows not expected to be collected, based on its assessment of credit risk as of the reporting date. Based on management’s assessment, there were no changes to the net allowance for credit losses on trade accounts receivable as a result of the adoption of this standard. There was no effect on the Organization’s financial statements related to the adoption of this standard apart from expanded disclosures.

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. The Organization had \$52,487 in net assets with donor restrictions that were held in perpetuity as of both December 31, 2023 and 2022. 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.

1. Nature of business and significant accounting policies (continued):

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash equivalents:

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

Accounts receivable:

Trade accounts receivable are stated at the amount the Organization expects to collect. The Organization maintains allowances for credit losses for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. If the financial condition of the Organization's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Organization provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for credit losses was \$15,550 and \$19,500 at December 31, 2023 and 2022, respectively.

Grants Receivable:

The Organization records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Allowance for uncollectable grants receivable is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Grants receivables are written off when deemed uncollectable. At December 31, 2023 and 2022, there was no allowance recorded.

Inventory:

Recycling inventory is composed of processed and unprocessed recyclable materials collected through curbside pick-up, drop off site (DOS) or from third party haulers. Since inventory is not purchased, inventory is stated at the lower of cost or net realizable value. Costs consist of processing and shipping. Net realizable value is based upon commodity prices at the statement of financial position date. The Recycle Ann Arbor's processing and shipping fees are included in cost of sales on the statements of activities and functional expenses.

1. Nature of business and 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 is reported in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and direct internal investment expenses.

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. Recycle Ann Arbor 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.

Leases:

The Organization records leases in accordance with Accounting Standards Update No. 2016-02, Leases (Topic 842). The Organization's leases with terms of more than twelve months will be required to be recognized as assets and liabilities. Because the Organization's operating leases do not provide an implicit rate of return, the Organization has elected the option to use the risk-free rate using a period comparable to the lease terms. The Organization uses the five-year U.S. Treasury Note rates respective to the life of the leases based on the information available at commencement date in determining the present value of lease payments.

The Organization elected the short-term lease exemption for certain qualifying leases with lease terms of twelve months or less. These leases with initial terms of less than twelve months are recorded directly to occupancy expense on a straight-line basis over the term of the lease. Rent expense is recognized on a straight-line basis for operating leases over the lease term.

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 - Grants and contributions received are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. All grants and contributions are considered without donor restrictions unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or restricted purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

1. Nature of business and significant accounting policies (continued):

Revenue recognition (continued):

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. Recycle Ann Arbor 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 - Recycle Ann Arbor 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. Recycle Ann Arbor accepts all the recycling material collected by the City of Ann Arbor and processes them at the MRF.

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.

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

	<u>2023</u>	<u>2022</u>
Recognized over time	\$ 4,011,420	\$ 3,574,374
Recognized at a point in time	<u>5,984,184</u>	<u>6,234,408</u>
	<u>\$ 9,995,604</u>	<u>\$ 9,808,782</u>

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.

1. Nature of business and significant accounting policies (continued):

Revenue recognition (continued):

Amortization of the capitalized contract acquisition 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 instrumental in acquiring the contract.

Opening and closing balances for contract assets and liabilities include:

	December 31, 2023	December 31, 2022	January 1, 2022
Accounts receivable, net of allowance	\$ 1,367,257	\$ 1,029,849	\$ 737,930
Contract acquisition costs, net of accumulated amortization	108,128	123,761	139,394
Refundable advances under supply agreements	(95,051)	(122,842)	(250,335)

Contract acquisition amortization expense will be \$15,633 for the years 2024 through 2028 and \$29,693 thereafter.

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.

The fundraising expenses of Recycle Ann Arbor are insignificant and have been included with management and general expenses.

Income tax status:

Ecology Center and Recycle Ann Arbor 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.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by taxing authorities. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

1. Nature of business and significant accounting policies (continued):

Reclassifications:

Certain reclassifications have been made to the 2022 financial statements for them to be in conformity with the 2023 presentation.

Subsequent events:

Subsequent events have been evaluated through July 2, 2024, the date the financial statements were available to be issued.

2. Liquidity:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2023 and 2022, comprise the following:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 2,143,093	\$ 952,824
Accounts receivable, net of allowance	1,367,257	1,029,849
Grants receivable, net of discount	1,869,418	463,523
Short-term investments	-	550,246
Cash and cash equivalents held for endowment purposes	24,937	85,061
Investment held for endowment purposes	<u>294,751</u>	<u>263,706</u>
 Total financial assets	 5,699,456	 3,345,209
Less financial assets held to meet donor-imposed restrictions:		
Purpose and time-restricted net assets	(3,221,425)	(1,552,848)
Donor-restricted endowment funds	(319,688)	(263,706)
Less board-designated endowment funds	<u>(85,311)</u>	<u>(85,061)</u>
 Amounts available for general expenditures within one year	 <u>\$ 2,073,032</u>	 <u>\$ 1,443,594</u>

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. 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. Recycle Ann Arbor can also draw upon an available line of credit (as discussed in Note 8).

3. Grants receivable:

Grants receivable consist of unconditional promises to give primarily from private foundations. Management considers all unconditional promises to give fully collectible. Grants receivable are expected to be collected as follows:

2024	\$ 1,481,231
2025	352,407
2026	35,000
2027	<u>35,000</u>
	1,903,638
Less present value discount at 3.84%	<u>(34,220)</u>
	<u>\$ 1,869,418</u>

4. Changes in valuation allowance for accounts receivable:

Changes in the valuation allowance for accounts receivable are:

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 19,500	\$ 19,500
Recoveries (write-offs)	<u>(3,950)</u>	<u>-</u>
Ending balances	<u>\$ 15,550</u>	<u>\$ 19,500</u>

5. Investments and fair value measurements:

The Organization’s investments are measured at estimated fair value using inputs from the three levels of the fair value hierarchy as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

ECOLOGY CENTER AND SUBSIDIARYNOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 20225. Investments and fair value measurements (continued):

Investments and fair value measurements are stated at December 31 as follows:

	<u>2023</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Total investments, mutual funds	<u>\$ 294,751</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 294,751</u>

	<u>2023</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Mutual funds	<u>\$ 238,763</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 238,763</u>
Certificates of deposit				<u>575,189</u>
Total investments				<u>\$ 813,952</u>

6. Property and equipment:

Property and equipment consists of the following at December 31:

	<u>2023</u>	<u>2022</u>
Land	\$ 685,504	\$ 685,504
Buildings and improvements	710,942	710,942
Leasehold improvements	132,888	132,888
Curbside equipment	2,483,815	2,354,441
MRF work-in progress and equipment deposit	-	246,769
MRF equipment and improvements	7,506,401	7,053,427
Office equipment	193,404	193,404
Commercial equipment	101,059	101,059
DOS equipment and improvements	266,204	258,392
Recovery yard equipment	<u>1,675,290</u>	<u>1,652,527</u>
	13,755,507	13,389,353
Less accumulated depreciation	<u>4,806,077</u>	<u>3,461,564</u>
	<u>\$ 8,949,430</u>	<u>\$ 9,927,789</u>

Depreciation expense was \$1,344,514 and \$1,308,696 in 2023 and 2022, respectively.

Substantially all of Recycle Ann Arbor's property and equipment, with a net book value of approximately \$8.9 million, is collateral for various notes payable.

7. 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 2023 and 2022, expense under the retirement plan was \$62,724 and \$58,733, respectively.

Recycle Ann Arbor 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 Recycle Ann Arbor makes a discretionary matching contribution to the Plans. Employer contributions totaled \$44,405 and \$47,475 in 2023 and 2022, respectively.

8. Line of credit:

Recycle Ann Arbor has a \$500,000 line of credit with First Merchants Bank, at the bank’s prime rate plus 1.00%, (but not less than 5%). The interest rate at December 31, 2023 was 9.5%. 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 is due on demand.

9. Notes payable:

Notes payable consists of the following at December 31:

	<u>2023</u>	<u>2022</u>
Promissory note to First Merchants Bank, payable at \$1,964 monthly until September 2023. 5.50% interest. Secured by all assets.		\$ 17,239
Promissory note to Caterpillar Financial Services Corporation, payable at \$2,792 monthly until March 2024. 6.85% interest. Secured by equipment purchased with the funds.	\$ 8,281	40,029
Promissory note to UniFi Equipment Finance, Inc., payable at \$1,950 monthly until February 2026. 3.68% interest. Secured by equipment purchased with the funds.	46,862	68,115
Promissory note to UniFi Equipment Finance, Inc., payable at \$3,031 monthly until May 2026. 6.87% interest. Secured by equipment purchased with the funds.	78,201	-
Credit facility of \$5.1 million with First Merchants Bank for purchase of equipment for Materials Recovery Facility. Payments are \$47,222 principal plus interest monthly until November 2030. Interest for the period November 2021 through November 2025 is 6.25%. Interest thereafter is a Prime-based rate. Secured by equipment purchased with the funds, then all assets.	3,919,445	4,486,151

ECOLOGY CENTER AND SUBSIDIARYNOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022

9. Notes payable (continued):

Notes payable of Recycle Ann Arbor consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Promissory note to Closed Loop rPET Fund, LP. Payments are \$7,407 principal plus interest monthly until November 2030. 6.00% interest. Secured by all assets. Subordination is junior to Materials Recovery Facility loan.	\$ 651,852	\$ 733,333
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.	855,877	888,316
Promissory note to Levine Family Foundation, payable at \$4,293 monthly until May 2051. Interest 8.00%.	572,012	577,077
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. Promissory note is guaranteed by Ecology Center.	1,318,666	1,589,106
Promissory note to The Huntington National Bank, payable at \$1,343 monthly until August 2026. Interest 4.26%. Secured by equipment purchased with funds. Promissory note is guaranteed by Ecology Center.	40,543	54,601
Promissory note to The Huntington National Bank, payable at \$526 monthly until October 2026. Interest 4.26%. Secured by equipment purchased with funds. Promissory note is guaranteed by Ecology Center.	16,805	22,269
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.	89,176	117,181
Promissory note to First-Citizens Bank & Trust Company, 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.	149,044	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.	<u>63,748</u>	<u>79,960</u>
	7,810,512	8,864,185
Less debt issuance costs, net	<u>(53,681)</u>	<u>(61,442)</u>
Total notes payable, net of debt issuance costs	7,756,831	8,802,743
Less current portion	<u>(1,172,187)</u>	<u>(1,140,869)</u>
Total notes payable, net of current portion and debt issuance costs	<u>\$ 6,584,644</u>	<u>\$ 7,661,874</u>

9. Notes payable (continued):

Future minimum debt payments are as follows:

2024	\$ 1,172,187
2025	1,169,842
2026	2,317,363
2027	665,099
2028	663,816
Thereafter	<u>1,822,205</u>
Total notes payable	<u>\$ 7,810,512</u>

	<u>2023</u>	<u>2022</u>
Debt issuance costs	\$ 69,850	\$ 69,850
Less accretion of debt issuance costs	<u>(16,169)</u>	<u>(8,408)</u>
Debt issuance costs, net	<u>\$ 53,681</u>	<u>\$ 61,442</u>

Accretion of debt issuance costs will be \$7,761 for both the years ended December 31, 2023 and 2022, and is included in interest expense.

Estimated accretion of debt issuance costs is \$7,761 each of the next five years and \$14,876 thereafter.

Subsequent to year end, Recycle Ann Arbor entered into equipment finance agreements with UniFi Equipment Finance, Inc., effective February 6, 2024 and payable at \$744 monthly until March 2029, and Alliance Funding Group, effective February 15, 2024 and payable monthly at \$4,996 until January 2029.

The future minimum payments relating to these agreements are as follows:

<u>Year ending December 31</u>	<u>Amount</u>
2024	\$ 67,773
2025	68,877
2026	68,877
2027	68,877
2028	68,877
Thereafter	<u>12,223</u>
Total future payments	<u>\$ 355,504</u>

10. Refundable advances under Paycheck Protection Program:

In January 2021, Ecology Center and Recycle Ann Arbor were granted second PPP loans from Level One Bank in the amounts of \$200,335 and \$531,775, respectively. Ecology Center and Recycle Ann Arbor 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.

11. Refundable advances under supply agreements:

In 2021, Recycle Ann Arbor entered into supply agreements with two customers. Both agreements were effective November 1, 2021, and have 10-year terms. Recycle Ann Arbor 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.

12. Leases:**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 were \$9,840 plus \$500 for the parking spaces. Ecology Center classified this lease as an operating lease and used a 4.25% discount rate.

As of December 31, 2022, future payments due under the operating lease were \$51,700.

Ecology Center entered into a lease agreement which commenced on January 31, 2023 for the East Liberty Street office space. The term is from May 31, 2023 to May 31, 2028; therefore the remaining lease term as of December 31, 2023 is 4.4 years. Ecology Center classified this lease as an operating lease and used a 3.7% discount rate.

12. Leases (continued):

Operating leases (continued):

The future minimum lease payments under the office space lease are listed below as of December 31, 2023:

<u>Year ending December 31</u>	<u>Amount</u>
2024	\$ 123,334
2025	125,771
2026	128,256
2027	130,791
2028	<u>54,941</u>
Total minimum lease payments	563,093
Less amount representing interest	<u>(44,950)</u>
Present value of lease liabilities	<u>\$ 518,143</u>

Total rent expense, included with occupancy expense on the statement of functional expenses, was \$118,150 and \$123,339 for the years ended December 31, 2023 and 2022, respectively.

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 2023 and 2022.

Recycle Ann Arbor leases the MRF land and building shell from the City of Ann Arbor for \$100 per year. Recycle Ann Arbor 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 Recycle Ann Arbor 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 Recycle Ann Arbor 's MRF Services Agreement, ending in 2030.

13. Contributed nonfinancial assets (gifts-in-kind):

For the years ended December 31, 2023 and 2022, contributed nonfinancial assets recognized within the consolidated statement of activities included:

	<u>2023</u>	<u>2022</u>
MRF facilities lease	<u>\$ 180,000</u>	<u>\$ 180,000</u>

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

13. Contributed nonfinancial assets (gifts-in-kind) (continued):

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 Recycle Ann Arbor the premises commonly known as the MRF. Under the terms of the lease agreement, Recycle Ann Arbor pays \$100 per year for use of the premises. In valuing the contributed use of the MRF facilities, Recycle Ann Arbor estimated the fair value on the basis of what Recycle Ann Arbor 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 2023 and 2022 was \$15,000. Recycle Ann Arbor accounts for this below-market lease as a conditional contribution and recognizes in-kind revenue and expense as the conditions are met.

14. Concentrations:

Major customers:

Revenue from various contracts with the City of Ann Arbor comprised approximately 27% and 30% of total revenue in 2023 and 2022, respectively. Accounts receivable from the City of Ann Arbor comprised approximately 49% and 54% of total accounts receivable at December 31, 2023 and 2022, 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 Recycle Ann Arbor is exposed to any significant credit risk in the cash accounts.

Labor supply:

Recycle Ann Arbor has a labor contract with the UAW affecting 59% of the Recycle Ann Arbor 's employees at December 31, 2023. The current agreement expired April 30, 2024. A new agreement has not been finalized as of the date of this report.

Ecology Center has a labor contract with the UAW affecting 56% of the Ecology center's employees at December 31, 2023. The current agreement will expire July 1, 2024.

15. Board designated net assets:

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

	<u>2023</u>	<u>2022</u>
Designated by the Board for endowment:		
Mary Beth Doyle Memorial Fund	\$ 48,669	\$ 48,669
Rebecca Head Memorial Fund	<u>36,642</u>	<u>36,392</u>
	<u>\$ 85,311</u>	<u>\$ 85,061</u>

ECOLOGY CENTER AND SUBSIDIARYNOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022**16. Net assets with donor restrictions:**

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

	<u>2023</u>	<u>2022</u>
Purpose and time restrictions:		
Ecology Center programs	\$ 3,153,290	\$ 1,343,643
MRF equipment purchases	-	209,205
Time restrictions	<u>78,822</u>	<u>-</u>
	<u>3,232,112</u>	<u>1,552,848</u>
Endowment funds		
Accumulated earnings, available for appropriation	267,201	211,219
Original donor restricted gift amount to be maintained in perpetuity	<u>52,487</u>	<u>52,487</u>
Total endowment funds managed by the Organization	<u>319,688</u>	<u>263,706</u>
	<u>\$ 3,551,800</u>	<u>\$ 1,816,554</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrences of the passage of time or other events specified by the donors as follows for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Satisfaction of purpose restrictions:		
Ecology Center programs	\$ 2,030,693	\$ 1,731,894
MRF equipment purchases	<u>190,383</u>	<u>39,913</u>
	<u>2,221,076</u>	<u>1,771,807</u>
Restricted-purpose spending-rate distributions and appropriations, Ecology Center programs	<u>-</u>	<u>10,000</u>
	<u>\$ 2,221,076</u>	<u>\$ 1,781,807</u>

17. 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.

17. Endowment (continued):

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, 2023 and 2022, 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:

	<u>2023</u>		
	<u>Without donor</u>	<u>With donor</u>	<u>Total</u>
	<u>restrictions</u>	<u>restrictions</u>	
Board-designated endowment funds	\$ 85,311	\$ -	\$ 85,311
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	-	<u>267,201</u>	<u>267,201</u>
Total funds	<u>\$ 85,311</u>	<u>\$ 319,688</u>	<u>\$ 404,999</u>
	<u>2022</u>		
	<u>Without donor</u>	<u>With donor</u>	<u>Total</u>
	<u>restrictions</u>	<u>restrictions</u>	
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	-	<u>211,219</u>	<u>211,219</u>
Total funds	<u>\$ 85,061</u>	<u>\$ 263,706</u>	<u>\$ 348,767</u>

17. Endowment (continued):

Change in endowment net assets:

The changes in endowment net assets for the years ended December 31, 2023 and 2022 are presented in the following schedule:

	2023		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$ 85,061	\$ 263,706	\$ 348,767
Net investment return	-	55,982	55,982
Additional board designation	<u>250</u>	<u>-</u>	<u>250</u>
Net assets, end of year	<u>\$ 85,311</u>	<u>\$ 319,688</u>	<u>\$ 404,999</u>
	2022		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$ 85,061	\$ 336,306	\$ 421,367
Net investment return	-	(62,600)	(62,600)
Amounts appropriated for expenditure	<u>-</u>	<u>(10,000)</u>	<u>(10,000)</u>
Net assets, end of year	<u>\$ 85,061</u>	<u>\$ 263,706</u>	<u>\$ 348,767</u>

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.

17. 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.

These policies are 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.