ECOLOGY CENTER

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

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TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

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

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, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ecology Center as of December 31, 2018 and 2017, 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.

Respectfully,

Bennett & Associates CPAs PLLC

Ann Arbor, Michigan
April 25, 2019

	2018	2017
ASSETS		
Cash and cash equivalents	$ 929,162	$ 887,928
Accounts receivable, net of allowance	449,256	503,988
Grants receivable	817,000	341,559
ReUse Center inventory	44,661	48,449
Prepaid expenses	52,764	70,559
Investments held for endowment purposes	193,622	204,758
Property and equipment, net of accumulated depreciation	1,002,721	1,103,714
TOTAL ASSETS	$ 3,489,186	$ 3,160,955
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 50,492	$ 395,589
Accrued liabilities	177,865	140,361
Line of credit	200,135	135
Notes payable	430,719	362,223
TOTAL LIABILITIES	859,211	898,308
NET ASSETS		
Without donor restrictions		
Undesignated	913,782	913,780
Board designated	103,735	72,565
	1,017,517	986,345
With donor restrictions	1,612,458	1,276,302
TOTAL NET ASSETS	2,629,975	2,262,647
TOTAL LIABILITIES AND NET ASSETS	$ 3,489,186	$ 3,160,955

	2018	2017
NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE AND SUPPORT		
Curbside collection contracts	$ 1,919,683	$ 1,842,569
Drop-off facilities revenue, including contracts, fees, and sales of collected materials at the Drop Off Station and Recovery Yard	1,739,183	1,471,123
City of Ann Arbor Materials Recovery Facility contract revenue	1,656,810	637,336
ReUse Center revenue	916,170	942,367
Roll-off container fees	767,781	769,788
Other grants and contracts	176,612	200,817
Special events, net of expenses of $46,760 and $45,374 in 2018 and 2017, respectively	13,405	29,096
Contributions	142,096	142,651
Value of material donated to ReUse Center	535,933	581,387
Other revenue and support	74,226	49,181
Net assets released from restrictions	1,767,311	1,452,743
TOTAL REVENUE AND SUPPORT	9,709,210	8,119,058
EXPENSES		
Program services	8,647,145	7,116,873
Supporting services		
Management and general	784,745	813,016
Fundraising	88,134	117,131
TOTAL EXPENSES	9,520,024	8,047,020
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE GAINS AND LOSSES	189,186	72,038
GAINS AND LOSSES		
Net gain/(loss) on disposal of property and equipment	7,914	-
Loss on impairment of equipment	(165,928)	-
TOTAL GAINS AND LOSSES	(158,014)	-
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	31,172	72,038
NET ASSETS WITH DONOR RESTRICTIONS		
Grants and contributions	2,114,603	1,318,051
Investment return	(11,136)	25,721
Net assets released from restrictions	(1,767,311)	(1,452,743)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	336,156	(108,971)
CHANGE IN NET ASSETS	367,328	(36,933)
NET ASSETS AT BEGINNING OF YEAR	2,262,647	2,299,580
NET ASSETS AT END OF YEAR	$ 2,629,975	$ 2,262,647

	Program Services	Supporting Services: Management and General	Supporting Services: Fund-Raising	Total 2018	Total 2017
Employee Compensation					
Salaries and wages	$ 2,821,995	$ 301,292	$ 54,571	$ 3,177,858	$ 2,994,527
Employee benefits	602,674	43,152	13,548	659,374	619,866
Payroll taxes	224,181	22,732	4,327	251,240	240,624
	3,648,850	367,176	72,446	4,088,472	3,855,017
Other Expenses					
Accounting fees	46,332	168,852	-	215,184	213,987
Legal fees	4,990	1,347	-	6,337	4,905
Contract trucking	49,214	-	-	49,214	29,794
Fees for services - other	467,573	11,197	19,902	498,672	411,997
Fees for services - MRF	1,505,175	-	-	1,505,175	532,944
Advertising	14,459	-	-	14,459	12,338
Office expenses	320,022	70,962	7,511	398,495	338,291
Information technology	8,274	12,836	-	21,110	15,929
Occupancy	497,477	59,426	11,701	568,604	547,837
Disposal fees	372,662	-	-	372,662	305,213
Travel	29,879	827	2,175	32,881	33,096
Urban Wood, mulch and compost purchases	259,595	-	-	259,595	271,140
Equipment operating costs	348,277	16,471	-	364,748	387,683
Conferences and meetings	37,657	3,529	18,910	60,096	37,964
Interest	26,144	-	-	26,144	19,773
Depreciation and amortization	216,545	12,210	1,688	230,443	202,899
Insurance	154,216	22,443	740	177,399	176,497
Value of materials donated to ReUse Center	535,933	-	-	535,933	581,387
Taxes - sales	46,610	-	-	46,610	50,769
All other	57,261	37,469	(179)	94,551	62,934
Total expenses	8,647,145	784,745	134,894	9,566,784	8,092,394
Less expenses included with revenues on the statement of activities	-	-	(46,760)	(46,760)	(45,374)
Total expenses included in the expense section of the statement of activities	$ 8,647,145	$ 784,745	$ 88,134	$ 9,520,024	$ 8,047,020

	Program Services	Supporting Services: Management and General	Supporting Services: Fund-Raising	Total 2017
Employee Compensation				
Salaries and wages	$ 2,592,135	$ 320,583	$ 81,809	$ 2,994,527
Employee benefits	569,044	39,896	10,926	619,866
Payroll taxes	210,672	23,464	6,488	240,624
	3,371,851	383,943	99,223	3,855,017
Other Expenses				
Accounting fees	45,522	168,465	-	213,987
Legal fees	1,545	3,360	-	4,905
Contract trucking	29,794	-	-	29,794
Fees for services - other	362,424	31,654	17,919	411,997
Fees for services - MRF	532,944	-	-	532,944
Advertising	12,338	-	-	12,338
Office expenses	263,270	64,867	10,154	338,291
Information technology	6,382	9,547	-	15,929
Occupancy	468,778	68,694	10,365	547,837
Disposal fees	305,213	-	-	305,213
Travel	29,027	2,242	1,827	33,096
Urban Wood, mulch and compost purchases	271,140	-	-	271,140
Equipment operating costs	362,327	25,356	-	387,683
Conferences and meetings	13,705	5,203	19,056	37,964
Interest	19,773	-	-	19,773
Depreciation and amortization	190,115	10,909	1,875	202,899
Insurance	153,525	22,365	607	176,497
Value of materials donated to ReUse Center	581,387	-	-	581,387
Taxes - sales	50,769	-	-	50,769
All other	45,044	16,411	1,479	62,934
Total expenses	7,116,873	813,016	162,505	8,092,394
Less expenses included with revenues on the statement of activities	-	-	(45,374)	(45,374)
Total expenses included in the expense section of the statement of activities	$ 7,116,873	$ 813,016	$ 117,131	$ 8,047,020

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 367,328	$ (36,933)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	230,442	202,899
Unrealized (gain)/loss on investments	24,795	(13,644)
Loss on impairment of equipment	165,928	-
(Gain)/loss on disposal of property and equipment	(7,914)	-
Increase/(decrease) in inventory of donated goods	3,788	8,670
Change in:		
Accounts receivable, net of allowance	54,732	(245,806)
Prepaid expenses	17,795	(25,252)
Promises to give	(475,441)	(93,761)
Accounts payable	(345,097)	264,097
Accrued liabilities	37,504	(113,103)
Net cash from (used for) operating activities	73,860	(52,833)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(93,319)	(204,332)
Proceeds from sales of property and equipment	49,740	-
Purchase of investments	(13,659)	(3,008)
Net cash used for investing activities	(57,238)	(207,340)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (repayments) under line of credit	200,000	135
Principal payments on notes	(175,388)	(199,951)
Net cash used for financing activities	24,612	(199,816)
NET CHANGE IN CASH AND CASH EQUIVALENTS	41,234	(459,989)
BEGINNING CASH AND CASH EQUIVALENTS	887,928	1,347,917
ENDING CASH AND CASH EQUIVALENTS	$ 929,162	$ 887,928
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 26,144	$ 19,151
Notes payable issued for purchase of property and equipment	$ 243,885	$ 114,444

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 green chemistry training and education; leverage the size of the health care industry, and the status of health care professionals as opinion leaders; and 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 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 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 manages green social enterprises. 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 major green services are:

- **Recycling and Reuse Services**, including a recycling collection service for residents and businesses, which currently includes facilitating the sorting and processing of those materials at the Ann Arbor Material Recovery Facility, a ReUse Center for building materials and household items, recycling drop-off stations, and construction waste recycling. 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, 2018 and 2017. 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.

Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Agency Transactions

As a service to some other organizations, Ecology Center receives and disburses funds for them, acting as an agent. These funds belong to others, and Ecology Center, having no claim to them, records neither income or expenses in its financial statements pursuant to these transactions.

Donated Material

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

ReUse Center inventory consists of donated materials available for sale and is estimated to be equal to one month’s sales.

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.

Accounting for 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.

Presentation of Sales Tax

The State of Michigan imposes a sales tax on all of Ecology Center's sales to non-exempt customers. Ecology Center collects that sales tax and remits the entire amount to the state. RAA's accounting policy is to include the tax collected and remitted to the state in revenue and cost of sales. The amount of sales tax expense was $46,610 and $50,769 in 2018 and 2017, respectively.

Advertising Costs

Advertising costs are expensed as incurred.

Functional Allocation of Expenses

The cost of providing various programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses are summarized and categorized based upon their functional classification as either program or supporting services. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, amortization, 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.

The Ecology Center and RAA file their own Form 990 returns.

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.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

Subsequent Events

Subsequent events have been evaluated through April 25, 2019, 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, 2018, comprise the following:

Financial assets:		
Cash and cash equivalents	$	929,162
Accounts receivable, net of allowance		449,256
Grants receivable		817,000
Investments held for endowment purposes		193,622
Total financial assets		2,389,040
Less financial assets held to meet donor-imposed restrictions:		
Purpose-restricted net assets		(1,418,836)
Donor-restricted endowment funds		(193,622)
Less board-designated endowment funds		(103,735)
Amount available for general expenditures within one year	$	672,847

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 ($193,622, of which $83,690 is the original gift) or from its board-designated endowment fund ($103,735). Note N provides more information about those funds and about the spending policies for all endowment funds.

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

NOTE C - GRANTS RECEIVABLE

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

		2018		2017
Within one year	$	692,000		341,559
In one to five years		125,000		-
Over five years		-		-
	$	817,000	$	341,559

NOTE D - CHANGES IN VALUATION ALLOWANCE FOR TRADE ACCOUNTS RECEIVABLE

Changes in the valuation allowance for trade accounts receivable are:

		2018		2017
Beginning balance	$	20,000	$	20,000
Provision for realization losses		5,382		4,127
Recoveries / (Write-offs)		(5,382)		(4,127)
Ending balance	$	20,000	$	20,000

Accounts receivable 90 days or more past due totaled $50,881 at December 31, 2018.

NOTE E - INVESTMENTS

Investments are stated at December 31 as follows:

	2018	2017
At fair value:		
Mutual funds		
Neuberger Berman	$ 76,174	$ 80,886
Domini	43,513	47,857
Pax World	48,935	51,015
Total investments at fair value	168,622	179,758
At unamortized cost:		
Certificate of deposit	25,000	25,000
Total investments	$ 193,622	$ 204,758

The fair value of stock is determined by reference to published exchange values. 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:

	2018	
	Without Donor Restrictions	With Donor Restrictions
Dividends and interest	$ 4,411	$ 13,659
Net realized and unrealized gains/(losses)	-	(24,795)
Total investment return	$ 4,411	$ (11,136)

	2017	
	Without Donor Restrictions	With Donor Restrictions
Dividends and interest	$ 2,054	$ 12,077
Net realized and unrealized gains/(losses)	-	13,644
Total investment return	$ 2,054	$ 25,721

Investment expenses are not material.

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2018	2017
Leasehold improvements	$ 353,031	$ 338,090
Curbside equipment	136,819	136,819
Office equipment	189,135	189,135
Vehicles	11,825	11,825
Commercial equipment	101,059	101,059
DOS equipment	238,362	238,362
ReUse Center equipment	64,180	64,180
Recovery yard equipment	1,869,169	1,938,852
	2,963,580	3,018,322
Less accumulated depreciation	(1,960,859)	(1,914,608)
	$ 1,002,721	$ 1,103,714

Substantially all of RAA's property and equipment, with a net book value of approximately $918,000, is collateral for various notes payable.

RAA intends to disassemble certain recovery yard equipment in 2019 and sell it for scrap value. This equipment has been written down to its estimated scrap value at December 31, 2018, resulting in an impairment loss of $165,928.

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 2018 and 2017, expense under the retirement plan was $47,002 and $44,003, 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 suspended in 2018 and 2017.

RAA's expense related to retirement plans totaled $0 in both 2018 and 2017.

NOTE H - LINE OF CREDIT

RAA has a $500,000 line of credit with a bank, at the bank's prime rate +1.00%, (but not less than 5%) maturing April 15, 2020. The interest rate at December 31, 2018 was 6.00%. There was $200,135 and $135 outstanding on the line of credit at December 31, 2018 and 2017, respectively. The line of credit is secured by substantially all assets.

NOTE I - NOTES PAYABLE

Notes payable consists of the following at December 31:

	2018	2017
Promissory note to finance corporation, payable at $6,039 monthly until April 2018. 5% interest. One final payment for the balance of the loan was due by May 21, 2018. Secured by vehicles and equipment purchased with the funds.	$ -	$ 14,506
Promissory note to finance corporation, payable at $1,130 monthly until January 2019. 3.82% interest. Secured by equipment purchased with the funds.	2,320	15,446
Promissory note to local bank, payable at $4,121 monthly until May 2019. 5% interest. Secured by all assets.	11,604	59,182
Promissory note to local bank, payable at $5,251 monthly until November 2020. 5% interest. Secured by all assets.	114,768	170,518
Promissory note to local bank, payable at $2,173 monthly until May 2022. 5.25% interest. Secured by all assets.	62,723	102,571
Promissory note to local bank, payable at $1,964 monthly until September 2023. 5.50% interest. Secured by all assets.	98,319	-
Promissory note to finance corporation, payable at $2,809 monthly until January 2024. 7.10% interest. Secured by equipment purchased with the funds.	140,985	-
	$ 430,719	$ 362,223

Aggregate principal payments in the succeeding years are as follows:

2019	$ 138,974
2020	126,703
2021	63,790
2022	52,233
2023	49,019
Thereafter	-
Total principal payments	$ 430,719

The notes with the local bank are subject to certain covenants, including a minimum debt service coverage ratio. RAA was in compliance with, or received waivers for, all financial and reporting covenants as of the auditor's report date.

NOTE J - LEASES

Operating Leases

Ecology Center leases its office space in Ann Arbor under a seven-year operating lease ending in May 2023. Ecology Center also leases office space in Detroit under a month to month operating lease. Rental expense under these leases was $120,408 and $110,391 in 2018 and 2017, respectively.

RAA leases its office and operations facilities under a five-year operating lease ending in March 2020. In 2015, additional space was added to the original lease with the end date remaining March 2020. Rental expense under this lease was $253,697 and $253,697 in 2018 and 2017, respectively.

RAA also leases its Jackson Road location under a five-year operating lease ending in May 2023. Rental expense under this lease was $67,000 and $60,000 in 2018 and 2017, respectively.

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

2019	$	448,699
2020		251,948
2021		186,807
2022		189,103
2023		79,195
Thereafter		-
Total payments	$	1,155,752

Sublease

Ecology Center subleases a portion of its office space under a yearly lease agreement ending May 31, 2019, with an option to extend the agreement for one additional year. Payments received under this sublease totaled $18,434 and $15,714 in 2018 and 2017, respectively.

NOTE K - CONCENTRATIONS

Major Customers

Revenue from various contracts with the City of Ann Arbor totaled $3,655,918 and $2,583,140 in 2018 and 2017, respectively. Accounts receivable from the City of Ann Arbor totaled $313,556 and $376,666 at December 31, 2018 and 2017, respectively.

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 2019.

The Material Recovery Facility (MRF) revenue is from managing the operations at the Ann Arbor Material Recovery Facility. The contract expires in June 2019.

Extensions of the Curbside collection and MRF contracts are currently being negotiated with the City.

RAA, under an agreement with the City of Ann Arbor, uses various pieces of equipment purchased and owned by the City. RAA has not capitalized these assets and the value of their use is not included in revenue.

Cash Balances

Cash accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank. At December 31, 2018, cash deposited with financial institutions exceeded the federally insured limit by $253,717 for Ecology Center and $33,369 for RAA. In 2019, Ecology Center began investing balances in excess of FDIC coverage in the Certificate of Deposit Registry Service (CDARS) program, to increase FDIC insurance coverage.

Labor Supply

Seventeen of Ecology Center's employees are covered by a collective bargaining agreement with the United Auto Workers Union which expires April 27, 2019. If a new agreement cannot be reached by the expiration date, the current agreement will remain in force unless either party gives notice to terminate or modify the agreement. RAA has a labor contract with the UAW affecting Recycle Ann Arbor employees. The RAA agreement expires April 30, 2020.

NOTE L - BOARD DESIGNATED NET ASSETS

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

	2018	2017
Mary Beth Doyle Memorial Fund	$ 48,469	$ 48,469
Rebecca Head Memorial Fund	55,266	24,096
	$ 103,735	$ 72,565

NOTE M - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

	2018	2017
Subject to expenditure for specified purpose:		
Ecology Center programs	$ 1,418,836	$ 1,038,960
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	-	32,584
Endowments:		
Subject to NFP endowment spending policy and appropriation:		
Ecology Center Endowment Fund	176,323	186,388
Marilyn Thayer Library Endowment	17,299	18,370
Total endowments	193,622	204,758
	$ 1,612,458	$ 1,276,302

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, 2018 and 2017:

	2018	2017
Expiration of time restrictions	$ 32,584	$ 18,391
Satisfaction of purpose restrictions		
Ecology Center programs	1,703,524	1,427,313
	1,736,108	1,445,704
Restricted-purpose spending-rate distributions and appropriations		
Ecology Center programs	31,203	7,039
	31,203	7,039
	$ 1,767,311	$ 1,452,743

NOTE N - 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, 2018 and 2017, 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, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 103,735	$ -	$ 103,735
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	83,690	83,690
Accumulated investment gains	-	109,932	109,932
Total funds	$ 103,735	$ 193,622	$ 297,357

The following schedule summarizes the endowment net asset composition by type of fund as of December 31, 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 72,565	$ -	$ 72,565
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	-	152,271	152,271
Total funds	$ 72,565	$ 204,758	$ 277,323

NOTE N – ENDOWMENT, *continued*

Change in Endowment Net Assets

The changes in endowment net assets for the years ended December 31, 2018 are presented in the following schedule:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 72,565	$ 204,758	$ 277,323
Investment income	-	(11,136)	(11,136)
Contributions	-	31,203	31,203
Additional board designation	30,000	-	30,000
Amounts appropriated for expenditure	-	(31,203)	(31,203)
Other changes	1,170	-	1,170
Net assets, end of year	$ 103,735	$ 193,622	$ 297,357

The changes in endowment net assets for the years ended December 31, 2017 are presented in the following schedule:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 55,339	$ 186,076	$ 241,415
Investment income	-	25,721	25,721
Contributions	-	-	-
Additional board designation	18,800		18,800
Amounts appropriated for expenditure	-	(7,039)	(7,039)
Other changes	(1,574)	-	(1,574)
Net assets, end of year	$ 72,565	$ 204,758	$ 277,323

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 N – ENDOWMENT, *continued*

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

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

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

NOTE O - CHANGE IN ACCOUNTING PRINCIPLES

Ecology Center implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a disclosure about liquidity and availability of resources (Note B).

The changes have the following effect on net assets at January 1, 2017:

Net Asset Class	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted net assets	$ 914,307	
Temporarily restricted net assets	1,332,786	
Permanently restricted net assets	52,487	
Net assets without donor restrictions		$ 914,307
Net assets with donor restrictions		1,385,273
Total net assets	$ 2,299,580	$ 2,299,580

NOTE P - NEW ACCOUNTING PRONOUNCEMENTS

The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, a principles-based standard to recognize revenue from customer contracts. ASU No. 2014-09 will be effective beginning in 2019. Ecology Center is currently evaluating the impact the adoption of ASU No. 2014-09 will have on its financial statements.

The FASB also issued ASU No. 2016-02, *Leases (Topic 842)*, which will require recognition of an asset and liability for most leases entered into by lessees. ASU No. 2016-02 will be effective beginning in 2020. Ecology Center is currently evaluating the impact the adoption of ASU No. 2016-02 will have on its financial statements.