
ECOLOGY CENTER

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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
July 20, 2020

ECOLOGY CENTER
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31,

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 1,030,041	\$ 929,162
Accounts receivable, net of allowance	559,799	449,256
Grants receivable	257,500	817,000
ReUse Center inventory	46,682	44,661
Prepaid expenses	49,835	52,764
Investments		
Short-term	277,222	-
Held for endowment purposes	237,295	193,622
	514,517	193,622
Property and equipment, net of accumulated depreciation	877,580	1,002,721
TOTAL ASSETS	\$ 3,335,954	\$ 3,489,186
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 380,617	\$ 50,492
Accrued liabilities	237,773	177,865
Line of credit	100,135	200,135
Notes payable	287,754	430,719
	1,006,279	859,211
TOTAL LIABILITIES	1,006,279	859,211
NET ASSETS		
Without donor restrictions		
Undesignated	1,107,677	913,782
Board designated	83,911	103,735
	1,191,588	1,017,517
With donor restrictions	1,138,087	1,612,458
	2,329,675	2,629,975
TOTAL NET ASSETS	2,329,675	2,629,975
TOTAL LIABILITIES AND NET ASSETS	\$ 3,335,954	\$ 3,489,186

ECOLOGY CENTER
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the years ended December 31,

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE AND SUPPORT		
Curbside collection contracts	\$ 2,185,778	\$ 1,919,683
Drop-off facilities revenue, including fees, and sales of materials collected at the Drop Off Station and Recovery Yard	2,017,237	1,739,183
City of Ann Arbor Materials Recovery Facility contract revenue	1,995,335	1,656,810
ReUse Center revenue	932,731	916,170
Roll-off container fees	743,850	767,781
Education services	174,104	176,612
Special events, net of expenses of \$43,740 and \$46,760 in 2019 and 2018, respectively	28,321	13,405
Grants and contributions	209,670	142,096
Value of material donated to ReUse Center	560,185	535,933
Other revenue and support	82,466	74,226
Net assets released from restrictions	1,257,811	1,767,311
TOTAL REVENUE AND SUPPORT	10,187,488	9,709,210
EXPENSES		
Program services	8,984,909	8,647,145
Supporting services		
Management and general	915,339	784,745
Fundraising	101,061	88,134
TOTAL EXPENSES	10,001,309	9,520,024
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE GAINS AND LOSSES	186,179	189,186
GAINS AND LOSSES		
Net gain/(loss) on disposal of property and equipment	(12,108)	7,914
Loss on impairment of equipment	-	(165,928)
TOTAL GAINS AND LOSSES	(12,108)	(158,014)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	174,071	31,172
NET ASSETS WITH DONOR RESTRICTIONS		
Grants and contributions	739,767	2,114,603
Investment return	43,673	(11,136)
Net assets released from restrictions	(1,257,811)	(1,767,311)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	(474,371)	336,156
CHANGE IN NET ASSETS	(300,300)	367,328
NET ASSETS AT BEGINNING OF YEAR	2,629,975	2,262,647
NET ASSETS AT END OF YEAR	\$ 2,329,675	\$ 2,629,975

ECOLOGY CENTER
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2019, with comparable totals for 2018

	Program Services	Supporting Services		Total 2019	Total 2018
		Management and General	Fund- Raising		
Grants to Organizations	\$ 105,000	\$ -	\$ -	\$ 105,000	\$ 293,000
Employee Compensation					
Salaries and wages	2,853,454	376,099	70,465	3,300,018	3,177,858
Employee benefits	592,540	49,119	10,901	652,560	659,374
Payroll taxes	224,661	25,461	5,417	255,539	251,240
	<u>3,670,655</u>	<u>450,679</u>	<u>86,783</u>	<u>4,208,117</u>	<u>4,088,472</u>
Other Expenses					
Accounting fees	48,989	177,804	-	226,793	215,184
Legal fees	7,930	4,229	-	12,159	6,337
Contract trucking	47,666	-	-	47,666	49,214
Fees for services - other	183,361	10,612	15,359	209,332	205,672
Fees for services - MRF	1,647,259	-	-	1,647,259	1,505,175
Advertising	8,912	-	-	8,912	14,459
Office expenses	347,185	79,399	7,193	433,777	398,495
Information technology	17,139	35,302	-	52,441	21,110
Occupancy	552,800	66,752	9,777	629,329	568,604
Disposal fees	430,499	-	-	430,499	372,662
Travel	38,616	244	80	38,940	32,881
Urban Wood, mulch and compost purchases	238,594	-	-	238,594	259,595
Equipment operating costs	591,803	44,940	-	636,743	364,748
Conferences and meetings	22,427	10,435	22,109	54,971	60,096
Interest	21,500	-	-	21,500	26,144
Depreciation and amortization	190,701	11,219	1,923	203,843	230,443
Insurance	147,288	21,356	699	169,343	177,399
Value of materials donated to ReUse Center	560,185	-	-	560,185	535,933
Taxes - sales	46,804	-	-	46,804	46,610
All other	59,596	2,368	878	62,842	94,551
Total expenses	<u>8,984,909</u>	<u>915,339</u>	<u>144,801</u>	<u>10,045,049</u>	<u>9,566,784</u>
Less expenses included with revenues on the statement of activities	-	-	(43,740)	(43,740)	(46,760)
Total expenses included in the expense section of the statement of activities	<u>\$ 8,984,909</u>	<u>\$ 915,339</u>	<u>\$ 101,061</u>	<u>\$ 10,001,309</u>	<u>\$ 9,520,024</u>

ECOLOGY CENTER
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2018

	Program Services	Supporting Services		Total 2018
		Management and General	Fund- Raising	
Grants to Organizations	\$ 293,000	\$ -	\$ -	\$ 293,000
Employee Compensation				
Salaries and wages	2,821,995	301,292	54,571	3,177,858
Employee benefits	602,674	43,152	13,548	659,374
Payroll taxes	224,181	22,732	4,327	251,240
	<u>3,648,850</u>	<u>367,176</u>	<u>72,446</u>	<u>4,088,472</u>
Other Expenses				
Accounting fees	46,332	168,852	-	215,184
Legal fees	4,990	1,347	-	6,337
Contract trucking	49,214	-	-	49,214
Fees for services - other	174,573	11,197	19,902	205,672
Fees for services - MRF	1,505,175	-	-	1,505,175
Advertising	14,459	-	-	14,459
Office expenses	320,022	70,962	7,511	398,495
Information technology	8,274	12,836	-	21,110
Occupancy	497,477	59,426	11,701	568,604
Disposal fees	372,662	-	-	372,662
Travel	29,879	827	2,175	32,881
Urban Wood, mulch and compost purchases	259,595	-	-	259,595
Equipment operating costs	348,277	16,471	-	364,748
Conferences and meetings	37,657	3,529	18,910	60,096
Interest	26,144	-	-	26,144
Depreciation and amortization	216,545	12,210	1,688	230,443
Insurance	154,216	22,443	740	177,399
Value of materials donated to ReUse Center	535,933	-	-	535,933
Taxes - sales	46,610	-	-	46,610
All other	57,261	37,469	(179)	94,551
	<u>8,647,145</u>	<u>784,745</u>	<u>134,894</u>	<u>9,566,784</u>
Less expenses included with revenues on the statement of activities	<u>-</u>	<u>-</u>	<u>(46,760)</u>	<u>(46,760)</u>
Total expenses included in the expense section of the statement of activities	<u>\$ 8,647,145</u>	<u>\$ 784,745</u>	<u>\$ 88,134</u>	<u>\$ 9,520,024</u>

ECOLOGY CENTER
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31,

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (300,300)	\$ 367,328
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	203,843	230,443
Realized and unrealized (gain)/loss on investments	(31,831)	24,795
Loss on impairment of equipment	-	165,928
(Gain)/loss on disposal of property and equipment	12,108	(7,914)
Increase/(decrease) in inventory of donated goods	(2,021)	3,788
Change in:		
Accounts receivable, net of allowance	(110,543)	54,732
Prepaid expenses	2,929	17,795
Grants receivable	559,500	(475,441)
Accounts payable	330,125	(345,097)
Accrued liabilities	59,908	37,504
Net cash from operating activities	723,718	73,861
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(100,810)	(93,319)
Proceeds from sales of property and equipment	10,000	49,740
Purchases of investments	(301,391)	(13,660)
Proceeds from sales of investments	12,327	-
Net cash used for investing activities	(379,874)	(57,239)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (repayments) under line of credit	(100,000)	200,000
Principal payments on notes	(142,965)	(175,388)
Net cash from (used for) financing activities	(242,965)	24,612
NET CHANGE IN CASH AND CASH EQUIVALENTS	100,879	41,234
BEGINNING CASH AND CASH EQUIVALENTS	929,162	887,928
ENDING CASH AND CASH EQUIVALENTS	\$ 1,030,041	\$ 929,162
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid for interest	\$ 21,500	\$ 26,144
Notes payable issued for purchase of property and equipment	\$ -	\$ 243,885

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, 2019 and 2018. All significant intercompany transactions have been eliminated.

Basis of Accounting

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

Net Assets

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

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

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

Use of Estimates

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

Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Agency Transactions

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

Property and Equipment

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

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

Investments

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

Donated Material

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

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

Revenue Recognition

On January 1, 2019, Ecology Center adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Ecology Center adopted the new standard effective January 1, 2019, the first day of the organization's fiscal year, using the full retrospective method.

The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration in which the entity 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. Based on the organization's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

Grants and contributions

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

Curbside collection contracts

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

Drop-off facility user fees, sale of collected material, ReUse Center revenue, roll-off container fees

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

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

City of Ann Arbor Materials Recovery Facility contract revenue

RAA provides contract services to the City of Ann Arbor for the City’s Materials Recovery Facility (MRF). Recycle Ann Arbor accepts all the recycling material collected by the City of Ann Arbor and loads the material into long-haul trucks for delivery to processing plants in Cincinnati, OH and Romulus, MI. RAA is the prime contractor and subcontracts the hauling and processing of the material.

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

Disaggregation of revenue

	2019
Recognized over time	\$ 4,181,113
Recognized at a point in time	3,867,922
	\$ 8,049,035

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

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 \$46,804 and \$46,610 in 2019 and 2018, 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.

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 July 20, 2020, 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, 2019 and 2018, comprise the following:

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 1,030,041	\$ 929,162
Accounts receivable, net of allowance	559,799	449,256
Grants receivable	257,500	817,000
Short-term investments	277,222	-
Investments held for endowment purposes	237,295	193,622
Total financial assets	2,361,857	2,389,040
Less financial assets held to meet donor-imposed restrictions:		
Purpose-restricted net assets	(900,792)	(1,418,836)
Donor-restricted endowment funds	(237,295)	(193,622)
Less board-designated endowment funds	(83,911)	(103,735)
Amount available for general expenditures within one year	\$ 1,139,859	\$ 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 (\$237,295, of which \$92,510 is the original gift) or from its board-designated endowment fund (\$83,911). 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:

	2019	2018
Within one year	\$ 192,500	692,000
In one to five years	65,000	125,000
Over five years	-	-
	\$ 257,500	\$ 817,000

NOTE D - CHANGES IN VALUATION ALLOWANCE FOR TRADE ACCOUNTS RECEIVABLE

Changes in the valuation allowance for trade accounts receivable are:

	2019	2018
Beginning balance	\$ 20,000	\$ 20,000
Provision for realization losses	-	5,382
Recoveries / (Write-offs)	(500)	(5,382)
Ending balance	\$ 19,500	\$ 20,000

Accounts receivable 90 days or more past due totaled \$73,327 at December 31, 2019.

NOTE E - INVESTMENTS

Investments are stated at December 31 as follows:

	2019	2018
<u>At fair value:</u>		
Mutual funds		
Neuberger Berman	\$ 95,876	\$ 76,174
Domini	57,292	43,513
Pax World	59,127	48,935
Total investments at fair value	212,295	168,622
 <u>At unamortized cost:</u>		
Certificates of deposit	302,222	25,000
Total investments	\$ 514,517	\$ 193,622

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:

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

Investment expenses are not material.

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2019	2018
Leasehold improvements	\$ 353,031	\$ 353,031
Curbside equipment	136,819	136,819
Office equipment	233,640	189,135
Vehicles	11,825	11,825
Commercial equipment	101,059	101,059
DOS equipment	258,362	238,362
ReUse Center equipment	64,180	64,180
Recovery yard equipment	1,768,776	1,869,169
	2,927,692	2,963,580
Less accumulated depreciation	(2,050,112)	(1,960,859)
	\$ 877,580	\$ 1,002,721

Substantially all of RAA's property and equipment, with a net book value of approximately \$805,000, is collateral for various notes payable.

RAA disassembled certain recovery yard equipment in 2019 and sold it for scrap value. This equipment was 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 2019 and 2018, expense under the retirement plan was \$44,252 and \$47,002, 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 2019 and 2018.

RAA's expense related to retirement plans totaled \$0 in both 2019 and 2018.

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 June 15, 2021. The interest rate at December 31, 2019 was 5.75%. There was \$100,135 and \$200,135 outstanding on the line of credit at December 31, 2019 and 2018, respectively. The line of credit is secured by substantially all assets.

NOTE I - NOTES PAYABLE

Notes payable consists of the following at December 31:

	2019	2018
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
Promissory note to local bank, payable at \$4,121 monthly until May 2019. 5% interest. Secured by all assets.	-	11,604
Promissory note to local bank, payable at \$5,251 monthly until November 2020. 5% interest. Secured by all assets.	56,167	114,768
Promissory note to local bank, payable at \$2,173 monthly until May 2022. 5.25% interest. Secured by all assets.	39,389	62,723
Promissory note to local bank, payable at \$1,964 monthly until September 2023. 5.50% interest. Secured by all assets.	75,694	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.	116,504	140,985
	\$ 287,754	\$ 430,719

Aggregate principal payments in the succeeding years are as follows:

	2020	\$	126,710
	2021		63,790
	2022		52,233
	2023		45,021
	2024		-
	Thereafter		-
	Total principal payments	\$	287,754

The notes with the local bank are subject to certain covenants, including a minimum debt service coverage ratio. RAA was in compliance with 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 \$119,982 and \$120,408 in 2019 and 2018, respectively.

RAA leases its office and operations facilities under a five-year operating lease that ended in March 2020, and was extended for an additional one year ending in March 2021. Rental expense under this lease was \$262,014 and \$253,697 in 2019 and 2018, respectively.

RAA also leases its Jackson Road location under a five-year operating lease ending in May 2023. Rental expense under this lease was \$72,000 and \$67,000 in 2019 and 2018, respectively.

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

	2020	\$	474,968	
	2021		261,147	
	2022		189,103	
	2023		79,195	
	2024		-	
	Thereafter		-	
	Total payments	\$	1,004,413	

Sublease

Ecology Center subleased a portion of its office space under a yearly lease agreement that ended May 31, 2020. The sublease was not renewed. Payments received under this sublease totaled \$19,320 and \$18,434 in 2019 and 2018, respectively.

NOTE K - CONCENTRATIONS

Major Customers

Revenue from various contracts with the City of Ann Arbor totaled \$4,278,977 and \$3,655,918 in 2019 and 2018, respectively. Accounts receivable from the City of Ann Arbor totaled \$406,025 and \$313,556 at December 31, 2019 and 2018, respectively.

The Curbside collection revenue is based on the number of single families served and multi-family and commercial carts processed. The contract expired in June 2020.

The Material Recovery Facility (MRF) revenue is from managing the operations at the Ann Arbor Material Recovery Facility. The contract expired in June 2020.

One year extensions of the Curbside collection and MRF contracts have been negotiated, subject to final approval by the City of Ann Arbor.

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, 2019, cash deposited with financial institutions exceeded the federally insured limit by \$151,282 for Ecology Center and \$148,363 for RAA.

Labor Supply

Sixteen of Ecology Center's employees are covered by a collective bargaining agreement with the United Auto Workers Union which, pending approval, expires July 1, 2024. RAA has a labor contract with the UAW affecting Recycle Ann Arbor employees. The current agreement expired April 30, 2020, but by mutual agreement was extended while negotiations continue on a new contract.

ECOLOGY CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE L - BOARD DESIGNATED NET ASSETS

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

	2019	2018
Mary Beth Doyle Memorial Fund	\$ 48,669	\$ 48,469
Rebecca Head Memorial Fund	35,242	55,266
	<u>\$ 83,911</u>	<u>\$ 103,735</u>

NOTE M - NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
Subject to expenditure for specified purpose:		
Ecology Center programs	\$ 900,792	\$ 1,418,836
Endowments:		
Subject to NFP endowment spending policy and appropriation:		
Ecology Center Endowment Fund	215,521	176,323
Marilyn Thayer Library Endowment	21,774	17,299
Total endowments	<u>237,295</u>	<u>193,622</u>
	<u>\$ 1,138,087</u>	<u>\$ 1,612,458</u>

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, 2019 and 2018:

	2019	2018
Expiration of time restrictions	\$ -	\$ 32,584
Satisfaction of purpose restrictions		
Ecology Center programs	1,248,991	1,703,524
	<u>1,248,991</u>	<u>1,736,108</u>
Restricted-purpose spending-rate distributions and appropriations		
Ecology Center programs	8,820	31,203
	<u>8,820</u>	<u>31,203</u>
	<u>\$ 1,257,811</u>	<u>\$ 1,767,311</u>

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, 2019 and 2018, 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, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 83,911	\$ -	\$ 83,911
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	92,510	92,510
Accumulated investment gains	-	144,785	144,785
Total funds	<u>\$ 83,911</u>	<u>\$ 237,295</u>	<u>\$ 321,206</u>

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	<u>\$ 103,735</u>	<u>\$ 193,622</u>	<u>\$ 297,357</u>

NOTE N - ENDOWMENT, *continued*

Change in Endowment Net Assets

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

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

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
Net investment return	-	(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	<u>\$ 103,735</u>	<u>\$ 193,622</u>	<u>\$ 297,357</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.

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 - NEW ACCOUNTING PRONOUNCEMENTS

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

NOTE P - SUBSEQUENT EVENTS

Coronavirus Pandemic

At the date of issuance of these financial statements, the economy and financial markets have experienced significant declines due to the coronavirus pandemic, which have adversely impacted Ecology Center's operating results. Potential impacts to Ecology Center include disruptions or restrictions on the organization's ability to work which may include restrictions on its ability to provide services, raise funds, and perform necessary administrative tasks. Although management continues to monitor and assess the effects of the coronavirus pandemic on its operations, the ultimate impact of the pandemic is highly uncertain and subject to change.

New MRF Contract and Related Borrowings

In 2020, RAA is finalizing a new 10-year contract with the City of Ann Arbor to rebuild, reopen and operate the MRF. To begin work on the contract, RAA borrowed \$1,022,000 from a local bank. RAA intends to repay approximately \$800,000 when it receives grant funds from the State of Michigan, which it has been approved for. RAA also intends to borrow approximately \$6 million for equipment purchases and facilities improvements.

Paycheck Protection Act Loan

In 2020, Ecology Center borrowed \$194,100 and RAA borrowed \$447,000 under the Small Business Administration's Paycheck Protection Act. The loans are eligible for partial or total forgiveness by the SBA.