



Community Environmental Council

**Independent Auditor's Report
and Financial Statements
as of December 31, 2015
and for the year then ended**

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of- Community Environmental Council

Report on Financial Statements

I have audited the accompanying financial statements of Community Environmental Council (a non-profit corporation), which comprise the statement of financial position as of December 31, 2015, and the related statement of activities and changes in net assets, statement of functional expenses, and statement of cash flows for the year then ended and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Organization's December 31, 2014 financial statements, and my report dated April 6, 2015 expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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, I do not express 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 financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Environmental Council as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Oak Park, California
April 6, 2016

Thomas H Ridge
Certified Public Accountant

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015**

WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2014

ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2015</u>	<u>Total 2014</u>
Current Assets					
Cash and cash equivalents	\$ 76,799	\$ 102,028	\$ -	\$ 178,826	\$ 224,931
Accounts and contracts receivable	46,744	-	-	46,744	34,375
Pledges receivable	7,134	-	-	7,134	2,350
Prepaid expenses	3,325	-	-	3,325	475
Total Current Assets	<u>134,001</u>	<u>102,028</u>	<u>-</u>	<u>236,029</u>	<u>262,131</u>
Property, Plant and Equipment					
Leasehold Improvements - Anapamu	307,429	-	-	307,429	307,429
Office equipment and furniture	81,205	-	-	81,205	72,917
	<u>388,634</u>	<u>-</u>	<u>-</u>	<u>388,634</u>	<u>380,346</u>
Less accumulated depreciation and amortization	(379,529)	-	-	(379,529)	(353,942)
Net Property and Equipment	<u>9,105</u>	<u>-</u>	<u>-</u>	<u>9,105</u>	<u>26,404</u>
Other Assets					
Board Designated Quasi Endowment Fund Assets:					
Investment in mutual funds	2,670,349	-	125,507	2,795,856	3,198,357
Investment in West Beach Investors Group	600,000	-	-	600,000	600,000
Investment-Principal Financial Group Inc.	34,590	-	-	34,590	39,942
Total Other Assets	<u>3,304,938</u>	<u>-</u>	<u>125,507</u>	<u>3,430,445</u>	<u>3,838,299</u>
TOTAL ASSETS	<u><u>\$ 3,448,044</u></u>	<u><u>\$ 102,028</u></u>	<u><u>\$ 125,507</u></u>	<u><u>\$ 3,675,579</u></u>	<u><u>\$ 4,126,833</u></u>

LIABILITIES AND NET ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2015</u>	<u>Total 2014</u>
Current Liabilities					
Accounts payable	\$ 10,511	\$ -	\$ -	\$ 10,511	\$ 15,724
Accrued expenses	18,378	-	-	18,378	42,893
Total Current Liabilities	<u>28,888</u>	<u>-</u>	<u>-</u>	<u>28,888</u>	<u>58,617</u>
Net Assets					
Board designated	3,270,349	-	-	3,270,349	3,672,850
Other	148,807	102,028	125,507	376,342	395,366
Total Net Assets	<u>3,419,156</u>	<u>102,028</u>	<u>125,507</u>	<u>3,646,691</u>	<u>4,068,216</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,448,044</u></u>	<u><u>\$ 102,028</u></u>	<u><u>\$ 125,507</u></u>	<u><u>\$ 3,675,579</u></u>	<u><u>\$ 4,126,833</u></u>

See auditor's report and notes to financial statements.

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
DECEMBER 31, 2015**

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2015</u>	<u>Total 2014</u>
Revenue, Gains and Other Support					
Contributions	\$ 144,903	\$ -	\$ -	\$ 144,903	\$ 170,768
Special Event, net of expenses of \$81,536	45,579	-	-	45,579	57,940
Contracts and grants - government	68,602	-	-	68,602	26,760
Contracts and grants - private	74,856	179,693	-	254,549	168,315
Earth Day program	205,970	-	-	205,970	232,863
Solarize program	57,778	-	-	57,778	104,911
Dividends and Interest	98,895	-	-	98,895	113,178
Other income	68,321	-	-	68,321	93,867
Unrealized (loss)/gain - quasi endowment	(125,052)	-	-	(125,052)	85,535
Unrealized (loss)/gain-PFG Inc.	(5,352)	-	-	(5,352)	2,023
Realized gains	-	-	-	-	64,972
Net assets released from restrictions	139,553	(139,553)	-	-	-
Total Revenue, Gains and Other Support	<u>774,053</u>	<u>40,140</u>	<u>-</u>	<u>814,193</u>	<u>1,121,132</u>
Expenses					
Research, educational and community programs	1,031,407	-	-	1,031,407	898,566
Management and general	73,649	-	-	73,649	66,907
Fundraising	130,662	-	-	130,662	143,645
Total Expenses	<u>1,235,718</u>	<u>-</u>	<u>-</u>	<u>1,235,718</u>	<u>1,109,117</u>
(Decrease) Increase in Net Assets	<u>\$ (461,665)</u>	<u>\$ 40,140</u>	<u>\$ -</u>	<u>\$ (421,525)</u>	<u>\$ 12,014</u>
Net Assets at Beginning of Year	3,880,821	61,888	125,507	4,068,216	4,056,202
Net Assets at End of Year	<u>\$ 3,419,156</u>	<u>\$ 102,028</u>	<u>\$ 125,507</u>	<u>\$ 3,646,691</u>	<u>\$ 4,068,216</u>

See auditor's report and notes to financial statements.

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014

2015				
	Research Educational & Community Program	Management and General	Fund Raising	Total December 31, 2015
Salaries and benefits	\$ 467,584	\$ 18,300	\$ 83,941	\$ 569,825
Advertising and promotion	20,145	1,222	9,451	30,817
Property and equipment	126,263	13,077	12,071	151,411
Operating expenses	328,585	12,997	14,954	356,537
Administrative expenses	88,830	28,052	10,245	127,128
Total Expenses	\$ 1,031,407	\$ 73,649	\$ 130,662	\$ 1,235,718

2014				
	Research Educational & Community Program	Management and General	Fund Raising	Total December 31, 2014
Salaries and benefits	\$ 466,705	\$ 19,941	\$ 94,052	\$ 580,697
Advertising and promotion	29,542	514	5,818	35,874
Property and equipment	122,057	13,750	16,923	152,730
Operating expenses	239,358	9,537	16,061	264,956
Administrative expenses	40,904	23,165	10,791	74,860
Total Expenses	\$ 898,566	\$ 66,907	\$ 143,645	\$ 1,109,117

See auditor's report and notes to financial statements.

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

WITH COMPARTIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014

	2015	2014
Cash Flows from Operating Activities		
(Decrease) Increase in net assets	\$ (421,525)	\$ 12,014
Adjustments to reconcile (decrease) increase in net assets to cash (Used by) Provided by operating activities:		
Depreciation	25,587	32,671
Unrealized loss (gain)	130,404	(87,558)
Change in operating assets and liabilities:		
Accounts and contracts receivable	(12,370)	91,630
Marketable security	-	570
Pledges receivable	(4,784)	6,575
Prepaid expenses	(2,850)	104
Accounts payable	(5,213)	(27,669)
Accrued expenses	(24,515)	5,919
Net Cash (Used by) Provided by Operating Activities	(315,266)	34,256
Cash Flows from Investing Activities		
Sale of mutual funds	375,000	249,620
Purchase of mutual funds	(97,551)	(234,381)
Purchase of fixed asset	(8,288)	(1,077)
Net Cash Provided by Investing Activities	269,161	14,162
Net (Decrease) Increase in Cash and Cash Equivalents	(46,105)	48,418
Cash and Cash Equivalents at Beginning of Year	224,931	176,513
Cash and Cash Equivalents at End of Year	\$ 178,826	\$ 224,931

See auditor's report and notes to financial statements.

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 1: Nature of Activities

Community Environmental Council is a nonprofit California Corporation involved in energy programs with an approximately equal emphasis in renewable energy, transportation and green building. The Organization is funded by and works with a number of private corporations, foundations and individuals as well as local, state and federal governments.

Note 2: Summary of Significant Accounting Policies

Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Temporarily and Permanently Restricted Net Assets/Board Designated Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity and only the income be made available for spending in accordance with donor restrictions. The organization has established board designated net assets to be used in the future for purposes in line with the overall mission of the organization.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions.

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 2: Summary of Significant Accounting Policies (continued)

of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Organization reports gifts of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Promises To Give (Pledges)

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Estimates

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

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over their useful lives of three to forty years. The Organization capitalizes property and equipment over \$1,000.

Not-For-Profit Status

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code. The Organization's Forms 990, Return of Organization Exempt from

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 2: Summary of Significant Accounting Policies (continued)

Not-For-Profit Status (continued)

Income Tax, for the years ending 2015, 2014 and 2013 are subject to examination by the IRS, generally for three years after they are filed. The Organization evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2015, the Organization had no uncertain tax positions requiring accrual.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable and Grants Receivable and Pledges Receivable

The Organization uses the allowance method to determine uncollectible accounts receivable, grants receivable and pledges receivable. The allowance is based upon prior years' experience and management's analysis of specific outstanding accounts, grants receivable and pledges receivable at year end. Accounts receivable, grants receivable and pledges receivable are only written off if the Organization determines that the outstanding amount cannot be collected. The Organization records accounts receivable when services are performed and revenue is earned. In addition, the Organization's grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized when incurred.

Quasi-Endowment Investment Guidelines

The investment objectives of the endowment are to provide an average total return that equals or exceeds the total of annual endowment spending percentage established by the Board of Directors plus the rate of inflation, as measured by the CPI.

All Endowment assets shall be invested subject to the guidelines and restrictions set forth below.

- (a) Mutual funds – mutual funds may be purchased for the benefit of the endowment.
- (b) Common Stocks – must be rated B or better by Standard & Poor's.
- (c) Preferred stocks, convertible preferred stocks and convertible bonds – must be BBB/BAA or better as rated by Standard & Poor's or Moody's respectively.
- (d) Fixed income securities – must have maturities of ten (10) years or less, quality rating of any debt security must be A or better as rated by Standard & Poor's or Moody's, or be an obligation of the US Government or its agencies.

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 2: Summary of Significant Accounting Policies (continued)

Quasi-Endowment Investment Guidelines (continued)

(e) Short term reserves – commercial paper shall be A-1/P-1 or better as rated by Standard & Poor’s or Moody’s respectively. CDs must be FDIC insured.

(f) Except for investments in mutual funds and obligations of the U.S. Government or its agencies, no more than 6% (based upon current market value) of the endowment may be invested in the securities of any one issuer.

(g) Bearing in mind the long-term investment horizon for these assets and the historic performance of various assets classes, the following maximum and minimum asset allocation guidelines for marketable securities only will be observed:

Asset Class	Maximum	Minimum
Equities	80%	50%
Fixed Income	45%	15%
Cash & Equivalents	25%	2%

So long as the Endowment holds an interest in non-liquid assets, such as the interest in West Beach Investors Group (Moby Dick), that investment shall not be considered in the allocation of assets as set forth above.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The unrealized gains and endowment investment income on funds not restricted by the donor are classified as temporarily restricted net assets until those funds are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 2: Summary of Significant Accounting Policies (continued)

Interpretation of Relevant Law (continued)

4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund for perpetual duration. There were no such deficiencies at December 31, 2015.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. The allocation of the costs is based upon hours spent or square footage occupied.

Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2014, from which the summarized information was derived. Certain reclassifications have been made to these amounts to conform to current year classifications.

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 3: Accounts and Contracts Receivable

Contracts receivable result from contracts between the Community Environmental Council and the County of Santa Barbara, Southern California Edison, The Gas Company and various solar companies.

	<u>2015</u>
Contracts receivable	\$ <u>46,744</u>

Management has recorded an allowance for doubtful accounts of \$5,000 at December 31, 2015.

Note 4: Pledges Receivable

Pledges receivable are recorded at the net present value of the future cash flows. At December 31, 2015, outstanding pledges were due as follows:

	December 31, <u>2015</u>
Within one year	\$ 7,134
One to five years	-
More than five years	<u>-</u>
Subtotal	7,134
Less: present value component	(-)
Less: doubtful accounts	(-)
Total pledges receivable	<u>\$ 7,134</u>

Management has recorded an allowance for doubtful accounts of \$0 at December 31, 2015 for pledges receivable and anticipates all amounts being fully collectible.

Note 5: Lease Commitments

On March 21, 2005, the Community Environmental Council (CEC) entered into a ten year month to month lease with Hutton Foundation for the lease of commercial office space consisting of the 2nd floor of 26 W. Anapamu St. in downtown Santa Barbara. The per month base rent was \$3,586.80, with common area expenses and utilities were to be paid as additional amounts. The annual rental obligation through March 31, 2015 was \$43,042. Insurance and maintenance expenses covering the leased facilities are the obligation of the Organization.

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 5: Lease Commitments (continued)

On October 29, 2015, CEC entered into a new five year month to month lease with Hutton Foundation that began on January 1, 2016 and will end on December 31, 2020. The base rent will be \$3,966 per month, with common area expenses and utilities to be paid as additional amounts. The annual rental obligation through December 31, 2020 is \$47,587.

Insurance and maintenance expenses covering the leased facilities are the obligations of the Organization. The following is a schedule by years of future minimum lease payments on non-cancelable operating leases as of December 31, 2015:

Year Ending December 31,	
2016	\$ 47,587
2017	47,587
2018	47,587
2019	47,587
2020	<u>47,587</u>
Total Minimum Future Payments Required	<u>\$190,348</u>

Note 6: Concentrations of Credit Risk

The Organization receives a significant portion of its accounts receivable, pledges receivable and related contributions from individuals and corporations from the Santa Barbara, California region.

Note 7: Investment in West Beach Investors Group

On July 18, 2001, a donor made an unrestricted donation of a 20% common stock interest in a company which owns a local waterfront restaurant. On July 5, 2001, an appraisal was prepared which approximated the fair market value of the company to be \$1,400,000. The Organization's stock ownership share of the fair market value of the company was \$280,000. The Board of Directors included this asset as part of the quasi-endowment (see Note 8). In 2006, one of the shareholders of the company passed away, leaving the remaining shareholders with the right of first refusal. In July, 2006, the remaining shareholders purchased the deceased's shares of the company on a pro rata basis. The Organization paid \$38,571 to acquire the additional shares and own a 28.57% interest. In July of 2008 another shareholder passed away. On February 28, 2011, the remaining shareholders agreed to purchase the deceased's shares of the company on a pro rata basis. The organization paid \$33,333 to acquire the additional shares and now own 33.33%. Effective December 31, 2014, the total investment in West Beach investors Group was recorded at \$600,000, based on an independent valuation of the restaurant obtained by the Organization.

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 8: Quasi-Endowment Fund

The Board of Directors has established a board designated quasi-endowment fund. The funds for the board designated quasi-endowment fund were provided from the sales of the Gildea and Estes properties along with the sale of recycling business. The funds at December 31, 2015 are invested in various mutual funds with Vanguard Brokerage Services. The by-laws of the Organization provide for a withdrawal of 5% of the average balance of the endowment, measured at the ends of the last three fiscal years, to fund operations and programs. For the year ended December 31, 2015 the Board of Directors voted to withdraw \$375,000 to fund operations and programs which represented 12.11% of the average balance of the last three fiscal years.

The following assets have been included in the board designated quasi-endowment fund at December 31, 2015:

Vanguard Mutual Funds	
Prime Money Market	\$ 352,846
Dividend Growth	128,484
Emerging Markets	160,128
Equity Income	487,174
Small-Cap Index	151,983
Total Stock Market Index	423,668
Short-Term Invest-Gr Bond	155,560
PrimeCap Core	574,693
Mid-Cap Index	121,338
T Rowe Price Intl Discovery	77,612
Harbor Fund Intl	71,509
Dodge & Cox International	<u>90,861</u>
Total Mutual Funds	<u>\$2,795,856</u>

Realized gains on the sale of mutual funds and stocks for the year ended December 31, 2015 was \$-0-. These investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the Statement of Financial Position.

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 8: Quasi-Endowment Fund (continued)

Note that \$125,507 in permanently restricted net assets are also included within the above mutual fund total at December 31, 2015. In addition, the Board of Directors has elected to include in the quasi-endowment the investment in West Beach Investors Group (see Note 7). The total value of the investment in West Beach Investors Group is not subject to the annual 5% withdrawal from the quasi-endowment. Instead, cash distributions from West Beach Investors Group are designated for general operations.

The composition of board designated quasi-endowment net assets and the changes in the board designated net assets as of December 31, 2015 are as follows:

	Unrestricted Board Designated	Permanently Restricted	Total
Net assets 12-31-14	\$3,672,850	\$ 125,507	\$3,798,357
Contributions	0	0	0
Investment income	97,551	0	97,551
Net depreciation	(125,052)	0	(125,052)
Program expenditures	(375,000)	0	(375,000)
Net assets 12-31-15	<u>\$3,270,349</u>	<u>\$ 125,507</u>	<u>\$3,395,856</u>

Note 9: Fair Value Measurements

Current accounting guidance establishes and requires disclosure of fair value hierarchy that distinguishes between data obtained from sources independent of the Organization and the Organization's own assumptions about market participant assumptions. The three levels of hierarchy are (1) using quoted market prices in active markets for identical assets or liabilities (Level 1 inputs), (2) significant other observable inputs (Level 2 inputs), and (3) significant unobservable inputs (Level 3). Level 2 inputs can include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the asset or liability, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are typically based on the Organization's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 9: Fair Value Measurements(continued)

measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Level 3 fair value measurement for the Investment in West Beach Investors Group (listed below) is based upon a February 13, 2014 valuation obtained by the Organization from a qualified local certified public accountant that specializes in the Santa Barbara California restaurant industry. The valuation was obtained for the December 31, 2013 audit and is still considered valid and accurate at December 31, 2015.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual Funds (see Note 8)	\$2,795,856		
Cash and Cash Equivalents	178,826		
Pledges Receivable			7,134
Investment in West Beach Investors Group			600,000
Investment in PFG Inc.	34,590		
Total Assets at Fair Value	\$3,009,272		\$ 607,134

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>Pledges Receivable</u>	<u>Investment in West Beach Investors Group</u>
Balance January 1, 2015	\$ 2,350	\$600,000
Payments received	(2,350)	
Change in value		-
New investments		-
New pledges		
Receivable	<u>7,134</u>	
Balance December 31, 2015	<u>\$7,134</u>	<u>\$600,000</u>

**COMMUNITY ENVIRONMENTAL COUNCIL
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 10: **Unrelated Business Income Tax**

The Organization recorded unrelated business income tax expense of \$10,942 for the year ended December 31, 2015 related to taxes paid on net investment income.

Note 11: **Subsequent Events**

Management of the Organization has evaluated subsequent events through April 6, 2016, the date on which the financial statements were available to be issued.