BORDERLANDS RESTORATION NETWORK

YEAR ENDED DECEMBER 31, 2019

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BeachFleischman

<u>Independent Auditors' Report</u>

Board of Directors and Management
Borderlands Restoration Network
Patagonia, Arizona

We have audited the accompanying financial statements of Borderlands Restoration Network (the Organization) which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Organization'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 Organization'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 financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Borderlands Restoration Network as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BeachFleischman PC

Tucson, Arizona
June 10, 2020

BORDERLANDS RESTORATION NETWORK

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

ASSETS

Current assets:	
Cash and cash equivalents	$ 93,391
Accounts receivable	75,114
Inventory	35,065
Prepaid expenses	9,311
Total current assets	212,881
Property and equipment, net	30,758
Land held for investment	192,000
Total assets	$ 435,639

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	$ 4,409
Accrued expenses	29,299
Due to affiliate	39,763
Contract liabilities	8,350
Total current liabilities	81,821
Commitments	
Net assets:	
Without donor restrictions	
Undesignated	267,474
Invested in property and equipment	30,758
	298,232
With donor restrictions	55,586
Total net assets	353,818
Total liabilities and net assets	$ 435,639

BORDERLANDS RESTORATION NETWORK

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

	Without donor restrictions	With donor restrictions	Total
Revenue and support:			
Contributions	$ 241,130	$ 102,325	$ 343,455
Grants	547,107	-	547,107
Network service fees	176,875	-	176,875
Service fees	190,131	-	190,131
Interest income	22	-	22
Net assets released from restrictions	52,441	(52,441)	-
	1,207,706	49,884	1,257,590
Expenses:			
Program services	769,770	-	769,770
General and administrative	250,951	-	250,951
Fundraising	48,271	-	48,271
	1,068,992	-	1,068,992
Change in net assets	138,714	49,884	188,598
Net assets, beginning	159,518	5,702	165,220
Net assets, ending	$ 298,232	$ 55,586	$ 353,818

BORDERLANDS RESTORATION NETWORK

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program services				Supporting services			
	Education	Native plant material	Restoration	Total program services	General and administrative	Fundraising	Total supporting services	Total expenses
Salaries	$ 183,968	$ 186,322	$ 40,203	$ 410,493	$ 141,097	$ 40,297	$ 181,394	$ 591,887
Payroll taxes and employee expenses	28,962	31,154	3,934	64,050	23,982	4,182	28,164	92,214
	212,930	217,476	44,137	474,543	165,079	44,479	209,558	684,101
Computer expense	-	-	-	-	7,407	-	7,407	7,407
Contractual	67,647	22,551	67,203	157,401	21,735	140	21,875	179,276
Depreciation	1,233	5,752	433	7,418	-	-	-	7,418
Equipment	337	109	-	446	1,682	-	1,682	2,128
Grants	27,600	5,000	-	32,600	-	-	-	32,600
Insurance	3,056	2,843	2,843	8,742	2,843	-	2,843	11,585
Interest	-	-	-	-	1,857	-	1,857	1,857
Occupancy costs	4,110	9,057	1,200	14,367	14,639	1,800	16,439	30,806
Office expense	215	147	-	362	8,701	741	9,442	9,804
Professional fees	225	-	-	225	17,469	-	17,469	17,694
Supplies	15,638	29,375	2,047	47,060	5,184	1,111	6,295	53,355
Telecommunication	-	230	-	230	3,220	-	3,220	3,450
Travel and conferences	12,969	11,950	1,457	26,376	1,135	-	1,135	27,511
	$ 345,960	$ 304,490	$ 119,320	$ 769,770	$ 250,951	$ 48,271	$ 299,222	$ 1,068,992

See notes to financial statements.

BORDERLANDS RESTORATION NETWORK

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2019

Cash flows from operating activities:	
Increase in net assets	$ 188,598
Adjustments to reconcile increase in net assets to net cash used in operating activities:	
Depreciation	7,418
Donated land held for investment	(192,000)
Changes in operating assets and liabilities:	
Accounts receivable	(6,450)
Inventory	(13,407)
Prepaid expenses	(4,746)
Accounts payable	1,928
Accrued expenses	(13,241)
Due to affiliate	(4,692)
Contract liabilities	5,050
Net adjustments	(220,140)
Net cash used in operating activities	(31,542)
Cash flows from investing activities:	
Purchases of property and equipment	(6,000)
Net cash used in investing activities	(6,000)
Net decrease in cash and cash equivalents	(37,542)
Cash and cash equivalents, beginning	130,933
Cash and cash equivalents, ending	$ 93,391

See notes to financial statements.

1. Description of organization and summary of significant accounting policies:

Organization:

Borderlands Restoration Network (the Organization) was incorporated in Arizona in December 2014, as a private nonprofit, community based organization whose goal is to foster ecological and cultural place-based learning and leadership, restore and support healthy, regenerating water sources and flourishing plant and animal communities, and support prosperous borderland communities by expanding a vibrant restoration economy. Borderlands Restoration Network operates primarily in southern Arizona. The Organization's viability is dependent upon the strength and support provided to the Organization, and the Organization's ability to collect on its contracts.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, support and gains and expenses during the reporting period. On an ongoing basis, management evaluates its estimates, including those related to inputs used to recognize revenue at a point in time and over time. Actual results could differ materially from such estimates and assumptions.

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 restrictions.

- *Net assets with donor restrictions* - Net assets subject to donor-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.

1. Description of organization and summary of significant accounting policies (continued):

Adoption of new accounting standard:

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." Topic 606 and all related Accounting Standards Updates supersedes previous revenue recognition requirements and establishes a core principle requiring the recognition of revenue to depict the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services. The new rule requires an entity to (1) identify the contract, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations, and (5) recognize revenue based on a point in time or over time. The Organization adopted Topic 606 as of January 1, 2019.

The Organization also adopted ASU No. 2018-08, "Not-for-Profit Entities (Topic 958)" to clarify the scope and accounting guidance for contributions made and received. ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions. The standard effectively excludes contributions from the requirements of Topic 606. The Organization adopted ASU 2018-08 as of January 1, 2019. The revenue recognition practices under ASU 2018-08 do not different significantly from prior practices, and there was no adjustment to net assets as a result of the adoption.

The Organization applied the modified retrospective method to those contracts that were not completed as of January 1, 2019. Under the modified retrospective method, the cumulative effect of applying the standard is recognized at the date of initial application. Results for reporting periods beginning after January 1, 2019 are presented under Topic 606.

In implementing Topic 606, the Organization was required to recalculate the revenue earned on any exchange transactions that were in process at the implementation date and to restate the revenue and related expenses as if Topic 606 had been followed from the inception of the contract. The Organization's revenue recognition practices for contracts with customers under Topic 606 do not differ significantly from prior practices. Since no material differences were calculated, no retrospective analysis of account balance changes was required.

Practical expedients and exemptions:

Upon the adoption of Topic 606, the Organization utilized certain permitted practical expedients and exemptions as follows:

- In cases where the Organization has an unconditional right to consideration from a customer in an amount that corresponds directly with the value of our performance completed to date, the Organization recognizes revenue in the amount to which it has a right to invoice for services performed.

1. Description of organization and summary of significant accounting policies (continued):

Revenue and support:

Grants:

The Organization receives grants from governmental and other pass-through agencies for various programs and projects. For grants that have an exchange element, revenue is recognized over time as goods and services are transferred and expenditures under these grants are incurred. Revenues resulting from cost reimbursement contracts are recorded in the period in which allowable costs are incurred.

Certain grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. At December 31, 2019, there were no conditional grants for which amounts had been received in advance.

Service revenue:

Revenues from network service fees and service fees to others are recorded in the period in which the services are provided and are recognized at a point in time. Included in service fees are plant revenue sales and revenue for tuition for the various educational programs provided to high school and college students. Tuition revenue is recorded over time. Tuition received in advance is deferred and recognized when the service is provided and is recorded as a contract liability.

Performance obligations:

Contracts are considered to contain a single performance obligation if the promise to transfer individual goods or services is not separately identifiable from other promises in the contracts primarily because the Organization provides a significant service of integrating a complex set of tasks and components into a single project or capability. A series of goods or services are a single performance obligation if the goods or services are substantially the same and each distinct good or service in the series will be satisfied over time and the same method would be used to measure progress towards satisfaction.

Support:

Contributions are considered non-exchange transactions and are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Support arising from donated goods and services is recognized in the financial statements at its fair value. Donated services are recognized when the services received meet one of the following criteria:

(a) create or enhance nonfinancial assets
(b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

1. Description of organization and summary of significant accounting policies (continued):

Revenue and support (continued):

Support (continued):

Although the Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization, the fair value of all these services may not be reflected in the financial statements because the above criteria are not met.

Donations of property and equipment are recorded as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are recorded as contributions with donor restrictions absent donor stipulations regarding how long those donated assets must be maintained. The Organization recorded contributed property of $192,000, of which was capitalized as land held for investment during the year ended December 31, 2019.

Cash and cash equivalents:

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

Cash and cash equivalents are placed with various credit institutions. At times, such amounts may be in excess of the FDIC insurance limits; however, management does not believe they are exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable:

The Organization grants unsecured credit under contracts to its customers that are primarily governmental and nonprofit agencies in Arizona. The carrying value of such receivables represents their estimated net realizable value. The Organization considers accounts over 30 days to be past due. Receivable balances are considered fully collectible by management; therefore, no allowance for doubtful accounts has been provided. At January 1, 2019, the balance of accounts receivable was $68,664.

Inventories:

Inventories consist of plants and plant materials and are stated at the lower of cost or net realizable value with costs determined on the first-in, first-out (FIFO) basis.

Property, equipment, and depreciation:

Property and equipment are stated at cost except for donated equipment, which is recorded at its fair market value at the date of gift. Property and equipment with a value of greater than or equal to $1,000 and a useful life of more than one year is capitalized. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

Greenhouse	10 years
Equipment	5 years
Vehicles	5 years

1. Description of organization and summary of significant accounting policies (continued):

Contract liabilities:

Contract liabilities consist of deferred revenue on tuition payments received in advance for classes not yet provided. Contract liabilities were $3,300 at January 1, 2019.

Functional allocation of expenses:

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include insurance and rent, which are allocated on employee count and square footage basis, as well as payroll, benefits and payroll taxes, which are allocated on the basis of estimates of time and effort.

Tax exempt status:

The Organization is exempt from income taxes under both Federal Internal Revenue Code Section §501(c)(3) and Arizona income tax laws, and is classified as other than a private foundation under Internal Revenue Code Section §509(a)(1). Income from certain activities not directly related to the Organization's tax-exempt purpose, however, may be subject to taxation as unrelated business taxable income (UBTI).

From time to time, the Organization may be subject to penalties and interest assessed by various taxing authorities, which are classified as general and administrative expenses if they occur.

Subsequent events:

The Organization's management has evaluated the events that have occurred subsequent to December 31, 2019 through June 10, 2020, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

2. Liquidity and availability of financial assets:

The following reflects the Organization's financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date:

Cash and cash equivalents	$ 93,391
Accounts receivable	75,114
Total financial assets	168,505
Contractual or donor-imposed restrictions:	
Donor restrictions	(55,586)
	$ 112,919

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Organization could draw upon an available line of credit of $50,000 in the event of an unanticipated liquidity need.

3. Property and equipment:

Greenhouse	$ 28,000
Equipment	3,091
Vehicles	8,000
	39,091
Less accumulated depreciation	8,333
	$ 30,758

4. Line of Credit:

The Organization has a $50,000 line of credit from National Bank of Arizona that matures in March 2022. The agreement requires interest to be paid at prime (4.75% at December 31, 2019), plus 4.47%. At December 31, 2019, there was no balance outstanding on this line of credit.

5. Net assets with donor restrictions:

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

Subject to expenditure for specified purpose:		
Community restoration	$	4,120
Watershed restoration		4,810
Native plant material		30,289
Education		16,367
	$	55,586

6. Disaggregation of revenue:

The following table disaggregates the Organization's revenue for the revenue that applies under Topic 606 based on the timing of the performance obligations for the year ended December 31, 2019:

Performance obligations satisfied over time	$	15,268
Performance obligations satisfied at a point in time		351,738
Total contract revenue earned	$	367,006

7. Operating leases:

The Organization leases office space and farm land under operating leases that expire in September 2022. Beginning in June 2019, the Organization also entered into a lease agreement for use of plant nurseries that expires in May 2020. Total rent expense for the year ended December 31, 2019 was $22,631.

Future minimum lease payments under operating leases are as follows:

Year ending December 31,		
2020	$	12,581
2021		10,800
2022		8,100
	$	31,481

8. Related party transactions:

During the year ended December 31, 2019, the Organization provided the following supporting services to affiliates as follows. The affiliation results from the Organization's board of directors including representatives from the network of local companies with similar missions. These amounts are reported under network service fees.

	Borderlands Restoration L3c	Wildlife Corridors	Other	Total
Administrative services	$ 17,065	$ 2,591	$ 15,339	$ 34,995
Program services	136,408	5,072	-	141,480
Other	400	-	-	400
	$ 153,873	$ 7,663	$ 15,339	$ 176,875

At December 31, 2019, included in accounts receivable were $34,138 and $5,619 from Borderlands Restoration L3c (L3c) and other affiliates.

During the year ended December 31, 2018, the Organization purchased plants, seed, equipment and a greenhouse from L3c totaling $44,455. At December 31, 2019, $35,976 related to this purchase is included in due to affiliates. At December 31, 2019, additional amounts due to L3c totaled $3,787.

9. Concentrations:

For the year ended December 31, 2019, two agencies and one donor comprised 59% of total revenue and support. At December 31, 2019, four agencies accounted for 90% of accounts receivable.

10. Pending pronouncement:

In February 2016, the FASB issued ASU 2016-02 “Leases.” ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for reporting periods beginning after December 15, 2021, with early adoption permitted.

Management is currently evaluating the effect that this standard will have on the financial statements.

11. Subsequent events:

The COVID-19 outbreak in the United States has caused business disruption. The extent of the COVID-19 impact on operational and financial performance will depend on certain developments, including duration and spread of the outbreak, impact on donors, other funding sources, customers, employees and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial statements is uncertain.

In April 2020, Organization was granted an unsecured Paycheck Protection Program (PPP) loan from National Bank of Arizona in the amount of $145,500, pursuant to the CARES Act (the Act). The loan matures in April 2022 and bears interest at a rate of 1%, and is payable monthly commencing in November 2020. The loan may be prepaid by the Borrower at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, rent, utilities and interest, as defined under the Act. The Organization intends to use the entire loan amount for covered expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for covered expenses as described in the Act.