

Friends of the Urban Forest

Financial Statements

Year ended June 30, 2019

with

Report of Independent Auditors



101 LARKSPUR LANDING CIRCLE
SUITE 200, LARKSPUR, CA. 94939

MAIN OFFICE (415) 925-1120
FAX (415) 925-1140

Report of Independent Auditors

To the Board of Directors
of Friends of the Urban Forest

We have audited the accompanying financial statements of Friends of the Urban Forest which comprise the statements of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, 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; 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends of the Urban Forest as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Report on Summarized Comparative Information

We have previously audited the financial statements of Friends of the Urban Forest as of and for the year ended June 30, 2018 and, in our report dated November 20, 2018, we expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which the management of Friends of the Urban Forest derived it.

WMB², LLP
Larkspur, California
November 13, 2019

Friends of the Urban Forest
Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 979,086	\$ 1,878,849
Grants and contracts receivable	1,788,310	922,206
Inventory	3,426	5,129
Prepaid expenses	5,210	14,409
Total current assets	2,776,032	2,820,593
Property and equipment, at cost		
Furniture and fixtures	-	85,481
Equipment	187,602	279,758
Leasehold improvements	393,954	6,521
Accumulated depreciation	(168,781)	(335,445)
Property and equipment, net	412,775	36,315
Deposits	15,035	7,223
Total assets	\$ 3,203,842	\$ 2,864,131
 Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 117,919	\$ 34,734
Accrued liabilities	230,553	125,200
Total current liabilities	348,472	159,934
Net assets		
Without donor restrictions	2,476,570	2,649,597
With donor restrictions	378,800	54,600
Total net assets	2,855,370	2,704,197
Total liabilities and net assets	\$ 3,203,842	\$ 2,864,131

See accompanying notes.

Friends of the Urban Forest
Statement of Activities and Changes in Net Assets
Year ended June 30, 2019 with comparative totals only for the year ended June 30, 2018

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>2019 Totals</u>	<u>2018 Totals</u>
Revenue and support				
Foundations	\$ 137,591	\$ -	\$ 137,591	\$ 232,864
Corporations	201,932	75,000	276,932	154,948
Trusts and estates	-	-	-	956,827
Individuals and directors	563,392	314,000	877,392	589,134
Grant revenues				
Government				
City and County of San Francisco				
Department of Public Works	1,556,794	-	1,556,794	1,425,158
San Francisco Community Challenge Grant Program	128,834	-	128,834	35,089
Public Utilities Commission	109,983	-	109,983	215,859
Department of Environment	46,299	-	46,299	-
California Department of Forestry and Fire Protection	448,035	-	448,035	-
Tree planting income	15,878	-	15,878	37,126
Other tree maintenance contracts	105,005	-	105,005	89,313
Merchandise sales and other	-	-	-	20
Interest and dividends	883	-	883	1,014
Net assets released from restrictions	64,800	(64,800)	-	-
Total revenue and support	3,379,426	324,200	3,703,626	3,737,352
Expenses				
Programs	2,743,376	-	2,743,376	2,094,149
General and administrative	247,167	-	247,167	283,637
Fundraising	561,910	-	561,910	524,743
Total expenses	3,552,453	-	3,552,453	2,902,529
Change in net assets	(173,027)	324,200	151,173	834,823
Net assets, beginning of year	<u>2,649,597</u>	<u>54,600</u>	<u>2,704,197</u>	<u>1,869,374</u>
Net assets, end of year	<u>\$ 2,476,570</u>	<u>\$ 378,800</u>	<u>\$ 2,855,370</u>	<u>\$ 2,704,197</u>

See accompanying notes.

Friends of the Urban Forest
Statement of Functional Expenses

Year ended June 30, 2019 with comparative totals only for the year ended June 30, 2018

	Programs	General and administrative	Fundraising	2019 Totals	2018 Totals
Salaries	\$ 1,276,883	\$ 149,922	\$ 384,237	\$ 1,811,042	\$ 1,386,154
Payroll taxes	107,782	8,823	28,375	144,980	119,585
Other employee benefits	163,138	30,530	19,898	213,566	212,763
Accounting & audit	-	13,467	-	13,467	14,769
Bad debt	-	-	-	-	5,979
Bank charges & fees	-	12,729	-	12,729	12,653
Copying	9,955	-	-	9,955	8,650
Depreciation	57,720	6,777	17,369	81,866	20,270
Development - Staff	33,299	412	3,131	36,842	36,984
Development - Board members & volunteers	8,000	-	2,045	10,045	17,326
Dues & subscriptions	4,638	-	1,719	6,357	4,174
Education	13,664	-	-	13,664	8,363
Equipment rental & repairs	61,063	-	302	61,365	64,769
Insurance	42,067	4,939	12,658	59,664	63,906
Lobbying	2,233	-	-	2,233	20
Occupancy	113,315	13,304	34,098	160,717	91,543
Office supplies	41,639	160	147	41,946	29,239
Postage & delivery	6,033	63	131	6,227	3,586
Printing & graphics	21,202	134	35,688	57,024	56,994
Professional services	87,366	-	5,530	92,896	83,293
Publicity	-	-	9,130	9,130	3,903
Storage	-	3,000	-	3,000	3,000
Telecommunications	24,761	2,907	7,452	35,120	25,063
Travel	275	-	-	275	-
Tree planting	667,262	-	-	667,262	627,190
Tree maintenance	1,081	-	-	1,081	2,353
Total expenses	\$ 2,743,376	\$ 247,167	\$ 561,910	\$ 3,552,453	\$ 2,902,529

See accompanying notes.

Friends of the Urban Forest
Statement of Cash Flows
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 151,173	\$ 834,823
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	81,866	20,270
Changes in current assets and liabilities		
Grants receivable	(866,104)	(659,717)
Inventory	1,703	(3,133)
Prepaid expenses	9,199	(859)
Accounts payable	83,185	(16,354)
Accrued liabilities	105,353	13,689
Fiscal agent funds held	-	(10,000)
Deferred revenue	-	(5,648)
	<u>(433,625)</u>	<u>173,071</u>
Net cash (used) provided by operating activities		
Cash flows from investing activities		
Purchases of property and equipment	(458,326)	-
Net change in deposits	<u>(7,812)</u>	<u>-</u>
Net cash used by investing activities	(466,138)	-
Net (decrease) increase in cash and cash equivalents	(899,763)	173,071
Cash and cash equivalents, beginning of year	<u>1,878,849</u>	<u>1,705,778</u>
Cash and cash equivalents, end of year	<u>\$ 979,086</u>	<u>\$ 1,878,849</u>

See accompanying notes.

Friends of the Urban Forest
Notes to Financial Statements
June 30, 2019

Note 1 – Summary of significant accounting policies

Organization

Founded in 1981, Friends of the Urban Forest (FUF) is a non-profit organization dedicated to promoting a larger and healthier urban forest as part of the urban ecosystem in San Francisco through community planting, maintenance, education and advocacy.

Recent accounting pronouncement

Effective July 1, 2018, FUF adopted FASB ASU 2016-14 *Not-for-Profit Entities (Topic 958); Presentation of Financial Statements of Not for Profit Entities*. The new pronouncement changed the presentation of certain information in the financial statements and footnote disclosures.

Basis of accounting

FUF prepares its financial statements using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). FUF records revenues when earned and expenses when incurring the related obligations.

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.

Friends of the Urban Forest
Notes to Financial Statements
June 30, 2019

Note 1 – Summary of significant accounting policies (continued)

Revenues

FUF derives a substantial portion of its revenues and support from multiple reimbursable cost contracts with several departments of the City and County of San Francisco and several divisions of the State of California. A significant reduction in the level of these revenues, if this were to occur, may have an adverse effect on the programs and activities of FUF.

FUF recognizes revenues from reimbursable cost contracts when incurring the related expenses.

Concentrations, credit risk and market risk

At and during the year ended June 30, 2019, FUF had deposits in a commercial bank excess of federal deposit insurance amounts.

Grants and contracts receivable are subject to collection risk. Collection risk is the probability that the financial condition or other circumstances of the grantor and/or contractor may change, reducing or eliminating the subsequent collection of grants and contracts receivable.

FUF provides its tree planting and care programs exclusively in San Francisco.

For the year ended June 30, 2019, FUF received \$296,500 from a single individual.

Income taxes

The Internal Revenue Service (IRS) and State of California Franchise Tax Board approved FUF as exempt from federal income tax under the Internal Revenue Code (IRC) and from California bank and corporation taxes under the California Revenue and Taxation Code. In addition, the IRS approved FUF to receive contributions that qualify for the charitable contribution deduction under the IRC and as a publicly supported organization as described in the IRC. Accordingly, donors are entitled to the maximum charitable contribution deduction allowed by law. Management of FUF concluded that no activities of FUF jeopardized its exemption from income taxes, its classification as a "public charity" or subjected FUF to taxes on unrelated business income. Consequently, FUF did not provide for any income taxes.

FUF follows U.S. GAAP relating to the accounting for uncertainty in income taxes. Management believes that FUF has adequately addressed all tax positions and that there are no unrecorded tax liabilities. Tax years 2015 to 2018 are open for examination by the IRS and years 2014 to 2018 by the California Franchise Tax Board.

Friends of the Urban Forest
Notes to Financial Statements
June 30, 2019

Note 1 – Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consists of amounts on deposit with commercial banks, in both interest bearing and non-interest bearing accounts, all available on demand.

Grants and contracts receivable

Grants and contracts receivable, all due within one year, consist principally of amounts due from various government agencies and other receivables.

Allowance for uncollectible accounts receivable

FUF uses the allowance method to account for uncollectible accounts receivable. Under this method, FUF reviews all receivables for any problems with collectability. If FUF feels that there may be a problem with collections, an allowance is provided for the receivable. When attempts to collect a specific receivable are unsuccessful, the account is considered uncollectible and is written off against the allowance. At June 30, 2019, the management of FUF concluded that any allowance for doubtful accounts was not material to the financial position of FUF.

Inventory

Inventory consists primarily of tree planting supplies, books and other sundries. FUF uses planting supplies in its tree planting programs and sells or gives away its books and other sundries. FUF records inventory at the lower of cost or market, using the first-in, first-out method.

Property and equipment

FUF records purchased property and equipment at acquisition cost and donated property and equipment at acquisition-date fair market value. FUF records depreciation on all property and equipment computed using the straight-line method over the estimated useful lives of the property and equipment, ranging from three to seven years. Amounts expended for maintenance and repairs that do not improve or extend the lives of the respective assets are recorded as expenses. FUF generally capitalizes expenditures of \$2,500 or more.

Allocation of functional expenses

Functional expenses of FUF include program and supporting expenses. Supporting expenses include management and general, and fundraising. FUF records expenses that directly benefit an activity to that specific activity. FUF allocates expenses that do not directly benefit an activity between program and supporting based on estimates of the relative benefits to each. FUF bases its estimates on either time spent by personnel on various activities or space used by various activities, whichever FUF deems more relevant to the particular expense. The management of FUF reviews and adjusts the estimates and bases at least annually.

Friends of the Urban Forest
Notes to Financial Statements
June 30, 2019

Note 1 – Summary of significant accounting policies (continued)

Use of estimates

FUF prepares its financial statements in accordance with U.S. GAAP. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts and notes reported in these financial statements. Actual results could differ from those estimated.

Comparative totals

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 U.S. GAAP. Accordingly, read such information in conjunction with the financial statements of FUF as of and for the year ended June 30, 2018, from which FUF derived the prior year summarized comparative information.

Reclassification

FUF reclassified certain prior year amounts to conform to the current year presentation.

Subsequent events

FUF evaluated subsequent events for recognition and disclosure through November 13, 2019, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2019 that required recognition or disclosure in such financial statements.

Note 2 – Grants and contracts receivable

At June 30, 2019, grants and contracts receivable were as follows:

City and County of San Francisco	\$ 1,377,810
Paul Simon	296,500
American Forests	37,500
DocuSign	25,000
Joby Pritzker	17,500
The Seed Fund	15,000
Bloomberg	9,500
Under \$5,000	<u>9,500</u>
Total grants and contracts receivable	<u>\$ 1,788,310</u>

Friends of the Urban Forest
Notes to Financial Statements
June 30, 2019

Note 3 – Commitments

FUF leases office space under noncancelable-operating leases that expires June 30, 2023. Required future minimum lease payments total as follows for the years ending June 30:

2020	\$ 187,980
2021	189,133
2022	191,439
2023	<u>193,746</u>
 Total future lease payments	 <u>\$ 762,298</u>

FUF charges rental payments to expense in accordance with the lease terms. The effect of future rental increases is considered insignificant to the accompanying financial statement presentation.

Rent expense for facilities, included in occupancy in the accompanying statement of functional expenses for the year ended June 30, 2019, was \$160,717.

Note 4 – Net assets with donor restrictions

As of and during the year ended June 30, 2019, net assets with donor restrictions reconciled as follows:

	<u>2018</u>	<u>Additions</u>	<u>Releases</u>	<u>2019</u>
Pacific Gas and Electric Company	\$54,600	\$ -	\$(27,300)	\$ 27,300
Paul Simon	-	296,500	-	296,500
American Forests	-	75,000	(37,500)	37,500
Vanguard Charitable Endowment Fund	-	17,500	-	17,500
 Total	 <u>\$54,600</u>	 <u>\$389,000</u>	 <u>\$(64,800)</u>	 <u>\$378,800</u>

Note 5 – Contingencies

FUF received support that may be subject to audit or review by the grantor agencies. Management believes that FUF has complied with all aspects of grant and contract provisions and disallowed costs, if any, would be insignificant to its financial position.

Friends of the Urban Forest
Notes to Financial Statements
June 30, 2019

Note 6 – Liquidity and availability of financial assets

The following reflects FUF's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts available include donor restricted amounts that are available for general expenditure in the following year.

Financial assets, at year end:	
Cash and cash equivalents	\$ 979,086
Grants and contracts receivable	1,788,310
Inventory	<u>3,426</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,770,822</u>

As part of its liquidity management, FUF invests cash in excess of daily requirements.