

Friends of the Urban Forest

Financial Statements

Year ended June 30, 2020

with

Report of Independent Auditors



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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, 2020, 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, 2020, 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, 2019 and, in our report dated November 13, 2019, 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, 2019, is consistent, in all material respects, with the audited financial statements from which the management of Friends of the Urban Forest derived it.

WMB²

WMB², LLP
Larkspur, California
November 24, 2020

Friends of the Urban Forest
Statement of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 2,359,692	\$ 979,086
Grants and contracts receivable	666,234	1,788,310
Inventory	3,082	3,426
Prepaid expenses	35,035	5,210
Total current assets	3,064,043	2,776,032
Property and equipment, at cost		
Equipment	187,602	187,602
Leasehold improvements	393,954	393,954
Accumulated depreciation	(244,125)	(168,781)
Property and equipment, net	337,431	412,775
Deposits	15,035	15,035
Total assets	\$ 3,416,509	\$ 3,203,842
 Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 48,633	\$ 117,919
Accrued liabilities	133,901	230,553
Total current liabilities	182,534	348,472
Net assets		
Without donor restrictions	3,183,975	2,476,570
With donor restrictions	50,000	378,800
Total net assets	3,233,975	2,855,370
Total liabilities and net assets	\$ 3,416,509	\$ 3,203,842

See accompanying notes.

Friends of the Urban Forest
Statement of Activities and Changes in Net Assets
Year ended June 30, 2020 with comparative totals only for the year ended June 30, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>2020 Totals</u>	<u>2019 Totals</u>
Revenue and support				
Foundations	\$ 77,300	\$ 50,000	\$ 127,300	\$ 137,591
Corporations	150,752	-	150,752	276,932
Trusts and estates	321,353	-	321,353	-
Individuals and directors	644,966	-	644,966	877,392
Grant revenues				
Government				
City and County of San Francisco				
Department of Public Works	1,551,770	-	1,551,770	1,556,794
San Francisco Community Challenge Grant Program	-	-	-	128,834
Public Utilities Commission	-	-	-	109,983
Department of Environment	-	-	-	46,299
California Department of Forestry and Fire Protection	569,794	-	569,794	448,035
Paycheck Protection Program	383,800	-	383,800	-
Tree planting income	9,850	-	9,850	15,878
Other tree maintenance contracts	47,205	-	47,205	105,005
Interest and dividends	492	-	492	883
Net assets released from restrictions	<u>378,800</u>	<u>(378,800)</u>	<u>-</u>	<u>-</u>
Total revenue and support	4,136,082	(328,800)	3,807,282	3,703,626
Expenses				
Programs	2,713,348	-	2,713,348	2,743,376
General and administrative	182,699	-	182,699	247,167
Fundraising	<u>532,630</u>	<u>-</u>	<u>532,630</u>	<u>561,910</u>
Total expenses	<u>3,428,677</u>	<u>-</u>	<u>3,428,677</u>	<u>3,552,453</u>
Change in net assets	707,405	(328,800)	378,605	151,173
Net assets, beginning of year	<u>2,476,570</u>	<u>378,800</u>	<u>2,855,370</u>	<u>2,704,197</u>
Net assets, end of year	<u>\$ 3,183,975</u>	<u>\$ 50,000</u>	<u>\$ 3,233,975</u>	<u>\$ 2,855,370</u>

See accompanying notes.

Friends of the Urban Forest

Statement of Functional Expenses

Year ended June 30, 2020 with comparative totals only for the year ended June 30, 2019

	Programs	General and administrative	Fundraising	2020 Totals	2019 Totals
Salaries	\$ 1,359,641	\$ 105,096	\$ 377,898	\$ 1,842,635	\$ 1,811,042
Payroll taxes	110,175	17,887	22,745	150,807	144,980
Other employee benefits	153,112	8,621	9,951	171,684	213,566
Accounting & audit	-	14,423	-	14,423	13,467
Bank charges & fees	-	13,575	-	13,575	12,729
Copying	11,748	-	333	12,081	9,955
Depreciation	55,595	4,297	15,452	75,344	81,866
Development - Staff	25,453	341	1,992	27,786	36,842
Development - Board members & volunteers	7,842	-	2,401	10,243	10,045
Dues & subscriptions	3,592	-	65	3,657	6,357
Education	10,572	-	-	10,572	13,664
Equipment rental & repairs	88,910	121	6,095	95,126	61,365
Insurance	57,180	4,420	15,892	77,492	59,664
Lobbying	-	-	400	400	2,233
Occupancy	140,860	10,888	39,150	190,898	160,717
Office supplies	24,334	5	2,425	26,764	41,946
Postage & delivery	4,558	-	-	4,558	6,227
Printing & graphics	7,353	-	20,855	28,208	57,024
Professional services	72,302	-	5,267	77,569	92,896
Publicity	-	-	3,527	3,527	9,130
Storage	2,000	750	-	2,750	3,000
Telecommunications	29,437	2,275	8,182	39,894	35,120
Travel	158	-	-	158	275
Tree planting	547,933	-	-	547,933	667,262
Tree maintenance	593	-	-	593	1,081
Total expenses	\$ 2,713,348	\$ 182,699	\$ 532,630	\$ 3,428,677	\$ 3,552,453

See accompanying notes.

Friends of the Urban Forest
Statement of Cash Flows
Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 378,605	\$ 151,173
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	75,344	81,866
Changes in current assets and liabilities		
Grants receivable	1,122,076	(866,104)
Inventory	344	1,703
Prepaid expenses	(29,825)	9,199
Accounts payable	(69,286)	83,185
Accrued liabilities	(96,652)	105,353
Net cash (used) provided by operating activities	<u>1,380,606</u>	<u>(433,625)</u>
Cash flows from investing activities		
Purchases of property and equipment	-	(458,326)
Net change in deposits	-	(7,812)
Net cash used by investing activities	<u>-</u>	<u>(466,138)</u>
Net increase (decrease) in cash and cash equivalents	1,380,606	(899,763)
Cash and cash equivalents, beginning of year	<u>979,086</u>	<u>1,878,849</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,359,692</u></u>	<u><u>\$ 979,086</u></u>

See accompanying notes.

Friends of the Urban Forest
Notes to Financial Statements
June 30, 2020

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.

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.

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.

Friends of the Urban Forest
Notes to Financial Statements
June 30, 2020

Note 1 – Summary of significant accounting policies (continued)

Concentrations, credit risk and market risk

At and during the year ended June 30, 2020, FUF had deposits in a commercial bank in 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.

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.

The management of FUF is required to report information regarding its exposure to various tax positions taken by FUF and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that FUF has adequately addressed all tax positions and that there are no unrecorded tax liabilities.

FUF files information returns with the IRS and FTB. The IRS is generally open to examination three years after filing and the FTB is open to examination four years after filing.

Cash and cash equivalents

Cash and cash equivalents consist 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.

Friends of the Urban Forest
Notes to Financial Statements
June 30, 2020

Note 1 – Summary of significant accounting policies (continued)

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, 2020, the management of FUF concluded that any allowance for doubtful accounts was not material its financial position.

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.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimated.

Friends of the Urban Forest
Notes to Financial Statements
June 30, 2020

Note 1 – Summary of significant accounting policies (continued)

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, 2019, from which FUF derived the prior year summarized comparative information.

Recent accounting pronouncement

Effective June 1, 2019, FUF adopted the following pronouncements:

FASB ASU 2014-09, Revenue from Contracts with Customers (Topic 606), as amended. The new pronouncement establishes a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. FUF has implemented Topic 606 and has adjusted, if applicable, the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented. The implementation had no impact on the previously reported net assets.

FASB ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions made. The new pronouncement assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. FUF has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with implementation of ASU 2018-08.

FASB ASU 2016-01, Financial Instruments (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities. This amendment requires, among other things, equity investments to be measured at fair value with changes in fair value recognized in net income. The amendment has been applied retrospectively to all periods presented. The implementation of ASU 2016-01 did not have a material impact on the financial statements.

Reclassification

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

Friends of the Urban Forest
Notes to Financial Statements
June 30, 2020

Note 1 – Summary of significant accounting policies (continued)

Subsequent events

FUF evaluated subsequent events for recognition and disclosure through November 24, 2020, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2020 that required recognition or disclosure in such financial statements.

Note 2 – Grants and contracts receivable

At June 30, 2020, grants and contracts receivable were as follows:

City and County of San Francisco	\$ 558,734
Barbara A. Kozlowski Trust	70,000
American Forests	<u>37,500</u>
Total grants and contracts receivable	<u>\$ 666,234</u>

Note 3 – Net assets with donor restrictions

As of and during the year ended June 30, 2020, net assets with donor restrictions reconciled as follows:

	<u>2019</u>	<u>Additions</u>	<u>Releases</u>	<u>2020</u>
<u>Program Restrictions</u>				
Greening				
Pacific Gas and Electric Company	\$ 27,300	\$ -	\$ (27,300)	\$ -
Education				
Joseph and Vera Long Foundation	-	50,000	-	50,000
	<u>27,300</u>	<u>50,000</u>	<u>(27,300)</u>	<u>50,000</u>
<u>Time Restrictions</u>				
Paul Simon	296,000	-	(296,000)	-
American Forests	37,500	-	(37,500)	-
Vanguard Charitable Endowment Fund	17,500	-	(17,500)	-
	<u>351,000</u>	<u>-</u>	<u>(351,000)</u>	<u>-</u>
Total	<u>\$ 378,300</u>	<u>\$ 50,000</u>	<u>\$ (378,300)</u>	<u>\$ 50,000</u>

Friends of the Urban Forest
Notes to Financial Statements
June 30, 2020

Note 4 – 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:

2021	\$ 189,133
2022	191,439
2023	<u>193,746</u>
Total future lease payments	<u>\$ 574,318</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, 2020, was \$190,898.

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.

Note 6 – Retirement plan

FUF offers a 403(b) retirement plan. Eligible employees may elect to defer a portion of their annual compensation, up to the maximum allowed by the IRS. Participants are eligible to participate in the Plan after three months of employment. Employer contributions are fully vested after three years of becoming eligible. For the year ended June 30, 2020, the employer made no contributions.

Note 7 – 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.

Friends of the Urban Forest
Notes to Financial Statements
June 30, 2020

Note 7 – Liquidity and availability of financial assets (continued)

Financial assets, at year end:	
Cash and cash equivalents	\$ 2,359,692
Grants and contracts receivable	666,234
Inventory	<u>3,082</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,029,008</u>

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

Note 8 – Paycheck Protection Program

On May 6, 2020 FUF received loan proceeds of \$383,800 from a promissory note issued by Ready Cap Lending, LLC under the Paycheck Protection Program (PPP) which was established under the CARES Act and is administered by the U.S. Small Business Administration. The term of the loan is two years and the annual interest rate is 1%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under the PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. FUF expects to meet the PPP's eligibility criteria and has concluded that the PPP loan represents, in substance, a conditional contribution. The PPP forgivable loan is considered to be conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Proceeds received under the PPP are recognized as revenue when FUF has incurred expenditures in compliance with the promissory note provisions. For the year ended June 30, 2020 FUF recognized \$383,800 in PPP grant revenue based on qualifying expenditures under the PPP that are expected to be forgiven.