

FRIENDS OF THE RIVER

Independent Auditor's Report
and Financial Statements

Year Ended December 31, 2017

**FRIENDS OF THE RIVER
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Friends of the River
Sacramento, CA

We have audited the accompanying financial statements of Friends of the River (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, 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.

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 of America. 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 River as of December 31, 2017, and the changes in its net assets and cash flows for the year then ended in accordance with principles generally accepted in the United States of America.

Fritzsche Associates, Inc.

Certified Public Accountants
Sacramento, CA
June 22, 2018

FRIENDS OF THE RIVER
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

Assets

Current assets:

Cash and equivalents	\$ 256,660
Contributions receivable	39,836
Prepaid expenses	<u>13,127</u>
Total current assets	309,623

Beneficial interest in assets of community foundation	50,871
Fixed assets, net	11,488
Deposits	5,866
Other assets	<u>2,409</u>
Total assets	<u><u>\$ 380,257</u></u>

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 10,737
Accrued expenses	<u>17,536</u>
Total current liabilities	<u>28,273</u>

Net assets:

Unrestricted	186,562
Temporarily restricted	114,551
Permanently restricted	<u>50,871</u>
Total net assets	<u>351,984</u>
Total liabilities and net assets	<u><u>\$ 380,257</u></u>

The accompanying notes are an integral part of these financial statements.

**FRIENDS OF THE RIVER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions	\$ 239,324	\$ 39,836	\$ 46,545	\$ 325,705
Donated services	412,600	-	-	412,600
Grants and contracts	-	114,800	-	114,800
Special event revenue	205,737	-	-	205,737
Less: Cost of direct benefits to donors	(42,031)	-	-	(42,031)
Interest income	-	-	888	888
Other income	611	-	3,438	4,049
Net assets released from restrictions	<u>156,937</u>	<u>(156,937)</u>	<u>-</u>	<u>-</u>
 Total support and revenue	 <u>973,178</u>	 <u>(2,301)</u>	 <u>50,871</u>	 <u>1,021,748</u>
Expenses:				
Program services	<u>723,487</u>	<u>-</u>	<u>-</u>	<u>723,487</u>
 Total program services	 <u>723,487</u>	 <u>-</u>	 <u>-</u>	 <u>723,487</u>
Supporting services:				
Fund development	79,321	-	-	79,321
General and administrative	<u>67,497</u>	<u>-</u>	<u>-</u>	<u>67,497</u>
 Total supporting services	 <u>146,818</u>	 <u>-</u>	 <u>-</u>	 <u>146,818</u>
 Total expenses	 <u>870,305</u>	 <u>-</u>	 <u>-</u>	 <u>870,305</u>
 Change in net assets	 102,873	 (2,301)	 50,871	 151,443
Net assets, beginning of year	<u>83,689</u>	<u>116,852</u>	<u>-</u>	<u>200,541</u>
Net assets, end of year	<u><u>\$ 186,562</u></u>	<u><u>\$ 114,551</u></u>	<u><u>\$ 50,871</u></u>	<u><u>\$ 351,984</u></u>

The accompanying notes are an integral part of these financial statements.

**FRIENDS OF THE RIVER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Services	Fund Development	General & Administrative	Total
Salaries & wages	\$ 150,617	\$ 34,857	\$ 16,437	\$ 201,911
Employee benefits	25,764	5,962	2,812	34,538
Payroll taxes	12,563	2,907	1,371	16,841
Accounting fees	-	-	22,760	22,760
Advertising & promotion	348	3,041	361	3,750
Bank & payroll charges	-	-	11,411	11,411
Books & subscriptions	3,878	5,054	223	9,155
Contract services	31,601	1,756	1,756	35,113
Depreciation expense	568	28	625	1,221
Donated services	412,600	-	-	412,600
Equipment lease & rental	9,122	2,058	316	11,496
Equipment repair & maintenance	4,455	1,054	1,838	7,347
Insurance	7,997	1,732	570	10,299
Licenses & fees	7,767	-	1,074	8,841
Meals & entertainment	5,662	841	444	6,947
Miscellaneous	2,500	-	163	2,663
Postage & shipping	1,258	2,070	1,003	4,331
Printing & publication	2,764	12,681	-	15,445
Rent	28,855	1,603	1,603	32,061
Supplies	5,096	1,455	1,934	8,485
Telephone, fax & e-mail	7,855	1,786	706	10,347
Travel & mileage	1,977	381	65	2,423
Utilities	240	55	25	320
Total expenses	<u>\$ 723,487</u>	<u>\$ 79,321</u>	<u>\$ 67,497</u>	<u>\$ 870,305</u>

The accompanying notes are an integral part of these financial statements.

**FRIENDS OF THE RIVER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Cash flows from operating activities:	
Change in net assets	\$ 151,443
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,221
Decrease in promises to give	21,772
Increase in beneficial interest	(50,871)
Increase in prepaid expenses	(9,285)
Decrease in other assets	2,182
Decrease in security deposits	663
Increase in accounts payable	1,742
Increase in accrued expenses	<u>9,263</u>
Net cash provided by operating activities	<u>128,130</u>
Cash flows from investing activities:	
Purchase of fixed assets	<u>(8,498)</u>
Net cash used in investing activities	<u>(8,498)</u>
Net increase in cash	119,632
Cash and equivalents, beginning of year	<u>137,028</u>
Cash and equivalents, end of year	<u><u>\$ 256,660</u></u>

The accompanying notes are an integral part of these financial statements.

**FRIENDS OF THE RIVER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

NOTE A – NATURE OF ORGANIZATION

Friends of the River (FOR) based in Sacramento, California, is a not-for-profit organization incorporated in 1976 under the laws of the State of California. The specific and primary purpose for which the organization was formed is for the preservation, protection, and restoration of rivers, streams, and their watersheds, through public education, citizen activist training and organizing, and expert advocacy to influence public policy.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of FOR have been prepared on the accrual basis of accounting. FOR reports 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.

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of FOR and/or the passage of time. Temporarily restricted net assets amounted to \$114,551 at December 31, 2017.

Permanently restricted net assets – Net assets to be held in perpetuity as directed by donors. The income from the contributions is available to support activities as designated by donors. Permanently restricted net assets amounted to \$50,871 at December 31, 2017.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law.

Cash and Equivalents

Cash and equivalents consist of cash on hand and highly liquid investments with original or remaining maturities of three months or less at the time of purchase.

FRIENDS OF THE RIVER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions Receivable

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Based on historical experience, an assessment of economic conditions, and a review of subsequent collections, management expects all such contributions to be collectable. Accordingly no allowance for uncollectable contributions has been established at December 31, 2017.

Fixed Assets

Acquisitions of fixed assets in excess of \$2,500 are capitalized and stated at cost. Donated fixed assets are reported at fair value at the date of the gift. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Functional Expenses

The costs of providing the program services and supporting services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Indirect costs are allocated among programs and supporting services based on personnel, space, and other factors.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

FRIENDS OF THE RIVER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments and Credit Risk

FOR manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, FOR has not experienced losses in any of these accounts. Credit risk associated with contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from foundations supportive of our mission.

Income Tax Status

FOR is exempt from income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and related California code sections. FOR is considered a public charity and has been classified as an organization that is not a private foundation under IRC Section 509(a)(2).

Management of FOR has evaluated the tax positions and related income tax contingencies. Management does not believe that any material uncertain tax positions exist.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE C – FIXED ASSETS

Fixed assets consisted of the following at December 31, 2017:

Rafts	\$ 24,470
Office equipment	7,048
Less: accumulated depreciation	<u>(20,030)</u>
Total	<u>\$ 11,488</u>

Depreciation expense was \$1,222 for the year ended December 31, 2017.

FRIENDS OF THE RIVER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

NOTE D – BENEFICIAL INTEREST IN ASSETS OF COMMUNITY FOUNDATION

FOR has transferred assets to the Placer Community Foundation (Foundation) to establish an endowment fund. The agreement states that the transfer is irrevocable and that the assets will not be returned to FOR. However, the Foundation will make distributions of income earned on the endowment fund to FOR, subject to the Foundation's spending policy. FOR has granted the Foundation variance power which allows the Foundation, at its sole discretion and subject to certain conditions, to modify any condition or restriction on the distribution of funds. No distributions were received for the year ended December 31, 2017. FOR has recorded a beneficial interest in assets held by the Foundation totaling \$50,871 at December 31, 2017. The entire balance is considered permanently restricted.

NOTE E – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2017:

G 16	\$ 70,495
Promises to give	39,836
FS 16 Beyond Searsville	<u>4,220</u>
Total	<u>\$ 114,551</u>

NOTE F – FAIR VALUE MEASUREMENTS

In accordance with generally accepted accounting principles, FOR uses the following prioritized input levels to measure fair value. The input levels used for valuing instruments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

**FRIENDS OF THE RIVER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

NOTE F – FAIR VALUE MEASUREMENTS (continued)

Investments are reported at fair value and consist of the following at December 31, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Beneficial interest in assets held by Community Foundation	\$ <u>50,871</u>	\$ <u> --</u>	\$ <u> --</u>	\$ <u>50,871</u>
Total	\$ <u>50,871</u>	\$ <u> --</u>	\$ <u> --</u>	\$ <u>50,871</u>

The beneficial interest in assets held by the Foundation is valued using Level 3 measurements, as R4R's interest in not redeemable in the near term. The following is a reconciliation of FOR's investments measured using significant unobservable measurements (Level 3) for the year ending December 31, 2017:

Balance, beginning of year	\$ <u> --</u>
Contributions	46,545
Change in value, net	<u>4,326</u>
Balance, end of year	\$ <u>50,871</u>

**FRIENDS OF THE RIVER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

NOTE G – DONATED SERVICES

FOR has received donated services from a variety of unpaid volunteers assisting in leadership, committees, fund-raising activities and program services. The value of this donated time is not reflected in the accompanying financial statements since it does not meet the criteria for recognition as a contribution.

FOR has also received substantial donated legal services in connection with the following issues:

Protection of the Delta and Upstream Tributaries

With the San Francisco Bay-Delta at the center of water policymaking in California, FOR's legal team strives to save this estuary for wildlife, water quality, recreation and local farmers. The proposed Bay Delta Conservation Plan (BDCP), which includes plans to build two massive tunnels to divert water from the Sacramento River to the State and Federal water projects, would further degrade the Delta. In 2015, the government revised the BDCP and re-released a similar plan for the tunnels called the California WaterFix. The legal team reviewed the revised project, met with government officials, and submitted comments on the re-released environmental review that identified the legal violations and impacts to wildlife which would be caused by the project. The team is also representing FOR in the proceeding at the State Water Resources Control Board to change the point of diversion for the State Water Project—a regulatory requirement for the California WaterFix to move forward. Finally, the team continued litigation on the restoration plan for the Delta Stewardship Council for releasing a plan that presumes the water tunnels will be built as opposed to reviewing and considering other scenarios. The judge in this case recently ruled that the plan must be revised to evaluate a broader set of options and alternatives.

Preventing Construction of New Dam Projects

As an advocate for free-flowing rivers, FOR opposes dam projects that will impact wildlife, environment, and recreation. These dam projects include the proposed raising of Shasta Dam and construction of Temperance Flat Dam. In 2017, the legal team supported FOR's investigation of these dam projects particularly with regard to the proposed raise of Shasta Dam to evaluate possible legal violations of the project and the final Environmental Review which was released in August of 2015. If the State or Federal governments approve these dam projects, the legal team will continue to advance FOR's campaign against deadbeat dams with a focus on identifying potential legal challenges.

The value of these donated legal services totaled \$412,600 and was recorded as donated services in the accompanying statements of activities and functional expenses for the year ended December 31, 2017.

**FRIENDS OF THE RIVER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

NOTE H – CONTINGENCIES

FOR has been awarded certain grants and contracts and is subject to financial and compliance requirements of the grantors or their representatives. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time although management does not expect such amounts, if any, to materially affect the financial statements.

NOTE I – SUBSEQUENT EVENTS

The management of FOR has reviewed the results of operations for the period of time from its year end December 31, 2017 through June 22, 2018, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.