

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

FRIENDS OF THE RIVER

December 31, 2018

FRIENDS OF THE RIVER

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BALARSKY & BEEBOUT

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Friends of the River

We have reviewed the accompanying financial statements of Friends of the River (a not for profit corporation), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, statement of functional expenses and statement of cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Sacramento, CA

July 1, 2019

ROGER BEEBOUT

P 916.921.2600

E ROGER@TABCPA.COM

1500 RIVER PARK DRIVE STE 115A

PRINCIPAL

F 916.921.1485

W BALARSKYBEEBOUT.COM

SACRAMENTO, CA 95815

FRIENDS OF THE RIVER
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

CURRENT ASSETS

| | |
|----------------------|--------------|
| Cash and equivalents | \$ 227,274 |
| Investments | 2,746 |
| Accounts receivable | 14,135 |
| Pledge receivable | 16,245 |
| Prepaid expenses | <u>1,975</u> |

TOTAL CURRENT ASSETS 262,375

| | |
|---|--------------|
| Beneficial interest in assets of community foundation | 65,992 |
| Fixed assets, net | 10,265 |
| Deposits | <u>5,866</u> |
| | 82,123 |

TOTAL ASSETS \$ 344,498

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|---------------------------|--------------|
| Accounts payable | \$ 1,589 |
| Accrued expenses | <u>7,652</u> |
| Total current liabilities | 9,241 |

NET ASSETS

| | |
|----------------------------|-----------------------|
| Without donor restrictions | 217,821 |
| With donor restrictions | <u>117,436</u> |
| TOTAL NET ASSETS | <u><u>335,257</u></u> |

TOTAL LIABILITIES AND NET ASSETS \$ 344,498

See accompanying notes to the financial statements.

FRIENDS OF THE RIVER
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|--------------|
| SUPPORT AND REVENUE | | | |
| Contributions | \$ 209,486 | \$ 22,479 | \$ 231,965 |
| Donated services | 423,400 | - | 423,400 |
| Grants and contracts | - | 62,270 | 62,270 |
| Special event revenue, less direct cost cost of \$49,734 in 2018. | 174,342 | - | 174,342 |
| Interest income | - | 1,610 | 1,610 |
| Rental income | 13,118 | - | 13,118 |
| Other income | - | (6,084) | (6,084) |
| <i>Net assets released from restrictions</i> | 128,261 | (128,261) | - |
| TOTAL SUPPORT AND REVENUE | 948,607 | (47,986) | 900,621 |
| EXPENSES | | | |
| Program services | 757,824 | - | 757,824 |
| Total program services | 757,824 | - | 757,824 |
| Supporting services | | | |
| Fund development | 103,630 | - | 103,630 |
| General and administrative | 55,894 | - | 55,894 |
| Total supporting expenses | 159,524 | - | 159,524 |
| TOTAL EXPENSES | 917,348 | - | 917,348 |
| CHANGE IN NET ASSETS | 31,259 | (47,986) | (16,727) |
| NET ASSETS, BEGINNING OF YEAR | 186,562 | 165,422 | 351,984 |
| NET ASSETS, END OF YEAR | \$ 217,821 | \$ 117,436 | \$ 335,257 |

See accompanying notes to the financial statements.

FRIENDS OF THE RIVER
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

| | Program Services | Fund Development | General & Administrative | Total |
|--|---------------------|---------------------|-----------------------------|-------------------|
| Salaries & wages | \$ 179,621 | \$ 43,128 | \$ 18,874 | \$ 241,623 |
| Employee benefits | 38,465 | 9,034 | 963 | 48,462 |
| Payroll taxes | 14,155 | 3,580 | 1,544 | 19,279 |
| TOTAL SALARIES AND RELATED EXPENSES | 232,241 | 55,742 | 21,381 | 309,364 |
| Donated services | 423,400 | - | - | 423,400 |
| Rent | 25,023 | 6,099 | 2,548 | 33,670 |
| Accounting fees | - | - | 20,734 | 20,734 |
| Contract services | 15,296 | 1,116 | 451 | 16,863 |
| Printing & publication | 2,612 | 13,316 | 305 | 16,233 |
| Licenses & fees | 13,191 | 1,014 | 667 | 14,872 |
| Bank & payroll charges | 1 | 9,358 | 3,108 | 12,467 |
| Supplies | 8,197 | 1,930 | 1,701 | 11,828 |
| Telephone, fax & email | 7,713 | 1,653 | 706 | 10,072 |
| Insurance | 8,228 | 1,269 | 494 | 9,991 |
| Books & subscriptions | 2,637 | 6,837 | 250 | 9,724 |
| Equipment repair & maintenance | 4,876 | 1,173 | 587 | 6,636 |
| Meals & entertainment | 5,592 | 25 | 210 | 5,827 |
| Postage & shipping | 300 | 3,315 | 1,305 | 4,920 |
| Advertising & promotion | 2,042 | 41 | 1,177 | 3,260 |
| Utilities | 2,298 | 43 | 17 | 2,358 |
| Travel & mileage | 1,876 | 187 | 37 | 2,100 |
| Equipment lease & rental | 1,368 | 315 | 123 | 1,806 |
| Depreciation expense | 933 | 197 | 93 | 1,223 |
| Miscellaneous | - | - | - | - |
| TOTAL EXPENSES | \$ 757,824 | \$ 103,630 | \$ 55,894 | \$ 917,348 |

See accompanying notes to the financial statements.

FRIENDS OF THE RIVER
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|----------------------|----|----------|
| Change in net assets | \$ | (16,727) |
|----------------------|----|----------|

Adjustments to reconcile change in net assets to

net cash provided by (used in) operating activities:

| | | |
|--------------|--|-------|
| Depreciation | | 1,223 |
|--------------|--|-------|

| | | |
|---------------------------------------|--|----------|
| Unrealized (gain) loss on investments | | (15,121) |
|---------------------------------------|--|----------|

Changes in operating assets and liabilities:

| | | |
|------------------|--|-------|
| Promises to give | | 9,456 |
|------------------|--|-------|

| | | |
|------------------|--|--------|
| Prepaid expenses | | 11,152 |
|------------------|--|--------|

| | | |
|--------------|--|-------|
| Other assets | | 2,409 |
|--------------|--|-------|

| | | |
|------------------|--|---------|
| Accounts payable | | (9,148) |
|------------------|--|---------|

| | | |
|------------------|--|---------|
| Accrued expenses | | (9,884) |
|------------------|--|---------|

| | | |
|--|--|---------|
| | | (9,913) |
|--|--|---------|

| | | |
|-----------------------------|--|----------|
| | | |
| NET CASH USED IN | | |
| OPERATING ACTIVITIES | | (26,640) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | | |
|-------------|--|---------|
| Investments | | (2,746) |
|-------------|--|---------|

| | | |
|-----------------------------|--|---------|
| | | |
| NET CASH USED IN | | |
| INVESTING ACTIVITIES | | (2,746) |

| | | |
|----------------------------------|--|----------|
| | | |
| NET CHANGE IN | | |
| CASH AND CASH EQUIVALENTS | | (29,386) |

CASH AND CASH EQUIVALENTS

| | | |
|-----------------------------|--|---------|
| AT BEGINNING OF YEAR | | 256,660 |
|-----------------------------|--|---------|

CASH AND CASH EQUIVALENTS

| | | |
|-----------------------|----|---------|
| AT END OF YEAR | \$ | 227,274 |
|-----------------------|----|---------|

See accompanying notes to the financial statements.

FRIENDS OF THE RIVER

NOTES TO FINANCIAL STATEMENTS

NOTE A - 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: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board and reports information regarding its financial position and activities according to two classes of net assets: with donor restrictions, and without donor restrictions.

Cash and Cash Equivalents: For the purposes of reporting cash flows, cash and cash equivalents include all highly liquid investments with a purchased maturity of three months or less.

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 statement of activities. Based on historical experience, an assessment of economic conditions, and a review of subsequent collections, management expects all such contributions to be collectible. Accordingly, no allowance for uncollectible contributions has been established at December 31, 2018. As of December 31, 2018 Friends of the River Contributions receivable balance was \$16,245.

Fixed Assets: Acquisitions of fixed assets in excess of \$2,500 are capitalized and stated at cost. Donated fixed assets are recorded at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

FRIENDS OF THE RIVER

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Instruments and Credit Risk: FOR manages deposit concentrations risk by placing cash, money market accounts, and certificates of deposits 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 a not-for-profit organization exempt from income taxes under Internal Revenue Code Section 501(c)(3), and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been made.

Uncertainty in Income Taxes: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires FOR to report information regarding its exposure to various tax positions taken by FOR. FOR has determined whether any tax positions have met the recognition threshold and have measured the exposure to those tax positions. Management believes that FOR has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Organization are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Donated Services and Facilities: Donated services and facilities are recognized as public support and as a corresponding expense at the estimated fair value on the date donated. Donated services and facilities are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with these skills, and would otherwise be purchased by Friends of the River.

NOTE C – BENEFICIAL INTEREST IN ASSETS OF COMMUNITY FOUNDATION

FOR has transferred assets to the Placer Community Foundation (the 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 foundations 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. FOR reports the fair value of the fund as beneficial interest in assets held at the Placer Community Foundation in the statement of financial position and reports distributions received as investment income. Changes in the value of the Fund are reported as gains or losses in the statement of activities. Changes in the Fund for the year ended December 31, 2018 are as follows:

FRIENDS OF THE RIVER

NOTES TO FINANCIAL STATEMENTS

NOTE C – BENEFICIAL INTEREST IN ASSETS OF COMMUNITY FOUNDATION-Continued

| | |
|----------------------------|-----------|
| | 2018 |
| Balance, beginning of year | \$ 50,871 |
| Contributions | 20,490 |
| Change in value, net | (4,406) |
| Administrative fees | (963) |
| Balance, end of year | \$ 65,992 |

NOTE D - FAIR VALUE MEASUREMENTS

FOR applies the accounting provisions related to fair value measurements. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a fair value hierarchy that prioritizes the information used in developing fair value estimates, and require disclosure of fair value measurements by level within the fair value hierarchy. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost).

A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs with little or no market data.

Investments are reported at fair value and consist of the following at December 31, 2018:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---|-------------------|----------------|----------------|----------------|
| Beneficial interest in assets held by community foundation | \$ 65,992 | \$ - | \$ - | \$ 65,992 |
| Total | \$ 65,992 | \$ - | \$ - | \$ 65,992 |

FRIENDS OF THE RIVER

NOTES TO FINANCIAL STATEMENTS

NOTE D - FAIR VALUE MEASUREMENTS-Continued

The beneficial interest in assets held at the Placer Community Foundation has been valued, as a practical expedient, at the fair value of FOR's share of the Foundation's investment pool as of the measurement date. The Foundation values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the Foundation, which includes private placements and other securities for which prices are not readily available, are determined by the management of the Foundation and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

NOTE E – FIXED ASSETS

Property and equipment consists of the following at December 31:

| | | |
|--------------------------------|----|-----------------|
| Rafts | \$ | 24,470 |
| Office equipment | | 7,048 |
| Less: accumulated depreciation | | <u>(21,253)</u> |
| Total | \$ | <u>10,265</u> |

NOTE F – 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. FOR is involved in continuing litigation in Sacramento County Superior Court against the Department of Water Resources (DWR) approval of the California Water Fix twin tunnels project. Our claims include that the project approval violated the Delta Reform Act, the California Environmental Quality Act (CEQA), and the public trust doctrine. FOR is involved in continuing litigation in Sacramento County Superior Court defending against DWR's validation action by which DWR sought to validate bond resolutions to issue bonds to raise \$9 billion to commence construction of the Water Fix twin tunnels project. FOR has commenced new action in Sacramento County Superior Court seeking to set aside the Delta Plan Amendments adopted by the Delta Stewardship Council (DSC.) FOR's claims include violation of the Delta Reform Act and CEQA. FOR appealed DWR's certification that the Water Fix twin tunnels project was consistent with the Delta Plan, to the DSC. Obtained DSC staff recommendation that DWR's evidence failed to show that the project was consistent with the Delta Plan. Because of this success, DWR

FRIENDS OF THE RIVER

NOTES TO FINANCIAL STATEMENTS

NOTE F – DONATED SERVICES-Continued

withdrew its consistency certification. The twin tunnels project could not proceed without DSC certification of consistency with the Delta Plan. FOR is involved in continuing participation in State Water Resources Control Board Hearing opposing DWR and Bureau of Reclamation Petition to change the point of diversion to accommodate the twin tunnels project. The project could not go forward without Water Board approval of a diversion change. As a result of the litigation, the DSC, and Water Board Hearings, FOR's involvement assisted in keeping the twin tunnels project from commencing construction during Governor Brown's administration, allowing the new governor to require DWR to rescind its 2017 approval of the project.

The value of these donated legal services totaled \$423,400 and was recorded as donated services in the accompanying statements of activities and functional expenses for the year ended December 31, 2018.

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

In preparing the financial statements, FOR has evaluated events and transactions for potential recognition or disclosure through June 28, 2019, the date that the financial statements were available to be issued.