SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
DAVID C. ASHENFARB, CPA
MICHAEL L. SCHALL, CPA

Natural Areas Conservancy

Audited Financial Statements

December 31, 2018

307 Fifth Avenue, 15th Floor
New York, New York 10016
Tel: (212) 268-2800 Fax: (212) 268-2805
www.schallandashenfarb.com

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Independent Auditor's Report

To the Board of Directors of
Natural Areas Conservancy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Natural Areas Conservancy, Inc. which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows from August 1, 2018 (date of separation) through 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 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 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 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.

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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 Natural Areas Conservancy, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows from August 1, 2018 (date of separation) through the year then ended in accordance with accounting principles generally accepted in the United States of America.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

June 18, 2019

NATURAL AREAS CONSERVANCY, INC.
STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2018

Assets

Cash and cash equivalents	$2,866,356
Investments (Note 3)	15,982
Pledges receivable	665,128
Prepaid expenses and other assets	19,204
Total assets	$3,566,670

Liabilities and Net Assets

Liabilities:	
Accounts payable and accrued expenses	$45,591
Total liabilities	45,591
Net assets:	
Without donor restrictions	1,088,537
With donor restrictions (Note 4)	2,432,542
Total net assets	3,521,079
Total liabilities and net assets	$3,566,670

The attached notes and auditor's report are an integral part of these financial statements.

NATURAL AREAS CONSERVANCY, INC.
STATEMENT OF ACTIVITIES
FROM DATE OF SEPARATION THROUGH DECEMBER 31, 2018

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Public support and revenue:			
Contributions	$115,764	$619,505	$735,269
Government grants	126,171		126,171
Contribution at time of transfer (Note 1)	1,134,831	2,399,948	3,534,779
In-kind contributions	40,500		40,500
Interest and other income	790		790
Net assets released from restrictions	586,911	(586,911)	0
Total public support and revenue	2,004,967	2,432,542	4,437,509
Expenses:			
Program services	699,327		699,327
Supporting services:			
Management and general	148,698		148,698
Fundraising	68,405		68,405
Total supporting services	217,103	0	217,103
Total expenses	916,430	0	916,430
Change in net assets	1,088,537	2,432,542	3,521,079
Net assets - beginning of year	0	0	0
Net assets - end of year	$1,088,537	$2,432,542	$3,521,079

The attached notes and auditor's report are an integral part of these financial statements.

NATURAL AREAS CONSERVANCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FROM DATE OF SEPARATION THROUGH DECEMBER 31, 2018

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	$212,870	$58,590	$48,078	$106,668	$319,538
Payroll taxes and benefits	49,521	14,079	7,169	21,248	70,769
Professional fees	187,270	54,525	4,500	59,025	246,295
Contractor expense	180,727			0	180,727
In-kind occupancy	26,980	7,426	6,094	13,520	40,500
Materials and supplies	32,217	160	80	240	32,457
Office expenses	3,814	718	278	996	4,810
Travel and meetings	5,341	2,277	341	2,618	7,959
Insurance		1,970		1,970	1,970
Miscellaneous	587	8,953	1,865	10,818	11,405
Total expenses	$699,327	$148,698	$68,405	$217,103	$916,430

The attached notes and auditor's report are an integral part of these financial statements.

NATURAL AREAS CONSERVANCY, INC.
STATEMENT OF CASH FLOWS
FROM DATE OF SEPARATION THROUGH DECEMBER 31, 2018

Cash flows from operating activities:	
Change in net assets	$3,521,079
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Donated securities	(15,896)
Unrealized gain on investments	(86)
Changes in assets and liabilities:	
Pledges receivable	(665,128)
Prepaid expenses	(19,204)
Accounts payable and accrued expenses	45,591
Net cash flows provided by operating activities/ net increase in cash and cash equivalents	2,866,356
Cash and cash equivalents - at date of separation	0
Cash and cash equivalents - at December 31, 2018	$2,866,356

Supplemental information:	
Interest and taxes paid	$0

The attached notes and auditor's report are an integral part of these financial statements.

NATURAL AREAS CONSERVANCY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 1 - Organization

Natural Areas Conservancy, Inc. ("the Conservancy") is a not-for-profit organization incorporated in New York. The Conservancy is a champion of New York City's 20,000 acres of forests and wetlands for the benefit and enjoyment of all. The Conservancy's team of scientists and experts promote nature's diversity and resilience across the five boroughs, working in close partnership with the City of New York.

Prior to separation, the City Parks Foundation, Inc., ("CPF") a New York not-for-profit corporation, had acted as the Conservancy's fiscal sponsor. On July 26, 2018, the Conservancy and CPF entered into a separation agreement whereby on August 1, 2018, the assets and liabilities that had accumulated up through that date were transferred from CPF as the sponsor to the Conservancy.

The Conservancy has been notified by the Internal Revenue Service that it is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and has not been determined to be a private foundation as defined in Section 509(a).

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting
The financial statements have been prepared on the accrual basis of accounting which is the process of recording revenue and expenses when earned or incurred, rather than when received or paid.

The Conservancy follows the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 – Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This standard addresses the complexity and understandability of net asset classification, provides information about liquidity and outlines practices to promote consistency in the type of information provided about expenses and investment return between not-for-profit entities.

b. Basis of Presentation and Revenue Recognition Principles
The Conservancy reports information regarding their financial position and activities in the following classes of net assets:

- *Net Assets Without Donor Restrictions* – represents all activity without donor-imposed restrictions as well as activity with donor-imposed restrictions, which expire within the same period.

- *Net Assets With Donor Restrictions* – relates to contributions of cash and other assets with donor stipulations that make clear the assets restriction, either due to a program nature or by passage of time.

c. Recognition of Income

Contributions are reported as an increase in net assets without donor restrictions, unless they contain a restriction by the donor for a specific program or time period, in which case they are reported in the net asset class with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. However, if a restriction is satisfied in the period the contribution has been made, it is recorded as net assets without donor restrictions.

Contributions of non-cash assets are recorded at fair value.

Government grants are recorded as revenue when earned based on incurring expenses that are reimbursable under the terms of the grant. The difference between cash received and revenue earned is reflected as government grants receivable or refundable advances.

d. Cash and Cash Equivalents

The Conservancy considers all liquid investments with a maturity of three months or less to be cash and cash equivalents.

e. Concentration of Credit Risk

Financial instruments which potentially subject the Conservancy to concentration of credit risk consist of cash which is placed with financial institutions that management deems to be creditworthy. At year end and at certain times during the five months ended December 31, 2018, a portion of the funds were in excess of federally insured levels; however, the Conservancy has not experienced any losses from these accounts due to failure of any financial institution.

f. Investments

Investments are recorded at fair value, which is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are included in income on the statement of activities.

g. Pledges Receivable

Pledges are recorded at net realizable value if expected to be received within one year and at fair value using risk-adjusted present value techniques, if expected to be received in greater than one year. Conditional contributions are recognized when the conditions on which they depend are substantially met.

All receivables are assessed for collectability. Based on a review of several factors, including the credit worthiness of the donor and historical experience, no allowance for doubtful accounts has been established.

h. In-Kind Contributions

Donated services are recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided in-kind. Donated materials are recorded at the estimated fair value at the date of donation.

The Conservancy receives the use of office space without charge. The estimated fair value of $40,500 has been recorded as in-kind rent.

Board members and other individuals volunteer their time and perform a variety of tasks that assist The Conservancy. These services have not been recorded in the financial statements, as they do not meet the criteria outlined above.

i. Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

j. Expense Allocation

The financial statements contain certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently and equitably applied. The following expenses were allocated based on time and effort:

- Salaries
- Payroll taxes and benefits
- Occupancy

All other expenses have been charged directly to the applicable program or supporting services.

k. Accounting for Uncertainty of Income Taxes

The Conservancy does not believe its financial statements include any material, uncertain tax positions. Tax filings for the period ending December 31, 2018 (initial filing) are subject to examination by applicable taxing authorities.

l. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through June 18, 2019, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.

m. New Accounting Pronouncement

FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU, which becomes effective for the December 31, 2019 year, focuses on a principle-based model. It highlights the identification of performance obligations of the contract, determining the price and allocating that price to the performance obligation so that revenue is recognized as each performance obligation is satisfied.

FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the December 31, 2020 five months, requires the full obligation of long-term leases to be recorded as a liability with a corresponding "right to use asset" on the statement of financial position.

The Conservancy is in the process of evaluating the impact these standards will have on future financial statements.

Note 3 - Investments

Accounting standards have established a fair value hierarchy, giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted, quoted prices in active markets for identical assets or liabilities that the Conservancy has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are not observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The investment balances as of December 31, 2018 consisted of common stocks, which are categorized as level 1. Level 1 securities are valued at the closing price reported on the active market that they are traded on.

Note 4 - Net Assets With Donor Restrictions

Net assets with donor restrictions can be summarized as follows:

	Beginning Balance	Contribution at Time of Transfer	Contributions	Released from Restrictions	Balance 12/31/18
Program restrictions	$0	$2,399,948	$619,505	($586,911)	$2,432,542

Note 5 - Retirement Plan

The Conservancy has adopted a tax deferred 401(k) retirement plan for their employees. All employees that are 21 years of age or older and have worked at least one year are eligible to participate and can designate a percentage of their salaries, subject to regulatory limits, to be contributed to the plan on a pre-tax basis. The Conservancy provides matching contributions of up to 3% of employee's salary to the plan. During the period ended December 31, 2018, the Conservancy made contributions totaling $1,119 to the plan.

Note 6 - Liquidity and Availability of Financial Resources

The following reflects the Conservancy's financial assets at December 31, 2018, reduced by amounts that have donor-imposed restrictions within one year of the balance sheet date. The Conservancy maintains cash on hand to be available for its general expenditures, liabilities, and other obligations for on-going operations. As part of its liquidity management plan, the Conservancy operates its programs within a balanced budget and relies on grants and contributions to fund its operations and program activities.

Cash and cash equivalents	$2,866,356
Investments	15,982
Pledges receivable	665,128
Total financial assets	3,547,466
Less amounts not available for general expenditure:	
Net assets with donor restrictions – purpose restrictions	(2,432,542)
Financial assets available to meet cash needs for general expenditures within one year	$1,114,924