

# **TREEPEOPLE, INC.**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

**TREEPEOPLE, INC.**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2010**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
TreePeople, Inc.

We have audited the accompanying statement of financial position of TreePeople, Inc. (a nonprofit organization) as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of TreePeople, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the 2009 financial statements of TreePeople, Inc. and, in our report dated May 7, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TreePeople, Inc. as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of TreePeople, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Green Hasson & Janks LLP*

April 13, 2011  
Los Angeles, California

**TREEPEOPLE, INC.****STATEMENT OF FINANCIAL POSITION**

December 31, 2010

With Summarized Totals at December 31, 2009

	Unrestricted	Temporarily Restricted	Total 2010	Total 2009
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,083,208	\$ -	\$ 1,083,208	\$ 2,318,876
Investments	125,310	411,982	537,292	475,885
Accounts Receivable	172,769	-	172,769	269,416
Pledges Receivable	-	306,950	306,950	584,022
Bequests Receivable	430,750	-	430,750	57,010
Prepaid Expenses and Other Assets	39,673	-	39,673	28,873
Property and Equipment (Net)	7,081,585	-	7,081,585	7,522,363
<b>TOTAL ASSETS</b>	<b>\$ 8,933,295</b>	<b>\$ 718,932</b>	<b>\$ 9,652,227</b>	<b>\$ 11,256,445</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES:</b>				
Accounts Payable	\$ 43,096	\$ -	\$ 43,096	\$ 89,288
Accrued Liabilities	271,297	-	271,297	232,811
Notes Payable	1,980,000	-	1,980,000	2,052,000
Deferred Revenue	775,000	-	775,000	811,000
Deferred Compensation	447,341	-	447,341	376,049
<b>TOTAL LIABILITIES</b>	<b>3,516,734</b>	<b>-</b>	<b>3,516,734</b>	<b>3,561,148</b>
<b>NET ASSETS:</b>				
Unrestricted:				
Undesignated	5,416,561	-	5,416,561	5,926,638
Temporarily Restricted	-	718,932	718,932	1,768,659
<b>TOTAL NET ASSETS</b>	<b>5,416,561</b>	<b>718,932</b>	<b>6,135,493</b>	<b>7,695,297</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 8,933,295</b>	<b>\$ 718,932</b>	<b>\$ 9,652,227</b>	<b>\$ 11,256,445</b>

The Accompanying Notes are an Integral Part of These Financial Statements

**TREEPEOPLE, INC.**

**STATEMENT OF ACTIVITIES**

Year Ended December 31, 2010

With Summarized Totals for the Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Total 2010	Total 2009
<b>REVENUE, SUPPORT AND OTHER INCOME:</b>				
Public Support:				
Individuals	\$ 1,559,413	\$ 55,750	\$ 1,615,163	\$ 1,511,131
Bequests	680,165	-	680,165	514,374
Foundations	367,479	200,000	567,479	1,202,090
Government	794,077	-	794,077	1,044,153
Corporations	7,568	150,000	157,568	234,217
Special Events (Net of Cost of Direct Donor Benefits of \$160,908)	274,449	-	274,449	80,967
Program Service Fees	47,003	-	47,003	51,090
Investment Income	66,257	-	66,257	137,248
Net Assets Released from:				
Purpose Restrictions	1,272,655	(1,272,655)	-	-
Time Restrictions	182,822	(182,822)	-	-
<b>TOTAL REVENUE, SUPPORT AND OTHER INCOME</b>	5,251,888	(1,049,727)	4,202,161	4,775,270
<b>EXPENSES:</b>				
Program Services	4,326,859	-	4,326,859	4,379,688
Management and General	859,440	-	859,440	682,334
Fundraising	575,666	-	575,666	512,138
<b>TOTAL EXPENSES</b>	5,761,965	-	5,761,965	5,574,160
<b>CHANGE IN NET ASSETS</b>	(510,077)	(1,049,727)	(1,559,804)	(798,890)
Net Assets - Beginning of Year	5,926,638	1,768,659	7,695,297	8,494,187
<b>NET ASSETS - END OF YEAR</b>	\$ 5,416,561	\$ 718,932	\$ 6,135,493	\$ 7,695,297

The Accompanying Notes are an Integral Part of These Financial Statements

**TREEPEOPLE, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended December 31, 2010

With Summarized Totals for the Year Ended December 31, 2009

	Program Services	Management and General	Fundraising	Total 2010	Total 2009
Salaries	\$ 2,467,174	\$ 399,348	\$ 238,866	\$ 3,105,388	\$ 2,806,030
Employee Benefits	250,026	41,144	25,319	316,489	309,905
Payroll Taxes	195,610	32,189	19,809	247,608	227,090
<b>TOTAL PERSONNEL COSTS</b>	<b>2,912,810</b>	<b>472,681</b>	<b>283,994</b>	<b>3,669,485</b>	<b>3,343,025</b>
Depreciation	430,115	8,731	11,423	450,269	458,828
Outside Services	176,602	123,998	67,522	368,122	494,287
Direct Mail Expenses	152,072	22,649	148,836	323,557	294,800
Planting Related Expenses	104,697	-	-	104,697	137,475
Communication	77,902	17,435	4,309	99,646	117,250
Equipment Expenses	94,229	2,817	1,999	99,045	97,123
Interest Expense	54,692	20,132	-	74,824	85,223
Utilities and Security	45,728	7,307	4,370	57,405	50,888
Travel	42,047	12,818	461	55,326	54,387
Insurance	2,628	49,922	-	52,550	47,830
Promotion and Tree Dedications	10,193	93	41,470	51,756	43,404
Professional Services	-	41,790	-	41,790	41,001
Printing	38,763	170	260	39,193	46,784
Repairs and Maintenance	27,153	5,066	1,591	33,810	32,844
Bank Charges	2,271	29,067	-	31,338	37,674
Rent	24,419	3,953	2,364	30,736	31,456
Bad Debt Expense	-	23,222	-	23,222	6,100
Educational Material	18,509	1,750	-	20,259	9,705
Project Hard Costs	17,457	317	190	17,964	6,720
Layout and Graphic Design	17,714	39	98	17,851	17,862
Postage	14,087	1,159	1,454	16,700	18,749
Supplies	12,548	2,218	1,231	15,997	8,737
Program Expenses	12,908	235	71	13,214	24,582
Volunteer Recognition	10,699	191	359	11,249	6,999
Meetings	7,125	1,946	645	9,716	8,382
Meals and Entertainment	6,524	561	1,503	8,588	11,179
Dues and Subscriptions	3,721	1,737	939	6,397	5,554
Training	3,117	2,162	8	5,287	6,589
Licenses and Fees	2,253	635	93	2,981	4,411
Staff Development	2,412	103	462	2,977	15,414
Processing and Reproduction	51	2,658	14	2,723	-
Other	427	1,537	-	1,964	3,345
Advertising and Recruiting	986	341	-	1,327	5,553
<b>TOTAL 2010 FUNCTIONAL EXPENSES</b>	<b>\$ 4,326,859</b>	<b>\$ 859,440</b>	<b>\$ 575,666</b>	<b>\$ 5,761,965</b>	
	75%	15%	10%	100%	
<b>TOTAL 2009 FUNCTIONAL EXPENSES</b>	<b>\$ 4,379,688</b>	<b>\$ 682,334</b>	<b>\$ 512,138</b>		<b>\$ 5,574,160</b>
	79%	12%	9%		100%

The Accompanying Notes are an Integral Part of These Financial Statements

**TREEPEOPLE, INC.**

**STATEMENT OF CASH FLOWS**

Year Ended December 31, 2010

With Summarized Totals for the Year Ended December 31, 2009

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ (1,559,804)	\$ (798,890)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	450,269	458,828
Bad Debt Expense	23,222	6,100
Unrealized Gain on Investments	(35,760)	(106,798)
(Increase) Decrease in:		
Accounts Receivable	96,647	519,363
Pledges Receivable	253,850	744,910
Bequests Receivable	(373,740)	114,079
Prepaid Expenses and Other Assets	(10,800)	11,879
Increase (Decrease) in:		
Accounts Payable	(46,192)	(27,078)
Accrued Liabilities	38,486	8,883
Deferred Revenue	(36,000)	(36,000)
Deferred Compensation	71,292	100,555
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(1,128,530)</b>	<b>995,831</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Property and Equipment	(9,491)	(66,854)
Purchase of Investments	(3,856)	-
Proceeds on Sale of Investments	-	326,655
Interest and Dividends Reinvested	(21,791)	(30,965)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(35,138)</b>	<b>228,836</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES:</b>		
Payments on Notes Payable	(72,000)	(1,094,633)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,235,668)</b>	<b>130,034</b>
Cash and Cash Equivalents - Beginning of Year	2,318,876	2,188,842
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 1,083,208</b>	<b>\$ 2,318,876</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash Paid During the Year for Interest	\$ 74,824	\$ 85,223

The Accompanying Notes are an Integral Part of These Financial Statements

# TREEPEOPLE, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2010

### NOTE 1 - DESCRIPTION OF ORGANIZATION

TreePeople, Inc. (TreePeople) is a California not-for-profit organization, incorporated in August 1973.

TreePeople's mission is to inspire personal responsibility for the environment, especially among the people of Los Angeles. TreePeople's multi-year vision is to train and support local residents as they change the landscape of their neighborhood along with their own behaviors. These landscape changes include increasing the area's tree canopy, installing structures to capture rain for infiltration or reuse, use of native drought-tolerant plants including food sources, and adding more green space and habitat areas to the urban eco-system. Through these methods the urban forest emulates the functions of a natural forest, providing many of its benefits - including cleaner water and air, less flooding, access to fresh food, plentiful outdoor recreation, and beautiful surroundings.

However, healing Los Angeles remains an elusive promise without empowered, inspired and educated residents, including community leaders committed to action. Such a commitment was the inspiration for TreePeople's founder and President, Andy Lipkis. As a 15-year-old high school student, Andy learned that Los Angeles smog was killing trees in the San Bernardino Mountains. Gaining the support of local media and school-age friends, he led an effort to plant smog-tolerant tree seedlings in local mountain ranges. Along the way he and his young supporters planted the seeds of an organization that grew into TreePeople.

Today, TreePeople is one of the largest environmental organizations in California. It is governed by a dedicated Board of Directors, supported by 10,000 members, 12,000 volunteers and sustained by a staff of more than 60 educators, foresters and program administrators. Today, TreePeople touches neighborhoods throughout Los Angeles, influences leaders and government agencies around California and promotes sustainable practices throughout the United States and the world.

#### **Award-Winning Programs**

To achieve this vision, TreePeople has embarked on a multi-year effort to expand program delivery with maximum efficiency, concentrating on the following:

**TreePeople's Education Programs** provide hands-on, science-based environmental curricula to kindergarten through twelfth-grade students each year, providing direct and indirect benefit to 400,000 local students and teachers. In addition to increasing science education in schools, these programs are designed to inspire and empower future generations to take action to heal and sustain the environment.

**TreePeople's Forestry Programs** inspire thousands of volunteers to plant and care for more than 25,000 trees each year. Since TreePeople's formation in 1973, volunteers and staff have planted more than two million trees in surrounding forests, park woodlands, in urban neighborhoods and on school campuses. In 2003, the United Nations World Forestry Organization recognized TreePeople's forestry work as a global model for other large cities.

# TREEPEOPLE, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2010

### NOTE 1 - DESCRIPTION OF ORGANIZATION (continued)

**TreePeople's Urban Sustainability Programs** bring together scientists, policy-makers and government agencies to develop new and more effective solutions to Los Angeles' costly environmental challenges while eliminating waste and duplication of efforts. Through partnerships with agencies responsible for the care of our urban ecosystem - energy, water, waste removal and air quality - TreePeople aspires to transform homes, schools and an entire community into models of sustainable resource management, leading the way for an alternative future for Los Angeles. TreePeople utilizes nature's own resources, trees and forests combined with "nature-inspired" technologies to revitalize the region's natural water supply and prevent floods and storm water pollution.

**TreePeople Center for Community Forestry** is the tool to accomplish the mission of educating, inspiring and supporting citizens. In partnership with the City of Los Angeles, TreePeople is caretaker to 45-acre Coldwater Canyon Park (the Park). Located in the heart of Los Angeles, on the ridgeline between Los Angeles and the San Fernando Valley, this setting attracts more than 70,000 visitors each year including school children, hikers, community volunteers and policy-makers.

The award-winning TreePeople Center for Community Forestry includes a four-acre campus of sustainably-designed buildings – the S. Mark Taper Foundation Environmental Learning Center, the W. M. Keck Foundation Nursery, the La Kretz Urban Watershed Garden and the Conference Center which achieved the U.S. Green Building Council's LEED (Leadership in Energy and Environmental Design) highest rating of Platinum. These structures, as well as the parking area, collect rainwater which is then stored in a 216,000-gallon cistern, underground, for use in irrigating the gardens.

Throughout the Park, an Interpretive Program provides visitors with innovative and inspiring displays. Visitors' experience of the park is enhanced by recent conservation work to ensure the future health of native plants and wildlife, as well as improvements to hiking trails and the outdoor amphitheatre. An ongoing series of events and programs brings local and national leaders together to find solutions to the looming water and energy crises facing Los Angeles and many other urban centers in the coming years.

# TREEPEOPLE, INC.

## NOTES TO FINANCIAL STATEMENTS December 31, 2010

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) BASIS OF PRESENTATION

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

#### (b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of TreePeople are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted Undesignated.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Temporarily Restricted.** TreePeople reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose or time restrictions. TreePeople has \$718,932 of temporarily restricted net assets at December 31, 2010.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit TreePeople to expend all of the income (or other economic benefits) derived from the donated assets. TreePeople has no permanently restricted net assets at December 31, 2010.

#### (c) CASH AND CASH EQUIVALENTS

TreePeople has defined cash and cash equivalents as cash in banks and money market accounts with an original maturity of three months or less. The carrying value of cash and cash equivalents at December 31, 2010 approximates its fair value.

TreePeople places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. TreePeople has not incurred losses related to these investments and believes it is not exposed to any significant credit risk on cash and cash equivalents.

# TREEPEOPLE, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2010

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair value. Interest and dividend income and gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations or by law.

#### (e) ACCOUNTS RECEIVABLE

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, if any, represents their estimated net realizable value. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due.

#### (f) PLEDGES RECEIVABLE

Unconditional contributions, including pledges recorded at estimated fair value, are recognized as revenues in the period received. TreePeople reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

#### (g) BEQUESTS RECEIVABLE

TreePeople records all legacies and bequests as revenue when donors' wills have been declared valid by the probate court and the amount is determinable.

#### (h) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and the useful life is greater than one year. The estimated useful lives of property and equipment are as follows:

Buildings	Term of Lease
Furniture and Equipment	7 Years
Computer Equipment and Software	3 – 5 Years
Leasehold Improvements	Term of Lease
Transportation Equipment	5 Years

# TREEPEOPLE, INC.

## NOTES TO FINANCIAL STATEMENTS December 31, 2010

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(i) LONG-LIVED ASSETS**

TreePeople reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized during the year ended December 31, 2010.

**(j) DEFERRED REVENUE**

Fees for services, which are paid for in advance, are deferred and recognized as revenue in the period when the services are rendered.

**(k) CONTRIBUTED GOODS AND SERVICES**

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of volunteers have donated significant amounts of their time to TreePeople. The services that these individuals rendered, however, do not meet the above criteria and, as such, are not recognized as revenue.

**(l) CONCENTRATION OF CREDIT RISKS**

The primary receivable balance outstanding at December 31, 2010 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of TreePeople's receivables consist of earned fees from contract programs granted by governmental agencies.

TreePeople holds investments in the form of corporate bonds, mutual funds and common stocks of publicly held companies. Market values of such investments and credit ratings of bond issuers are routinely reviewed by a member of the Board of Directors.

**(m) INCOME TAXES**

TreePeople is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") as a charitable organization whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to Federal income tax. TreePeople currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. TreePeople is also exempt under California Revenue and Taxation Code Section 23701d.

# TREEPEOPLE, INC.

## NOTES TO FINANCIAL STATEMENTS December 31, 2010

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing TreePeople's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. TreePeople uses full-time equivalents to allocate indirect costs.

#### (o) USE OF ESTIMATES

In preparing the financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### (p) COMPARATIVE DATA

The financial statements include certain prior-year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such financial information should be read in conjunction with TreePeople's financial statements for the year ended December 31, 2009 from which the summarized financial information was derived.

#### (q) SUBSEQUENT EVENTS

TreePeople has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2010 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through April 13, 2011, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

### NOTE 3 - INVESTMENTS

TreePeople has implemented the accounting statement for those assets (and liabilities) that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets (or liabilities). Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs utilize unobservable data points for the asset (or liability) and include situations where there is little, if any, market activity for the asset (or liability).

# TREEPEOPLE, INC.

## NOTES TO FINANCIAL STATEMENTS December 31, 2010

### NOTE 3 - INVESTMENTS (continued)

The following table presents information about TreePeople's assets that are measured at fair value on a recurring basis at December 31, 2010 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Fair Value Measurements Using			
	Year Ended December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	\$ 329,102	\$ 329,102	\$ -	\$ -
Trading Securities	105,074	105,074	-	-
Debt Securities	103,116	103,116	-	-
<b><i>TOTAL</i></b>	<b>\$ 537,292</b>	<b>\$ 537,292</b>	<b>\$ -</b>	<b>\$ -</b>

The fair values of the securities within level 1 were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

Investment income for the year ended December 31, 2010 is comprised of the following:

Interest and Dividends	\$ 30,497
Unrealized Gain	35,760
<b><i>INVESTMENT INCOME</i></b>	<b>\$ 66,257</b>

### NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable of \$172,769 at December 31, 2010 consists primarily of receivables from government agencies. As these receivables are deemed fully collectible, no allowance for doubtful accounts receivable has been provided at December 31, 2010.

### NOTE 5 - PLEDGES RECEIVABLE

At December 31, 2010, pledges receivable are expected to be collected as follows:

In Less than One Year	\$ 156,950
In One to Five Years	150,000
<b><i>PLEDGES RECEIVABLE</i></b>	<b>\$ 306,950</b>

Management evaluated the collectability of pledges receivable at December 31, 2010 and no allowance for uncollectible pledges was considered necessary.

# TREEPEOPLE, INC.

## NOTES TO FINANCIAL STATEMENTS December 31, 2010

### NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2010 consist of the following:

Conference Center	\$	5,378,614
Environmental Learning Center		3,164,170
Furniture and Equipment		718,494
Computer Equipment and Software		301,359
Leasehold Improvements		227,519
Transportation Equipment		<u>121,187</u>
<b>TOTAL</b>		9,911,343
Less: Accumulated Depreciation		<u>(2,829,758)</u>
<b>PROPERTY AND EQUIPMENT (NET)</b>	\$	<u>7,081,585</u>

Depreciation expense for the year ended December 31, 2010 was \$450,269.

### NOTE 7 - ACCRUED LIABILITIES

Accrued liabilities at December 31, 2010 consist of the following:

Accrued Vacation	\$	179,320
Accrued Payroll and Payroll Taxes		76,199
Other		<u>15,778</u>
<b>TOTAL ACCRUED LIABILITIES</b>	\$	<u>271,297</u>

### NOTE 8 - NOTES PAYABLE

Notes payable consist of the following at December 31, 2010:

Term Loan - Bank, Non-Revolving Line of Credit with a Principal Amount of \$1,800,000, Interest Only Payments at the Bank's Base Rate Plus 1% until April 2009, Followed Thereafter by Monthly Payments of Principal Plus Interest on a 25-Year Amortization Schedule, Due April 2012	\$	1,680,000
Term Loan - Bank, Equity Investment Term Loan with a Principal Amount of \$300,000, Subordinated to All Other Creditors of TreePeople, Non-Interest Bearing, Payable in Full in May 2011		<u>300,000</u>
<b>TOTAL NOTES PAYABLE</b>	\$	<u>1,980,000</u>

At December 31, 2010, the bank's base rate was 3.25%.

# TREEPEOPLE, INC.

## NOTES TO FINANCIAL STATEMENTS December 31, 2010

### NOTE 8 - NOTES PAYABLE (continued)

Maturities of notes payable are as follows:

<b>Years Ending December 31</b>	
2011	\$ 372,000
2012	<u>1,608,000</u>
<b>TOTAL</b>	<b>\$ <u>1,980,000</u></b>

The notes payable are collateralized by a security interest in all the assets of TreePeople, excluding the President's deferred compensation account.

The non-revolving line of credit agreement contains various covenants and restrictions which include, among others, (i) the maintenance of certain levels of net assets; and (ii) the maintenance of a minimum investment portfolio.

### NOTE 9 - DEFERRED REVENUE

Deferred revenue of \$775,000 at December 31, 2010 consists of funding from the City of Los Angeles (the City) for the construction of the conference center and related amenities. During 2001, TreePeople began receiving Proposition K funding from the City to be used to build a conference center and an environmental learning center and to pave the parking lot. The total funding received was \$1,080,000 and repayment of this amount consists of providing services annually valued at \$36,000 for 30 years in lieu of cash repayments. No cash repayments to the City are required unless the above services are not performed. This funding contract has been incorporated into the lease agreement with the City as described below. Any default under this contract will also constitute a default under the lease agreement. These services are itemized as follows:

- Provide interactive displays at the environmental learning center as the starting point for Eco-Tours.
- To provide interactive youth conferences.
- To maintain the park as a place for self-guided hikes and tours for families.

### NOTE 10 - COMMITMENTS AND CONTINGENCIES

#### (a) CONTRACTS

TreePeople's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, TreePeople has no provision for the possible disallowance of program costs on its financial statements.

# TREEPEOPLE, INC.

## NOTES TO FINANCIAL STATEMENTS December 31, 2010

### NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

#### (b) OBLIGATIONS UNDER OPERATING LEASES

TreePeople has various month-to-month leases. Total rent expense was \$30,736 for the year ended December 31, 2010. In addition, TreePeople executed a lease agreement with the City of Los Angeles on May 8, 1994, for the use of the facilities and park where its forestry, education, and administrative operations are centered. In exchange for use of the park and its facilities, TreePeople has agreed to maintain the park grounds, trails and buildings. The agreement expires in 2029. The cost to maintain the park and trails totaled \$33,810 for the year ended December 31, 2010.

### NOTE 11 - EMPLOYEE BENEFIT PLANS

#### (a) 403(b) PLAN

TreePeople offers its employees a 403(b) savings plan. Employees with at least three months of employment and over 21 years of age are eligible to participate in the plan. TreePeople made no contributions to the plan on behalf of its employees during the year ended December 31, 2010.

#### (b) DEFERRED COMPENSATION PLAN

TreePeople adopted a deferred compensation (Rabbi) trust in December 2000 for the purpose of providing a deferred compensation plan for its President in recognition of 27 years of commitment to TreePeople. The deferred compensation trust permits deferral of a portion of the President's salary until future years. All amounts of compensation deferred, all property and rights purchased with those amounts, and all income attributable to those amounts are subject to the claims of TreePeople's general creditors in the event of insolvency and otherwise are subject only to the right of the President of TreePeople or his designated beneficiary. At December 31, 2010, TreePeople has recorded a deferred compensation liability of \$447,341 and provided \$15,986 as compensation expense related to the plan for the year ended December 31, 2010.

### NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2010 consist of the following:

National Forest Restoration	\$	358,578
Pledges Receivable - Time Restriction		256,950
Other Programs		53,404
Urban Forestry Program		50,000
		<hr/>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>	<b>\$</b>	<b>718,932</b>
		<hr/>

**TREEPEOPLE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2010

**NOTE 13 - ALLOCATION OF JOINT COSTS**

TreePeople conducted direct mail campaigns that included requests for contributions as well as program components. The costs of conducting these activities included joint costs totaling \$323,557 for the year ended December 31, 2010 .

The joint costs for these direct mail campaigns were allocated as follows:

Program Services	\$	152,072
Management and General		22,649
Fundraising		<u>148,836</u>
<b><i>TOTAL</i></b>	<b>\$</b>	<b><u>323,557</u></b>