



**FINANCIAL STATEMENTS
DECEMBER 31, 2018
(with Summarized Totals for 2017)**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
TreePeople, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of TreePeople, Inc. (TreePeople) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, 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.

Auditors' 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TreePeople as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, during the year ended December 31, 2018, TreePeople, Inc. adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

The financial statements of TreePeople, Inc., as of December 31, 2017, were audited by other auditors whose report dated September 25, 2018, expressed an unmodified opinion on those financial statements. The summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Long Beach, California
November 14, 2019

TREEPEOPLE, INC.

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

ASSETS

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 3,442,242	\$ 2,231,751
Investments	657,677	842,377
Accounts and other receivables	817,308	645,919
Prepaid expenses and other assets	41,810	34,277
Property and equipment, net	<u>4,014,824</u>	<u>4,411,964</u>
TOTAL ASSETS	<u>\$ 8,973,861</u>	<u>\$ 8,166,288</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 246,535	\$ 235,801
Accrued liabilities	294,683	273,253
Notes payable	1,194,838	1,289,720
Deferred revenue	487,000	523,000
Deferred compensation	<u>466,044</u>	<u>547,216</u>
	<u>2,689,100</u>	<u>2,868,990</u>
NET ASSETS		
Without donor restrictions	<u>2,534,474</u>	<u>2,856,954</u>
With donor restrictions		
Restricted for time and purpose	2,950,287	1,940,344
Restricted in perpetuity	<u>800,000</u>	<u>500,000</u>
	<u>3,750,287</u>	<u>2,440,344</u>
Total net assets	<u>6,284,761</u>	<u>5,297,298</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,973,861</u>	<u>\$ 8,166,288</u>

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

TREEPEOPLE, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

	Without Donor Restrictions	With Donor Restrictions	Total	
			2018	2017
REVENUE, SUPPORT AND OTHER INCOME				
Public support:				
Individuals	\$ 2,613,272	\$ 460,826	\$ 3,074,098	\$ 2,407,804
Bequests	55,430	-	55,430	35,000
Foundations	423,659	1,554,237	1,977,896	630,083
Government	1,370,015	-	1,370,015	2,346,483
Corporations	331,741	75,000	406,741	590,582
Special events (net of cost of direct donor benefits of \$211,153 and \$249,689)	331,386		331,386	414,329
Program service fees	-	-	-	12,875
Investment income (loss), net	(5,829)	-	(5,829)	131,432
Net assets released from restriction	780,120	(780,120)	-	-
	<u>5,899,794</u>	<u>1,309,943</u>	<u>7,209,737</u>	<u>6,568,588</u>
EXPENSES				
Program services	4,205,391	-	4,205,391	3,957,472
Management and general	958,749	-	958,749	459,496
Fundraising	1,058,134	-	1,058,134	877,729
	<u>6,222,274</u>	<u>-</u>	<u>6,222,274</u>	<u>5,294,697</u>
CHANGE IN NET ASSETS	(322,480)	1,309,943	987,463	1,273,891
NET ASSETS, BEGINNING OF YEAR	<u>2,856,954</u>	<u>2,440,344</u>	<u>5,297,298</u>	<u>4,023,407</u>
NET ASSETS, END OF YEAR	<u>\$ 2,534,474</u>	<u>\$ 3,750,287</u>	<u>\$ 6,284,761</u>	<u>\$ 5,297,298</u>

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

TREEPEOPLE, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
				<u>2018</u>	<u>2017</u>
PERSONNEL EXPENSES					
Salaries	\$ 2,195,626	\$ 526,615	\$ 560,544	\$ 3,282,785	\$ 2,892,547
Employee benefits	171,608	82,729	47,452	301,789	238,057
Payroll taxes	191,911	40,303	44,452	276,666	221,953
Total personnel expenses	<u>2,559,145</u>	<u>649,647</u>	<u>652,448</u>	<u>3,861,240</u>	<u>3,352,557</u>
OPERATIONAL EXPENSES					
Bank charges	2,019	101,696	740	104,455	99,972
Deferred compensation expense	32,400	-	-	32,400	38,055
Depreciation	250,726	59,588	86,826	397,140	395,429
Direct mail expenses	128,564	-	128,563	257,127	257,844
Equipment and vehicles	129,519	3,937	4,134	137,590	43,526
Marketing and communications	32,724	445	4,555	37,724	24,197
Occupancy	50,587	10,326	13,322	74,235	77,033
Operations	77,801	29,918	29,824	137,543	148,251
Other	16,716	-	19,562	36,278	63,416
Planting related	87,717	-	416	88,133	94,797
Professional services	651,523	67,505	79,973	799,001	444,067
Program expenses	39,018	611	-	39,629	23,750
Staff development	4,157	5,360	505	10,022	19,883
Travel	35,881	7,638	5,089	48,608	56,812
Utilities and security	98,166	22,048	32,126	152,340	147,039
Volunteer recognition	8,728	30	51	8,809	8,069
Total operational expenses	<u>1,646,246</u>	<u>309,102</u>	<u>405,686</u>	<u>2,361,034</u>	<u>1,942,140</u>
TOTAL 2018 FUNCTIONAL EXPENSES	<u>\$ 4,205,391</u>	<u>\$ 958,749</u>	<u>\$ 1,058,134</u>	<u>\$ 6,222,274</u>	
TOTAL 2017 FUNCTIONAL EXPENSES	<u>\$ 3,957,472</u>	<u>\$ 459,496</u>	<u>\$ 877,729</u>		<u>\$ 5,294,697</u>

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

TREEPEOPLE, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

	For the Year Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 987,463	\$ 1,273,891
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	397,140	395,429
Net realized and unrealized (gains) losses on investments	5,829	(98,867)
Contributions restricted for investment in perpetuity	(300,000)	(300,000)
Change in operating assets and liabilities:		
Accounts receivable	(171,389)	(147,334)
Contributions and pledges receivable	-	118,289
Prepaid expenses and other assets	(7,533)	32,495
Accounts payable	10,734	29,095
Accrued liabilities	21,430	(3,994)
Deferred revenue	(36,000)	(36,000)
Deferred compensation	(81,172)	21,855
Net Cash Provided By Operating Activities	826,502	1,284,859
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(47,258)
Reinvested interest and dividends	(33,304)	(28,346)
Purchase of investments	(204,153)	(56,641)
Proceeds on sale of investments	416,328	126,695
Net Cash Provided By (Used In) Investing Activities	178,871	(5,550)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(100,000)	(99,408)
Net draw on line of credit	5,118	
Contributions restricted for investment in perpetuity	300,000	300,000
Net Cash Provided By Financing Activities	205,118	200,592
NET CHANGE IN CASH	1,210,491	1,479,901
CASH AT BEGINNING OF YEAR	2,231,751	751,850
CASH AT END OF YEAR	\$ 3,442,242	\$ 2,231,751
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 55,119	\$ 61,093

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

TREEPEOPLE, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

NOTE 1 – Description of Organization

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

TreePeople inspires and supports people to come together to plant and care for trees, harvest the rain, and renew depleted landscapes. The Organization unites with communities to grow greener, shadier and more water-secure communities at homes, neighborhoods, schools, and in the local mountains and national forests. TreePeople works with volunteer leaders using its unique Community Forester model, as well as with public agencies and the private sector, to promote environmental literacy and innovative nature-based solutions for healthy, thriving and resilient communities.

TreePeople was born from the efforts of its founder Andy Lipkis. As an 18-year-old college student, Andy led a project to plant smog-tolerant seedlings in the San Bernardino Mountains to replace those being killed by air pollution. With the support of the local press, his family and the community, he and other young people planted the seeds of an organization that grew into TreePeople. To date, TreePeople has involved millions of people in planting and caring for countless number of trees and plants, from the national forests to the mountains to the most over-paved urban streets.

TreePeople's mission is to inspire, engage and support people to take personal responsibility for the urban environment, making it safe, healthy, fun and sustainable and to share the process as a model for the world. Today, TreePeople has tens of thousands of supporters, a staff of over 60 professional foresters, educators, community organizers, researchers, and program and policy facilitators, a dedicated Board of Directors, and more than 10,000 volunteers. The organization touches neighborhoods throughout the region and people throughout the world. TreePeople pioneers sustainable practices around forestry, local water, healthy soil, and climate resilience that influence cities throughout the United States and the world.

TREEPEOPLE, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

NOTE 1 – Description of Organization (Continued)

Creating a Climate-Resilient Los Angeles

In response to mounting threats from a changing climate and diminishing natural resources, TreePeople has committed to dramatically expanding its scale of impact. TreePeople is engaged in a ten-year project to mobilize people to grow a climate-resilient urban landscape by pursuing three major goals:

1. Organizing neighborhoods to increase tree canopy cover across the region to protect people against extreme heat and severe weather, while improving health and livability.
2. Advocating for an affordable, clean and reliable locally-sourced water supply to provide security against droughts, pollution, flooding, and other threats.
3. Promoting healthy urban soil policies to achieve the previous two goals, while lowering urban temperatures and absorbing carbon dioxide.

To achieve these goals, TreePeople is working at both the community and governmental levels to promote holistic, nature-inspired solutions that transform urban landscapes to function like a natural forest. TreePeople is pioneering a new paradigm of urban environmental management that is crucial for the 21st century.

Award-Winning Programs

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 nearly 350,000 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 for the environment. In addition, TreePeople's Community Education Program trains thousands of adults to plant and care for trees, transform their landscapes to be sustainable, and harvest rainwater.

TreePeople's Forestry Programs inspire thousands of volunteers to plant and care for trees, distribute fruit trees to low-income Angelenos, and restore damaged natural ecosystems in parks, mountains, neighborhoods and school yards throughout Greater Los Angeles. Special focus is given to areas most in need of tree canopy. TreePeople's pioneering Community Forestry model gives ordinary people the extraordinary ability to improve their environment by incorporating nature and "forest-mimicking" technologies into their urban landscape. 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 THE FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

NOTE 1 – Description of Organization (Continued)

Award-Winning Programs (Continued)

TreePeople’s Policy Programs work with all levels of government to create progressive laws, policies and incentives to support 21st century “green” infrastructure, using nature and nature-based technologies to make Los Angeles sustainable. Over the past 20 years, TreePeople has played a leading role in demonstrating that it is technologically, socially and environmentally feasible to use green infrastructure to create a local water supply source and transform neighborhoods to be healthy and resilient. Now, faced with a historic droughts, wildfires, flooding, and a changing climate, TreePeople’s leadership is needed more than ever. Policy successes include an innovative Multi-Agency Collaborative recognized by the Environmental Protection Agency, a 2014 leadership delegation to learn the lessons from Australia’s 12-year Millennium Drought, and the development of the Los Angeles Department of Water and Power’s first-ever Stormwater Capture Master Plan.

TreePeople Center for Community Forestry is a resource to accomplish the mission of educating, inspiring and supporting citizens. In partnership with the City of Los Angeles (the City), TreePeople is caretaker to the 45-acre Coldwater Canyon Park. Located in the heart of Los Angeles, on the ridgeline between Los Angeles and the San Fernando Valley, this setting attracts more than 200,000 visitors each year, including school children, hikers, community volunteers and policy-makers.

The Center for Community Forestry’s campus of sustainably-designed buildings includes a 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.

An interpretive program provides visitors with innovative and inspiring displays, and 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 THE FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

NOTE 2 – Summary of Significant Accounting Policies

Basis of Presentation

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

Recently Adopted Accounting Standard

In 2018, the TreePeople adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic): Presentation of Financial Statements of Not-for-Profit Entities*. The main provisions include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction to net assets with donor restrictions. The guidance also enhances disclosures for board-designated amounts, components of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. With the adoption of the standard, the TreePeople updated net asset presentation in the financial statements and included additional disclosures as required. No significant reclassifications to prior-year amounts were necessary in order to adopt the new standard.

Reclassifications

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format.

Classes of Net Assets

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.

TREEPEOPLE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Classes of Net Assets (Continued)

Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Without Donor Restrictions - These generally result from revenues generated by receiving contributions without donor restrictions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

With Donor Restrictions - TreePeople reports gifts of cash and other assets as donor-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, donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from purpose or time restrictions. Other donor stipulations may be perpetual in nature, where the donor stipulates that the corpus be maintained intact in perpetuity but permits TreePeople to expend all of the income (or other economic benefits) derived from the donated assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, TreePeople considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. TreePeople places its cash and cash equivalents 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.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities and money market funds 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 net assets without donor restrictions unless their use is restricted by donor stipulations or by law.

TREEPEOPLE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Accounts and Other Receivables

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, represents their estimated net realizable value. The allowance for doubtful accounts 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. As these receivables are deemed to be fully collectible, no allowance for doubtful accounts receivable has been established at December 31, 2018 and 2017.

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	Lesser of life of asset or term of lease
Furniture and Equipment	7 years
Computer Equipment and Software	3-5 years
Leasehold Improvements	Term of lease
Transportation Equipment	5 years

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, 2018.

TREEPEOPLE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Deferred Revenue

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

Bequests

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

Revenue Recognition

TreePeople receives grant revenues from government and private agencies who pay the Organization based on units of service provided or reimbursable costs as defined by the grants. Revenue recognition depends on the grant agreement and is generally recognized as invoiced upon completion of services for specific units.

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for general use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions received with donor restrictions that are met in the same reporting period are reported as support without donor restrictions and an increase in net assets without donor restrictions.

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, are 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.

TREEPEOPLE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risks

The accounts receivable balance outstanding at December 31, 2018 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 money market funds, 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 the Finance Committee of the Board of Directors.

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 23701(d).

TreePeople is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California purposes is generally three and four years, respectively.

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.

TREEPEOPLE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

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.

Comparative Totals

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, 2017 from which the summarized financial information was derived.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Assets and liabilities are measured at fair value using a three-level fair value hierarchy that ranks the quality and reliability of the information used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the report date.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date.
- Level 3 - Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

TREEPEOPLE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

An asset's or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. All assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently and, therefore, have little or no price transparency are classified as level 3.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative-effect-transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. TreePeople is currently evaluating the impact of the adoption of the new standard.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). The guidance in this ASU supersedes the leasing guidance in *Leases (Topic 840)*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. During October 2019, the FASB approved a deferral of the effective date of Topic 842 until annual reporting periods beginning after December 15, 2020. TreePeople is currently evaluating the impact of the adoption of the new standard.

In June 2018, the FASB issues ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional and unconditional contributions. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. TreePeople is currently evaluating the impact of the adoption of the new standard.

TREEPEOPLE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Subsequent Events

In November 2019, TreePeople obtained control over Mountains Restoration Trust (MRT), which is a non-governmental land trust that protects and enhances the natural and cultural resources of the Santa Monica Mountains. No cash was exchanged in the transaction.

TreePeople has evaluated subsequent events from the statements of financial position date through November 14, 2019, the date the financial statements were available to be issued for the year ended December 31, 2018. Except as noted above and in Note 7, there were no material subsequent events that required recognition or additional disclosures in the financial statements.

NOTE 3 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 3,442,242
Investments	657,677
Accounts and other receivables	<u>817,308</u>
	4,917,227
Funds held for deferred compensation with contractual restrictions	(466,044)
Donor-imposed restrictions:	
Funds subject to purpose or time restrictions	(2,950,287)
Funds restricted in perpetuity	<u>(800,000)</u>
	<u>\$ 700,896</u>

TreePeople maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, TreePeople has a committed line of credit with a remaining capacity of approximately \$54,000 as of December 31, 2018, which it could draw upon.

TREEPEOPLE, INC.

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NOTE 4 – Investments

Investments measured at fair value consists of the following:

<u>December 31, 2018:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 424,987	\$ -	\$ -	\$ 424,987
Marketable equity securities	92,772	-	-	92,772
Debt securities	<u>139,918</u>	<u>-</u>	<u>-</u>	<u>139,918</u>
	<u>\$ 657,677</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 657,677</u>
<u>December 31, 2017:</u>				
Mutual funds	\$ 334,250	\$ -	\$ -	\$ 334,250
Marketable equity securities	252,910	-	-	252,910
Debt securities	<u>255,217</u>	<u>-</u>	<u>-</u>	<u>255,217</u>
	<u>\$ 842,377</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 842,377</u>

NOTE 5 – Property and Equipment

Property and equipment at December 31 consists of the following:

	<u>2018</u>	<u>2017</u>
Conference center	\$ 5,396,286	\$ 5,396,286
Environmental Learning Center	3,182,470	3,182,470
Furniture and equipment	670,348	670,348
Computer equipment and software	219,590	219,590
Leasehold improvements	323,379	323,379
Transportation equipment	<u>175,896</u>	<u>175,896</u>
	9,967,969	9,967,969
Less accumulated depreciation	<u>(5,953,145)</u>	<u>(5,556,005)</u>
Property and equipment, net	<u>\$ 4,014,824</u>	<u>\$ 4,411,964</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$397,140 and \$395,429, respectively.

TREEPEOPLE, INC.

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NOTE 6 – Accrued Liabilities

Accrued liabilities at December 31 consists of the following:

	2018	2017
Accrued vacation	\$ 196,168	\$ 187,560
Accrued payroll and payroll taxes	86,545	70,418
Accrued interest	11,970	15,275
Total accrued liabilities	\$ 294,683	\$ 273,253

NOTE 7 – Notes Payable

Notes payable are summarized as follows:

	December 31,	
	2019	2018
Working capital line of credit – with an interest rate of 3.0%, capacity of \$250,000, with unpaid principal and interest due April 2020	\$ 196,153	\$ 191,035
Term loan – with interest rate of 4.25%, with annual payments of \$100,000 due in September of each year, and remaining principal and interest due September 2020	998,685	1,098,685
Total	\$ 1,194,838	\$ 1,289,720

Notes payable are collateralized by certain investments at December 31, 2018 and 2017 and a personal guarantee of up to \$600,000 provided by a Board member.

Notes payable are due to be repaid as follows:

<u>Year Ending December 31,</u>	
2019	\$ 100,000
2020	994,838
	\$ 1,194,838

TREEPEOPLE, INC.

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NOTE 7 – Notes Payable (Continued)

Subsequent to year-end, TreePeople entered into an agreement with a new banking facility to refinance its notes payable. The new agreement allows for a term loan of \$1,200,000, a working capital line of credit of \$500,000 and a letter of credit of \$250,000. The term loan matures in October 2024 and the line of credit matures in October 2021. The funds from the new agreement were used to pay down the outstanding notes payable.

NOTE 8 – Deferred Revenue

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.

At December 31, 2018 and 2017, deferred revenue consists of funding from the City for the construction of the conference center and related amenities and totaled \$487,000 and \$523,000 respectively.

TreePeople recognized revenue of \$36,000 under this contract for each of the years ended December 31, 2018 and 2017.

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
- Provide interactive youth conferences
- Maintain the park as a place for self-guided hikes and tours for families

TREEPEOPLE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 9 – Commitments and Contingencies

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, 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.

Obligations under Operating Leases

TreePeople has various month-to-month leases. Total rent expense was \$32,938 and \$31,823 for the years ended December 31, 2018 and 2017, respectively. In addition, TreePeople has a lease agreement with the City 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 \$318,423 and \$269,671 for the years ended December 31, 2018 and 2017, respectively.

NOTE 10 – Employee Benefit Plans

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. A second such trust was adopted in December 2014. The deferred compensation trusts permit 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. Under the terms of the agreements, the trust will be distributed over a 9-year period, beginning at the President's 70th birthday. At December 31, 2018 and 2017, TreePeople has recorded a deferred compensation liability of \$466,044 and \$547,216, respectively. TreePeople recognized \$32,400 and \$38,055 as compensation expense related to the plan for the years ended December 31, 2018 and 2017, respectively.

TREEPEOPLE, INC.

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NOTE 11 – Net Assets With Donor Restrictions

Net Assets Restricted in Perpetuity

Net assets with donor restrictions that are in perpetuity at December 31, 2018 and 2017 totaled \$800,000 and \$500,000, respectively. The earnings from the investments are available for the general support of TreePeople’s programs and operations.

Net Assets Restricted for Time and Purpose

Net assets with donor restrictions for time and purpose are restricted for the following:

	December 31,	
	2018	2017
Mountain Forestry/Forest Aid	\$ 1,283,391	\$ -
Residential stormwater retrofit projects	1,180,035	1,274,172
Policy and research	145,000	-
Urban cooling	135,000	68,000
Huntington Park project	77,147	183,059
Financial and development capacity building	55,148	55,168
Education	38,936	113,690
School Greening Initiative	22,411	144,613
General LA Collaborative	-	58,424
Urban Forestry Initiative	-	40,000
Other	13,219	3,218
	<u>\$ 2,950,287</u>	<u>\$ 1,940,344</u>

NOTE 12 – Endowments

TreePeople’s endowments consist of funds established by donor-restricted gifts and bequests to an endowment held in perpetuity to provide a permanent source of income to TreePeople.

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NOTE 12 – Endowments (Continued)

TreePeople’s management and Board of Directors understands California State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity. TreePeople’s Board of Directors is in the process of developing a spending policy to distribute accumulated earnings on an annual basis to further the purposes of the individual donor-designated funds as of December 31, 2018.

The changes in the endowments for the year ended December 31, 2018 are as follows:

Endowment net assets – December 31, 2017	\$ 500,000
Contributions	<u>300,000</u>
Endowment net assets – December 31, 2018	<u>\$ 800,000</u>