

TREEPEOPLE, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

TREEPEOPLE, INC.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
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, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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 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, 2015, 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.

Report on Summarized Comparative Information

We have previously audited TreePeople's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 13, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

To the Board of Directors
TreePeople, Inc.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2016 on our consideration of TreePeople'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TreePeople's internal control over financial reporting and compliance.

Green Hasson & Janks LLP

May 12, 2016
Los Angeles, California

TREEPEOPLE, INC.

STATEMENT OF FINANCIAL POSITION
December 31, 2015
With Summarized Totals at December 31, 2014

	Unrestricted	Temporarily Restricted	Total 2015	Total 2014
ASSETS				
Cash	\$ 333,160	\$ 412,935	\$ 746,095	\$ 852,376
Investments	799,311	-	799,311	853,934
Accounts Receivable	108,842	-	108,842	101,383
Contributions and Pledges Receivable	47,001	312,500	359,501	883,381
Prepaid Expenses and Other Assets	25,768	-	25,768	22,664
Property and Equipment (Net)	5,139,374	-	5,139,374	5,480,551
TOTAL ASSETS	\$ 6,453,456	\$ 725,435	\$ 7,178,891	\$ 8,194,289
 LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 147,682	\$ -	\$ 147,682	\$ 91,906
Accrued Liabilities	304,591	-	304,591	256,738
Notes Payable	1,525,141	-	1,525,141	1,792,641
Deferred Revenue	595,000	-	595,000	631,000
Deferred Compensation	553,354	-	553,354	612,102
TOTAL LIABILITIES	3,125,768	-	3,125,768	3,384,387
NET ASSETS:				
Unrestricted Undesignated	3,327,688	-	3,327,688	3,478,706
Temporarily Restricted	-	725,435	725,435	1,331,196
TOTAL NET ASSETS	3,327,688	725,435	4,053,123	4,809,902
TOTAL LIABILITIES AND NET ASSETS	\$ 6,453,456	\$ 725,435	\$ 7,178,891	\$ 8,194,289

The Accompanying Notes are an Integral Part of These Financial Statements

TREEPEOPLE, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2015

With Summarized Totals for the Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total 2015	Total 2014
REVENUE, SUPPORT AND OTHER INCOME:				
Public Support:				
Individuals	\$ 2,046,127	\$ 33,000	\$ 2,079,127	\$ 1,641,772
Foundations	426,400	367,500	793,900	919,609
Government	893,113	-	893,113	697,061
Corporations	198,713	175,100	373,813	327,377
Special Events (Net of Cost of Direct Donor Benefits of \$169,918)	287,786	-	287,786	210,751
Bequests	21,000	-	21,000	159,629
Program Service Fees	-	-	-	1,371
Investment Income (Loss)	(9,783)	-	(9,783)	39,264
Net Assets Released from:				
Purpose Restrictions	581,361	(581,361)	-	-
Time Restrictions	600,000	(600,000)	-	-
	5,044,717	(605,761)	4,438,956	3,996,834
TOTAL REVENUE, SUPPORT AND OTHER INCOME				
EXPENSES:				
Program Services	3,739,860	-	3,739,860	3,219,996
Management and General	621,800	-	621,800	767,426
Fundraising	834,075	-	834,075	599,427
	5,195,735	-	5,195,735	4,586,849
TOTAL EXPENSES				
CHANGE IN NET ASSETS	(151,018)	(605,761)	(756,779)	(590,015)
Net Assets - Beginning of Year	3,478,706	1,331,196	4,809,902	5,399,917
NET ASSETS - END OF YEAR	\$ 3,327,688	\$ 725,435	\$ 4,053,123	\$ 4,809,902

The Accompanying Notes are an Integral Part of These Financial Statements

TREEPEOPLE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015

With Summarized Totals for the Year Ended December 31, 2014

	Program Services	Management and General	Fundraising	Total 2015	Total 2014
Salaries	\$ 2,213,546	\$ 318,756	\$ 447,101	\$ 2,979,403	\$ 2,453,318
Employee Benefits	47,668	6,767	9,706	64,141	105,360
Payroll Taxes	185,151	27,479	37,619	250,249	194,682
TOTAL PERSONNEL COSTS	2,446,365	353,002	494,426	3,293,793	2,753,360
Outside Consulting Services	324,623	44,759	60,141	429,523	498,929
Depreciation	295,740	42,587	59,735	398,062	398,765
Direct Mail Expenses	86,813	-	130,219	217,032	133,567
Communication	74,469	14,343	12,084	100,896	69,772
Other/Miscellaneous	30,977	8,049	36,618	75,644	24,628
Repairs and Maintenance	62,997	4,345	6,362	73,704	47,028
Insurance	51,866	7,469	10,476	69,811	60,810
Utilities and Security	43,309	6,186	8,676	58,171	59,950
Travel	55,600	124	1,705	57,429	40,820
Supplies	42,075	5,231	6,734	54,040	13,314
Planting Related Expenses	51,811	-	-	51,811	60,101
Bank Charges	-	51,393	-	51,393	52,353
Interest Expense	18,371	31,280	-	49,651	70,782
Professional Services	6,303	42,186	-	48,489	155,091
Equipment Rental	30,506	315	577	31,398	22,737
Rent	22,334	3,216	4,511	30,061	27,492
Video Materials and Reproduction	29,883	-	-	29,883	23,498
Layout and Graphic Design	18,909	-	-	18,909	7,539
Meals and Entertainment	11,089	3,771	345	15,205	6,278
Program Expenses	12,415	361	15	12,791	9,955
Promotion	9,240	-	-	9,240	7,713
Printing	5,952	382	536	6,870	21,544
Staff Development	2,876	304	491	3,671	4,565
License and Registration	1,569	1,076	118	2,763	3,864
Postage	2,001	271	306	2,578	6,440
Construction Cost	554	1,150	-	1,704	5,433
Education Materials	1,213	-	-	1,213	521
TOTAL 2015 FUNCTIONAL EXPENSES	\$ 3,739,860	\$ 621,800	\$ 834,075	\$ 5,195,735	
TOTAL 2014 FUNCTIONAL EXPENSES	\$ 3,219,996	\$ 767,426	\$ 599,427		\$ 4,586,849

The Accompanying Notes are an Integral Part of These Financial Statements

TREEPEOPLE, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

With Summarized Totals for the Year Ended December 31, 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (756,779)	\$ (590,015)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	398,062	398,765
Net Realized and Unrealized Loss on Investments	36,269	(9,967)
Reinvested Interest and Dividends	(23,028)	-
Loss on Sale of Property and Equipment	-	(334)
(Increase) Decrease in:		
Accounts Receivable	(7,459)	(84,654)
Contributions and Pledges Receivable	523,880	441,619
Prepaid Expenses and Other Assets	(3,104)	9,713
Increase (Decrease) in:		
Accounts Payable	55,776	(26,198)
Accrued Liabilities	47,853	94,498
Deferred Revenue	(36,000)	(36,000)
Deferred Compensation	(58,748)	6,093
	176,722	203,520
 NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(56,886)	-
Purchase of Investments	(7,010)	(221,723)
Proceeds on Sale of Investments	48,393	67,056
	(15,503)	(154,667)
 NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Notes Payable	-	348,942
Payments on Notes Payable	(267,500)	(200,000)
	(267,500)	148,942
 NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
 NET INCREASE (DECREASE) IN CASH	(106,281)	197,795
Cash - Beginning of Year	852,376	654,581
 CASH - END OF YEAR	\$ 746,095	\$ 852,376
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	\$ 41,619	\$ 21,827

The Accompanying Notes are an Integral Part of These Financial Statements

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - DESCRIPTION OF ORGANIZATION

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

TreePeople inspires and supports the people of LA to come together to plant and care for trees, harvest the rain, and renew depleted landscapes. The organization unites with communities to grow a greener, shadier and more water-secure city at homes, neighborhoods, schoolyards and in the local mountains. TreePeople works with volunteer leaders using its unique Citizen Forester model, as well as with government agencies to promote innovative solutions for a healthy, thriving Los Angeles.

TreePeople was born from the efforts of its founder and president Andy Lipkis over 40 years ago. As an 18-year-old college student, Andy determined to save the LA mountain forests from disappearing due to the smog creeping up from the metropolis below. Gaining support of the local media and fellow teenagers, Andy led a project to plant smog-tolerant seedlings to replace those being killed by air pollution. Along the way, he and his young supporters planted the seeds of an organization that grew into TreePeople. To date, TreePeople has involved more than 2 million people in planting and caring for more than 2 million trees in the Greater Los Angeles area, from 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 more than 20,000 supporters, a staff of nearly 50 professional foresters, educators, and program and policy facilitators, a dedicated Board of Directors, and more than 10,000 volunteers. The organization touches neighborhoods throughout Los Angeles and pioneers sustainable practices that influence cities throughout the United States and the world.

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. Over the next ten years TreePeople is mobilizing Angelenos to grow a climate-resilient urban landscape by achieving three major goals:

1. A minimum 25% of tree canopy cover across the region to protect people against extreme heat and severe weather, while improving health and livability;
2. A minimum 50% of affordable, clean and reliable locally-sourced water supply to provide security against droughts, pollution, flooding, and other threats;
3. Healthy soil 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.

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - DESCRIPTION OF ORGANIZATION (continued)

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 Citizen 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'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 drought and a changing climate, TreePeople's leadership is needed more than ever. Policy initiatives include an innovative Multi-Agency Collaborative recently 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, 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 four-acre 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 FINANCIAL STATEMENTS December 31, 2015

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 \$725,435 of temporarily restricted net assets at December 31, 2015.
- **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, 2015.

(c) CASH

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.

(d) 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 unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations or by law.

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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) CONTRIBUTIONS AND 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) 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 [Refer to Note 10(b)]
Furniture and Equipment	7 Years
Computer Equipment and Software	3 - 5 Years
Leasehold Improvements	Term of Lease
Transportation Equipment	5 Years

(h) 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, 2015.

(i) 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.

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) 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.

(k) CONTRIBUTED GOODS AND SERVICES

Contributions of donated non-cash 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.

(l) CONCENTRATION OF CREDIT RISKS

The accounts receivable balance outstanding at December 31, 2015 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.

(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.

(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.

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2014 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, 2015 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through May 12, 2016, 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 standard 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, 2015

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, 2015 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended December 31, 2015	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Equivalents	\$ 177,792	\$ 177,792	\$ -	\$ -
Mutual Funds	362,977	362,977	-	-
Marketable Equity				
Securities	168,192	168,192	-	-
Debt Securities	90,350	90,350	-	-
TOTAL	\$ 799,311	\$ 799,311	\$ -	\$ -

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.

TreePeople recognizes transfers at the beginning of each reporting period. Transfers between Level 1 and 2 investments generally relate to whether a market becomes active or inactive. Transfers between Level 2 and 3 investments related to whether significant relevant observable inputs are available for the fair value measurement in their entirety and when redemption rules become more or less restrictive. There were no transfers between levels during the year ended December 31, 2015.

Net investment loss for the year ended December 31, 2015 is comprised of the following:

Interest and Dividends	\$ 26,486
Net Realized and Unrealized Loss	<u>(36,269)</u>
INVESTMENT LOSS (NET)	<u>\$ 9,783</u>

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable of \$108,842 at December 31, 2015 consists primarily of receivables from government agencies. As these receivables are deemed to be fully collectible, no allowance for doubtful accounts receivable has been provided at December 31, 2015.

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2015

NOTE 5 – CONTRIBUTIONS AND PLEDGES RECEIVABLE

Contributions and pledges receivable of \$359,501 at December 31, 2015 are for future operations and programs of TreePeople and are expected to be collected in less than one year.

Management evaluated the collectability of contributions and pledges receivable at December 31, 2015 and no allowance for uncollectible contributions and pledges receivable was considered necessary.

Included in contributions and pledges receivable at December 31, 2015 is \$200,000 of pledges that are serving as collateral for notes payable (See Note 8).

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015 consist of the following:

Conference Center	\$ 5,378,614
Environmental Learning Center	3,164,170
Furniture and Equipment	670,348
Computer Equipment and Software	215,632
Leasehold Improvements	324,131
Transportation Equipment	<u>150,896</u>
TOTAL	9,903,791
Less: Accumulated Depreciation	<u>(4,764,417)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 5,139,374</u>

Depreciation expense for the year ended December 31, 2015 was \$398,062.

NOTE 7 - ACCRUED LIABILITIES

Accrued liabilities at December 31, 2015 consist of the following:

Accrued Vacation	\$ 156,890
Accrued Payroll and Payroll Taxes	78,887
Accrued Interest	55,814
Other Accrued Expenses	<u>13,000</u>
TOTAL ACCRUED LIABILITIES	<u>\$ 304,591</u>

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2015

NOTE 8 - NOTES PAYABLE

Term Loan - Non-Profit Organization, Working Capital Line with a Principal Amount of \$250,000, Interest at 2.75% Per Annum with Principal Due April 2016 (Extension through April 2017 in Process), \$21,859 Available under the Working Capital Line at December 31, 2015.	\$ 228,141
Term Loan - Board Member, Principal Amount of \$90,000, Interest at 2.5% Per Annum with Remaining Principal Due December 2016	90,000
Term Loan - Board Member, Principal Amount of \$77,500, Interest at 2.5% Per Annum with Remaining Principal Due December 2016	10,000
Term Loan - Non-Profit Organization, Principal Amount of \$1,597,000, Interest Accrues on Unpaid Principal at 3.25% per Annum until September 2017, when the Interest Rate adjusts to the Prime Rate. Principal Payments Due as Follows: September 2016 - \$100,000, September 2017 - \$100,000, September 2018 - \$100,000, September 2019 - \$100,000, September 2020 - Balance of Principal and Interest Due	<u>1,197,000</u>
TOTAL NOTES PAYABLE	<u>\$ 1,525,141</u>

Notes payable are collateralized by certain investments, pledges receivable at December 31, 2015 of \$200,000 and a personal guarantee of up to \$600,000 provided by a Board member.

Notes payable are due to be repaid as follows:

Years Ending December 31

2016	\$ 428,141
2017	100,000
2018	100,000
2019	100,000
2020	<u>797,000</u>
TOTAL	<u>\$ 1,525,141</u>

NOTE 9 - DEFERRED REVENUE

Deferred revenue of \$595,000 at December 31, 2015 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. TreePeople recognized revenue of \$36,000 under this contract for the year ended December 31, 2015. 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 FINANCIAL STATEMENTS

December 31, 2015

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.

(b) OBLIGATIONS UNDER OPERATING LEASES

TreePeople has various month-to-month leases. Total rent expense was \$30,061 for the year ended December 31, 2015. 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 \$73,704 for the year ended December 31, 2015.

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, 2015.

(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, 2015, TreePeople has recorded a deferred compensation liability of \$553,354 and provided \$17,983 as compensation expense related to the plan for the year ended December 31, 2015.

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2015 consist of the following:

Urban Watershed Initiative	\$	403,180
Education		14,741
School Greening Initiative		79,914
Fruit Tree Program		10,000
Mountain Forestry		7,600
Amphitheater Renovation		10,000
Pledges Receivable - Time Restriction		<u>200,000</u>
TEMPORARILY RESTRICTED NET ASSETS	\$	<u><u>725,435</u></u>

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 \$217,032 for the year ended December 31, 2015.

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

Program Services	\$	86,813
Fundraising		<u>130,219</u>
TOTAL	\$	<u><u>217,032</u></u>

NOTE 14 - RELATED PARTY TRANSACTIONS

During the year ended December 31, 2014, TreePeople obtained two term loans from a Board member for a total principal amount of \$167,500 (see Note 8). The loan agreements were approved by the Board of Directors in accordance with TreePeople's conflict of interest policy. Principal payments and interest expense on these term loans for the year ended December 31, 2015 amounted to \$67,500 and \$3,906, respectively. Unpaid interest related to these two term loans amounted to \$6,698 at December 31, 2015 and is included in accrued liabilities.