

TREEPEOPLE, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

TREEPEOPLE, INC.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

CONTENTS

	Page
Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses.....	4
Statement of Cash Flows	5
Notes to Financial Statements	6

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, 2017, 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. 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 30, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

September 25, 2018
Los Angeles, California

TREEPEOPLE, INC.

STATEMENT OF FINANCIAL POSITION
December 31, 2017
With Summarized Totals at December 31, 2016

ASSETS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
Cash	\$ (122,982)	\$ 1,857,344	\$ 300,000	\$ 2,034,362	\$ 751,850
Investments	839,766	-	200,000	1,039,766	785,218
Accounts Receivable	464,599	-	-	464,599	317,265
Contributions and Pledges Receivable	98,320	83,000	-	181,320	299,609
Prepaid Expenses and Other Assets	34,277	-	-	34,277	66,772
Property and Equipment (Net)	4,411,964	-	-	4,411,964	4,760,135
TOTAL ASSETS	<u>\$ 5,725,944</u>	<u>\$ 1,940,344</u>	<u>\$ 500,000</u>	<u>\$ 8,166,288</u>	<u>\$ 6,980,849</u>
 LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts Payable	\$ 235,801	\$ -	\$ -	\$ 235,801	\$ 206,706
Accrued Liabilities	273,253	-	-	273,253	277,247
Notes Payable	1,289,720	-	-	1,289,720	1,389,128
Deferred Revenue	523,000	-	-	523,000	559,000
Deferred Compensation	547,216	-	-	547,216	525,361
TOTAL LIABILITIES	2,868,990	-	-	2,868,990	2,957,442
NET ASSETS:					
Unrestricted Undesignated	2,856,954	-	-	2,856,954	2,919,908
Temporarily Restricted	-	1,940,344	-	1,940,344	903,499
Permanently Restricted	-	-	500,000	500,000	200,000
TOTAL NET ASSETS	<u>2,856,954</u>	<u>1,940,344</u>	<u>500,000</u>	<u>5,297,298</u>	<u>4,023,407</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,725,944</u>	<u>\$ 1,940,344</u>	<u>\$ 500,000</u>	<u>\$ 8,166,288</u>	<u>\$ 6,980,849</u>

The Accompanying Notes are an Integral Part of These Financial Statements

TREEPEOPLE, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

With Summarized Totals for the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
REVENUE, SUPPORT AND OTHER INCOME:					
Public Support:					
Individuals	\$ 2,072,804	\$ 35,000	\$ 300,000	\$ 2,407,804	\$ 2,310,987
Bequests	35,000	-	-	35,000	30,500
Foundations	386,063	244,020	-	630,083	1,049,100
Government	1,006,243	1,340,240	-	2,346,483	1,459,923
Corporations	268,932	321,650	-	590,582	309,281
Special Events (Net of Cost of Direct Donor Benefits of \$249,689)	414,329	-	-	414,329	345,803
In-Kind Revenue	-	-	-	-	80,000
Program Service Fees	12,875	-	-	12,875	-
Investment Income (Net)	131,432	-	-	131,432	26,514
Net Assets Released from:					
Purpose Restrictions	724,065	(724,065)	-	-	-
Time Restrictions	180,000	(180,000)	-	-	-
 TOTAL REVENUE, SUPPORT AND OTHER INCOME	 5,231,743	 1,036,845	 300,000	 6,568,588	 5,612,108
 EXPENSES:					
Program Services	3,957,472	-	-	3,957,472	3,963,108
Management and General	459,496	-	-	459,496	684,509
Fundraising	877,729	-	-	877,729	994,207
 TOTAL EXPENSES	 5,294,697	 -	 -	 5,294,697	 5,641,824
 CHANGE IN NET ASSETS	 (62,954)	 1,036,845	 300,000	 1,273,891	 (29,716)
Net Assets - Beginning of Year	2,919,908	903,499	200,000	4,023,407	4,053,123
 NET ASSETS - END OF YEAR	 <u>\$ 2,856,954</u>	 <u>\$ 1,940,344</u>	 <u>\$ 500,000</u>	 <u>\$ 5,297,298</u>	 <u>\$ 4,023,407</u>

The Accompanying Notes are an Integral Part of These Financial Statements

TREEPEOPLE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

With Summarized Totals for the Year Ended December 31, 2016

	Program Services	Management and General	Fundraising	Total 2017	Total 2016
Salaries	\$ 2,234,290	\$ 205,962	\$ 452,295	\$ 2,892,547	\$ 3,279,273
Employee Benefits	178,904	26,767	32,386	238,057	218,728
Payroll Taxes	159,983	26,984	34,986	221,953	263,194
TOTAL PERSONNEL COSTS	2,573,177	259,713	519,667	3,352,557	3,761,195
Advertising and Recruiting	10,996	210	-	11,206	-
Bank Charges	-	53,262	-	53,262	49,932
Communication	69,500	6,410	12,017	87,927	105,261
Construction Cost	22,240	-	-	22,240	300
Deferred Compensation Expense	38,055	-	-	38,055	-
Depreciation	305,441	28,156	61,832	395,429	396,160
Direct Mail Expenses	128,922	-	128,922	257,844	268,627
Education Materials	5,511	-	349	5,860	1,344
Equipment Rental	35,948	212	465	36,625	23,576
In-Kind Expense	-	-	-	-	80,000
Insurance	64,413	5,938	13,039	83,390	79,628
Interest Expense	23,355	23,355	-	46,710	45,794
Layout and Graphic Design	23,947	-	-	23,947	18,335
License and Registration	5,759	602	540	6,901	4,980
Meals and Entertainment	7,577	1,341	1,240	10,158	11,528
Other/Miscellaneous	24,877	5,483	33,056	63,416	68,845
Professional Services	315,283	50,523	78,261	444,067	411,822
Planting Related Expenses	72,027	-	-	72,027	16,986
Postage	3,553	189	565	4,307	9,852
Printing	21,678	1,699	3,731	27,108	28,971
Program Expenses	17,890	-	-	17,890	11,072
Promotion	7,375	-	694	8,069	8,460
Rent	24,581	2,266	4,976	31,823	31,816
Repairs and Maintenance	37,750	2,990	4,470	45,210	41,326
Staff Development	10,955	8,849	79	19,883	3,151
Supplies	17,680	2,966	2,124	22,770	41,464
Travel	43,072	1,123	2,459	46,654	38,490
Utilities and Security	45,660	4,209	9,243	59,112	64,019
Video Materials and Reproduction	250	-	-	250	18,890
TOTAL 2017 FUNCTIONAL EXPENSES	\$ 3,957,472	\$ 459,496	\$ 877,729	\$ 5,294,697	
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 3,963,108	\$ 684,509	\$ 994,207		\$ 5,641,824

The Accompanying Notes are an Integral Part of These Financial Statements

TREEPEOPLE, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2017

With Summarized Totals for the Year Ended December 31, 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 1,273,891	\$ (29,716)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	395,429	396,160
Net Realized and Unrealized Gain on Investments	(98,867)	(7,209)
Contributions Restricted for Investment in Perpetuity	(300,000)	(200,000)
(Increase) Decrease in:		
Accounts Receivable	(147,334)	(208,423)
Contributions and Pledges Receivable	118,289	59,892
Prepaid Expenses and Other Assets	32,495	(41,004)
Increase (Decrease) in:		
Accounts Payable	29,095	59,024
Accrued Liabilities	(3,994)	(27,344)
Deferred Revenue	(36,000)	(36,000)
Deferred Compensation	21,855	(27,993)
	1,284,859	(62,613)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(47,258)	(16,921)
Reinvested Interest and Dividends	(28,346)	(15,847)
Purchase of Investments	(254,030)	(30,357)
Proceeds on Sale of Investments	126,695	67,506
	(202,939)	4,381
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on Notes Payable	(99,408)	(136,013)
Contributions Restricted for Investment in Perpetuity	300,000	200,000
	200,592	63,987
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE IN CASH	1,282,512	5,755
Cash - Beginning of Year	751,850	746,095
CASH - END OF YEAR	\$ 2,034,362	\$ 751,850
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	\$ 61,093	\$ 45,794

The Accompanying Notes are an Integral Part of These Financial Statements

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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 Los Angeles 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 pursuing 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, 2017

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, 2017

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 \$1,940,344 of temporarily restricted net assets at December 31, 2017.
- **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 \$500,000 of permanently restricted net assets at December 31, 2017.

(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, 2017

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, 2017.

(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, 2017

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, 2017 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, 2017

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 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, 2016 from which the summarized financial information was derived.

(q) NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which improves and converges the revenue recognition requirements of U.S. GAAP and International Financial Reporting Standards. The ASU replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model, which is intended to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires more detailed disclosures to enable users of consolidated financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance has subsequently been amended through a series of ASUs between August 2015 and September 2017 to improve the operability and understandability of the implementation guidance on scope exceptions and various other narrow aspects, as identified and addressed in such updates. For TreePeople, the ASU and subsequent amendments will be effective for the year ending December 31, 2019.

In February 2016, FASB issued ASU No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and providing additional information about the amounts recorded in the financial statements. For TreePeople, the ASU will be effective for the year ending December 31, 2020.

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) NEW ACCOUNTING PRONOUNCEMENTS (continued)

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. For TreePeople, the ASU will be effective for the year ending December 31, 2018.

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU aims to standardize how grants and other contracts are classified across the sector, as either an exchange transaction or a contribution. For TreePeople, the ASU will be effective for the year ending December 31, 2019.

(r) SUBSEQUENT EVENTS

TreePeople has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2017 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through September 25, 2018, 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).

The following table presents information about TreePeople's assets that are measured at fair value on a recurring basis at December 31, 2017 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 3 - INVESTMENTS (continued)

	Year Ended December 31, 2017	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	\$ 197,389	\$ 197,389	\$ -	\$ -
Mutual Funds	334,250	334,250	-	-
Marketable Equity Securities	252,910	252,910	-	-
Debt Securities	255,217	255,217	-	-
TOTAL	\$ 1,039,766	\$ 1,039,766	\$ -	\$ -

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 relate 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, 2017.

Net investment income for the year ended December 31, 2017 is comprised of the following:

Interest and Dividends	\$ 32,565
Net Realized and Unrealized Gain	98,867
INVESTMENT INCOME (NET)	\$ 131,432

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable of \$464,599 at December 31, 2017 consist primarily of receivables from government agencies. As these receivables are deemed to be fully collectible, no allowance for doubtful accounts receivable has been established at December 31, 2017.

NOTE 5 - CONTRIBUTIONS AND PLEDGES RECEIVABLE

Contributions and pledges receivable of \$181,320 at December 31, 2017 are for future operations and programs of TreePeople. \$137,320 of the balance outstanding is expected to be collected within one year and \$44,000 is expected to be collected within two years.

Management evaluated the collectability of contributions and pledges receivable at December 31, 2017 and no allowance for uncollectible contributions and pledges receivable was considered necessary.

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2017

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 consist of the following:

Conference Center	\$ 5,396,286
Environmental Learning Center	3,182,470
Furniture and Equipment	670,348
Computer Equipment and Software	219,590
Leasehold Improvements	323,379
Transportation Equipment	<u>175,896</u>
TOTAL	9,967,969
Less: Accumulated Depreciation	<u>(5,556,005)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 4,411,964</u>

Depreciation expense for the year ended December 31, 2017 was \$395,429.

NOTE 7 - ACCRUED LIABILITIES

Accrued liabilities at December 31, 2017 consist of the following:

Accrued Vacation	\$ 187,560
Accrued Payroll and Payroll Taxes	70,418
Accrued Interest	<u>15,275</u>
TOTAL ACCRUED LIABILITIES	<u>\$ 273,253</u>

NOTE 8 - NOTES PAYABLE

Term Loan - Non-Profit Organization, Working Capital Line with a Principal Amount of \$250,000, Interest at 3.0% Per Annum, Facility Extended through April 2020, \$58,965 Available under the Working Capital Line at December 31, 2017

\$ 191,035

Term Loan - Non-Profit Organization, Principal Amount of \$1,597,000, Interest Accrues on Unpaid Principal at 4.25%. Principal Payments Due as Follows: September 2018 - \$100,000, September 2019 - \$100,000, September 2020 - Balance of Principal and Interest Due

1,098,685

TOTAL NOTES PAYABLE

\$ 1,289,720

Notes payable are collateralized by certain investments at December 31, 2017 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

2018	\$ 100,000
2019	100,000
2020	<u>1,089,720</u>
TOTAL	<u>\$ 1,289,720</u>

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 9 - DEFERRED REVENUE

Deferred revenue of \$523,000 at December 31, 2017 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, 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

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 \$31,823 for the year ended December 31, 2017. 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 \$269,671 for the year ended December 31, 2017.

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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, 2017.

(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. 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. At December 31, 2017, TreePeople has recorded a deferred compensation liability of \$547,216 and provided \$38,055 as compensation expense related to the plan for the year ended December 31, 2017.

NOTE 12 - NET ASSETS

(a) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2017 are restricted for the following purposes:

Residential Stormwater Retrofit Projects	\$ 1,274,172
Huntington Park Project	183,059
School Greening Initiative	144,613
Education	113,690
Urban Cooling	68,000
Greater LA Collaborative	58,424
Financial and Development Capacity Building	55,168
Urban Forestry Initiative	40,000
Marketing and Communication	3,218
	<hr/>
TEMPORARILY RESTRICTED NET ASSETS	\$ 1,940,344

(b) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at December 31, 2017 totaled \$500,000, which includes contributions restricted by donors for investment in perpetuity. The earnings from the investments are available for the general support of TreePeople's programs and operations, unless otherwise designated by the donor.

TREEPEOPLE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 13 - ENDOWMENTS

TreePeople's endowments consist of funds established for a variety of purposes. Endowment funds are established by donor-restricted gifts and bequests to either provide a permanent endowment, which is to provide a permanent source of income to TreePeople, or a term endowment, which is to provide income for a specified period to TreePeople.

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, 2017.

**Endowment Net Asset
Composition by Type of
Fund at December 31, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	\$ -	\$ -	\$ 500,000	\$ 500,000

**Changes in Endowment Net
Assets for the Year Ended
December 31, 2017**

Endowment Net Assets - Beginning of Year	\$ -	\$ -	\$ 200,000	\$ 200,000
Contributions	-	-	300,000	300,000
Appropriation of Endowment Assets for Expenditure	-	-	-	-

***ENDOWMENT NET
ASSETS - END OF YEAR***

	\$ -	\$ -	\$ 500,000	\$ 500,000
--	------	------	------------	------------

NOTE 14 - 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 \$257,844 for the year ended December 31, 2017.

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

Program Services	\$ 128,922
Fundraising	128,922
<i>TOTAL</i>	<i>\$ 257,844</i>