TreePeople

# FINANCIAL STATEMENTS
# DECEMBER 31, 2020
# (with Summarized Totals for 2019)

**CONTENTS**

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
TreePeople, Inc.

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of TreePeople, Inc. (TreePeople) (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of TreePeople as of December 31, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 21, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Windes, Inc.

Long Beach, California
August 4, 2021

## TREEPEOPLE, INC.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## DECEMBER 31, 2020
## (WITH COMPARATIVE TOTALS FOR 2019)

### ASSETS

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 7,954,364 | $ 4,327,258 |
| Restricted cash | 158,099 | 651,005 |
| Investments | 2,680,854 | 2,734,112 |
| Accounts and other receivables, net | 2,748,543 | 2,334,325 |
| Prepaid expenses and other assets | 240,584 | 34,571 |
| Property held for sale | 1,460,080 | 1,210,080 |
| Property and equipment, net | 3,447,211 | 3,772,304 |
| Property held for conservation | 39,064 | 39,063 |
| **TOTAL ASSETS** | $ 18,728,799 | $ 15,102,718 |

### LIABILITIES AND NET ASSETS

| | 2020 | 2019 |
|---|---|---|
| **LIABILITIES** | | |
| Accounts payable | $ 592,273 | $ 311,954 |
| Lines of credit | - | 150,750 |
| Accrued liabilities | 770,197 | 341,585 |
| Insurance proceeds liability | 405,116 | 758,167 |
| Note payable | 1,145,095 | 1,200,000 |
| Deferred revenue | 419,237 | 455,237 |
| Deferred compensation | 548,506 | 515,846 |
| | 3,880,424 | 3,733,539 |
| **COMMITMENTS AND CONTINGENCIES (Note 14)** | | |
| **NET ASSETS** | | |
| Without donor restrictions | 9,691,926 | 4,104,672 |
| With donor restrictions | | |
| Restricted for time and purpose | 2,696,853 | 5,162,270 |
| Restricted in perpetuity | 2,459,596 | 2,102,237 |
| | 5,156,449 | 7,264,507 |
| Total net assets | 14,848,375 | 11,369,179 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 18,728,799 | $ 15,102,718 |

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

## TREEPEOPLE, INC.

## CONSOLIDATED STATEMENT OF ACTIVITIES
## FOR THE YEAR ENDED DECEMBER 31, 2020
## (WITH COMPARATIVE TOTALS FOR 2019)

| | Without Donor Restrictions | With Donor Restrictions | Total 2020 | Total 2019 |
|---|---|---|---|---|
| **REVENUE, SUPPORT AND OTHER INCOME** | | | | |
| Individuals | $ 2,321,708 | $ 318,119 | $ 2,639,827 | $ 3,400,112 |
| Bequests | 1,777,367 | - | 1,777,367 | 1,084,781 |
| Foundations and corporations | 1,275,692 | 395,034 | 1,670,726 | 1,908,104 |
| Government contributions and grants | 4,879,307 | - | 4,879,307 | 2,048,672 |
| Mitigation fees | 100,000 | 162,359 | 262,359 | - |
| Special events (net of cost of direct donor benefits of $0 and $221,164) | - | - | - | 259,172 |
| Investment income, net | 96,792 | 73,401 | 170,193 | 99,325 |
| Other income | 86,688 | - | 86,688 | 63,208 |
| PPP loan forgiveness | 890,375 | - | 890,375 | - |
| Net assets released from restriction | 3,056,971 | (3,056,971) | - | - |
| Total Revenue, Support and Other Income | 14,484,900 | (2,108,058) | 12,376,842 | 8,863,374 |
| **EXPENSES** | | | | |
| Program services | 6,650,016 | - | 6,650,016 | 4,991,882 |
| Management and general | 1,252,344 | - | 1,252,344 | 1,071,414 |
| Fundraising | 995,286 | - | 995,286 | 1,037,856 |
| Total Expenses | 8,897,646 | - | 8,897,646 | 7,101,152 |
| **CHANGE IN NET ASSETS** | 5,587,254 | (2,108,058) | 3,479,196 | 1,762,222 |
| **NET ASSETS, BEGINNING OF YEAR** | 4,104,672 | 7,264,507 | 11,369,179 | 6,284,761 |
| **NET ASSETS ACQUIRED IN ACQUISITION** | - | - | - | 3,322,196 |
| **NET ASSETS, END OF YEAR** | $ 9,691,926 | $ 5,156,449 | $ 14,848,375 | $ 11,369,179 |

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

## TREEPEOPLE, INC.

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
## FOR THE YEAR ENDED DECEMBER 31, 2020
## (WITH COMPARATIVE TOTALS FOR 2019)

| | Program Services | Management and General | Fundraising | Total 2020 | Total 2019 |
|---|---|---|---|---|---|
| **PERSONNEL EXPENSES** | | | | | |
| Salaries | $ 3,008,649 | $ 657,126 | $ 401,942 | $ 4,067,717 | $ 3,490,148 |
| Employee benefits | 252,033 | 24,499 | 23,950 | 300,482 | 215,654 |
| Payroll taxes | 205,927 | 37,199 | 32,398 | 275,524 | 318,771 |
| Total personnel expenses | 3,466,609 | 718,824 | 458,290 | 4,643,723 | 4,024,573 |
| **OPERATIONAL EXPENSES** | | | | | |
| Deferred compensation expense | - | - | - | - | 9,438 |
| Depreciation | 325,756 | 55,748 | 50,606 | 432,110 | 414,627 |
| Direct mail expenses | - | - | 132,539 | 132,539 | 235,491 |
| Equipment and vehicles | 129,726 | 14,138 | 4,901 | 148,765 | 214,252 |
| Interest and account fees | 2,567 | 75,269 | 21,544 | 99,380 | 108,003 |
| Marketing and communications | 10,265 | 115 | 106 | 10,486 | 28,926 |
| Miscellaneous | 21,380 | 4,350 | - | 25,730 | 5,759 |
| Occupancy | 168,331 | 3,658 | 769 | 172,758 | 135,929 |
| Operations | 182,577 | 60,569 | 34,884 | 278,030 | 319,399 |
| Planting related | 341,242 | - | - | 341,242 | 244,853 |
| Professional services | 1,835,439 | 257,453 | 276,359 | 2,369,251 | 1,027,863 |
| Program expenses | 40,172 | 10 | 9 | 40,191 | 50,700 |
| Special events expenses | 1,516 | - | 1,577 | 3,093 | 38,578 |
| Staff development | 2,993 | 3,572 | - | 6,565 | 15,119 |
| Travel | 29,231 | 1,247 | 506 | 30,984 | 62,241 |
| Utilities and security | 90,157 | 14,433 | 13,196 | 117,786 | 131,308 |
| Volunteer recognition | 2,055 | - | - | 2,055 | 12,071 |
| Bad debt | - | 42,958 | - | 42,958 | 22,022 |
| Total operational expenses | 3,183,407 | 533,520 | 536,996 | 4,253,923 | 3,076,579 |
| **TOTAL 2020 FUNCTIONAL EXPENSES** | $ 6,650,016 | $ 1,252,344 | $ 995,286 | $ 8,897,646 | |
| **PERCENTAGE OF EXPENSES** | 75% | 14% | 11% | 100% | |
| **TOTAL 2019 FUNCTIONAL EXPENSES** | $ 4,991,882 | $ 1,071,414 | $ 1,037,856 | | $ 7,101,152 |
| **PERCENTAGE OF EXPENSES** | 70% | 15% | 15% | | 100% |

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

## TREEPEOPLE, INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED DECEMBER 31, 2020
## (WITH COMPARATIVE TOTALS FOR 2019)

| | For the Year Ended December 31, 2020 | 2019 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ 3,479,196 | $ 1,762,222 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 432,110 | 414,627 |
| Net realized and unrealized gains on investments | (170,193) | (66,289) |
| Contributions restricted for investment in perpetuity | (300,000) | (300,000) |
| Contributions of property held for conservation | (1) | - |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (414,218) | (1,203,743) |
| Prepaid expenses and other assets | (206,013) | 21,252 |
| Accounts payable | 280,319 | (73,549) |
| Accrued liabilities | 428,612 | 41,106 |
| Insurance proceeds liability | (353,051) | (93,211) |
| Deferred revenue | (36,000) | (31,763) |
| Deferred compensation | 32,660 | 49,802 |
| Net Cash Provided By Operating Activities | 3,173,421 | 520,454 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (107,017) | (167,047) |
| Acquisition of land for investment | (250,000) | - |
| Reinvested interest and dividends | (91,664) | (33,396) |
| Purchase of investments | (205,664) | (955,845) |
| Proceeds on sale of investments | 520,779 | 1,247,068 |
| Cash, cash equivalents, and restricted cash received in acquisition | - | 468,875 |
| Net Cash (Used In) Provided By Investing Activities | (133,566) | 559,655 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net draw on line of credit | (150,750) | 4,000 |
| Payments on notes payable | (54,905) | (1,048,088) |
| Proceeds from debt issuance | - | 1,200,000 |
| Contributions restricted for investment in perpetuity | 300,000 | 300,000 |
| Net Cash Provided By Financing Activities | 94,345 | 455,912 |
| **NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH** | 3,134,200 | 1,536,021 |
| **CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF YEAR** | 4,978,263 | 3,442,242 |
| **CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR** | $ 8,112,463 | $ 4,978,263 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Cash paid during the year for: | | |
| Interest | $ 64,641 | $ 56,184 |
| Noncash investing information: | | |
| Net assets acquired in merger | $ - | $ 2,853,321 |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020
(WITH COMPARATIVE TOTALS FOR 2019)**

**NOTE 1 – Description of Organization**

TreePeople, Inc. (TreePeople) is a California not-for-profit organization and has become the largest environmental movement headquartered in Los Angeles. Its mission is to inspire, engage and support people to take personal responsibility for the urban environment, making it safe, healthy, fun, sustainable and resilient and to share our process as a model for the world. TreePeople has inspired millions of people to come together to plant and care for trees, restore fire-scarred forests, harvest the rain, and renew depleted landscapes. TreePeople unites with communities to grow greener, shadier and more climate-resilient and water-secure communities through greening efforts in the national forest, local mountains and at homes, schools, parks, and public streets throughout many diverse neighborhoods. TreePeople engages with tens of thousands of volunteer leaders using its flagship *Community Forester* model, as well as with public agencies and the private sector, to promote climate and environmental literacy and innovative nature-based solutions for healthy, equitable, resilient and economically thriving communities.

Incorporated in August 1973, TreePeople has inspired communities throughout the world to come together to plant and care for countless numbers of trees and native plants, from the national forests to the mountains to the most over-paved urban streets. With the support of millions of volunteers, community members, teachers, students, philanthropists, the press, public agencies and the private sector, TreePeople has grown from the dreams and efforts of a small group of teenagers led by TreePeople founder Andy Lipkis who planted smog-tolerant seedlings in the San Bernardino Mountains while at camp into the largest movement of people planting and caring for trees and transforming their local landscapes through nature-based solutions.

Today, TreePeople has tens of thousands of supporters, a staff of over 70 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 diverse neighborhoods throughout the region and people throughout the world. TreePeople pioneers sustainable practices around forestry, environmental education, local water, healthy soil, and climate resilience that influence cities throughout the United States and the world.

**NOTE 1 – Description of Organization (Continued)**

***Creating Climate-Resilient and Water-Secure Communities***

In response to mounting environmental, economic and public health threats from a changing climate and diminishing natural resources, TreePeople has dramatically expanded its scale of impact and its focus on equity and environmental justice.

TreePeople is engaged in a global effort to mobilize people to grow climate-resilient urban communities with healthy tree canopy by pursuing three major goals:

1. Training, supporting and organizing neighborhoods to increase tree canopy cover to protect people against air pollution, wildfires, flooding, droughts, and extreme heat and severe weather, while improving public health, equity and livability.
2. Advocating for nature-based solutions, stormwater capture and 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 lower urban temperatures and absorb carbon dioxide.

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

***Award-Winning Programs***

**TreePeople's Environmental Education Programs** provide virtual and in-person hands-on, science-based environmental curricula and school greening opportunities 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 and greening schools, these programs are designed to inspire and empower future generations to take action for the environment. In addition, TreePeople's virtual and in-person community education programs train thousands of people to plant and care for trees, transform their landscapes to be sustainable, and harvest rainwater.

## NOTE 1 – Description of Organization (Continued)

### *Award-Winning Programs (Continued)*

**TreePeople's Forestry and Urban Greening Programs** inspire thousands of volunteers to plant and care for trees, distribute fruit trees to low-income residents, and restore damaged natural ecosystems in parks, mountains, neighborhoods and school yards. Special focus is given to address equity and environmental justice in areas with low tree canopy. TreePeople's pioneering *Community Forestry* model gives 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 and Research Programs** work with all levels of government to conduct cutting-edge scientific research and create progressive laws, policies and incentives to support 21st century "green" infrastructure, using nature and nature-based technologies to make communities resilient and sustainable. Over the past 20 years, TreePeople has played a leading role in demonstrating that it is technologically, socially and environmentally feasible to use multi-benefit green infrastructure to create a local water supply source and transform neighborhoods to be healthy and resilient. Faced with historic droughts, wildfires, flooding, and a changing climate, TreePeople's thought leadership and innovations are needed more than ever. Policy successes include an innovative Multi-Agency Collaborative recognized by the U.S. Environmental Protection Agency, a 2014 leadership delegation to learn the lessons from Australia's 12-year Millennium Drought, the development of the Los Angeles Department of Water and Power's first-ever Stormwater Capture Master Plan, the completion of the first-ever Los Angeles County LIDAR tree canopy assessment and the launch of its forward-thinking *Healthy Urban Soils* research to develop policies, incentives and support for "brown" infrastructure.

**TreePeople Center for Community Forestry** is a renowned campus resource to accomplish the mission of educating, inspiring and supporting people to make a difference for nature and our environment. 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 magnificent Santa Monica Mountains setting and wildlife corridor attracts more than 200,000 visitors each year, including school children, hikers, community volunteers, and policy-makers.

## NOTE 1 – Description of Organization (Continued)

### *Award-Winning Programs (Continued)*

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 grove, collect rainwater, which is then stored in a 216,000-gallon cistern, underground, for use in irrigating the gardens and trees.

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 climate, water and energy crises facing Los Angeles and many other urban centers in the coming years.

### *TreePeople Land Trust*

TreePeople Land Trust dba Mountain Restoration Trust (the Trust) became the wholly owned subsidiary of TreePeople beginning November 1, 2019. The Trust is a non-profit accredited land trust dedicated to preserving natural land in the Santa Monica Mountains through restoration, education and land acquisition. Founded in 1981, The Trust collaborates with members of the public and government agencies in an ongoing effort to maintain a cooperative relationship between urbanization and native land.

During 2020, the Trust filed a Fictitious Business Name Statement with the County of Los Angeles to allow the Trust to "do business as" TreePeople Land Trust.

The Trust achieves its goal of preserving the Santa Monica Mountains' natural resources by implementing three distinct programs: Acquisitions, Restoration and Education.

**Program 1 – Acquisition / Real Estate**: The Trust owns 1,376 acres in fee title, 1,364.78 acres in conservation easements, and 5.28 acres of trail easements. There are 12 acres of leased land and building at Headwaters Corner. The Trust acquires land to protect the significant ecological areas of Cold Creek, La Sierra, and other strategic habitats.

## NOTE 1 – Description of Organization (Continued)

***TreePeople Land Trust (Continued)***

**Program 2 – Land Stewardship and Restoration:** The Santa Monica Mountains contain renowned ecosystems for biodiversity, and are, in fact, recognized as a global "biodiversity hotspot." Mediterranean-climates, found here and on only 2.25% of the world's surface, support nearly 50,000 plant species. It also supports a significant amount of humans, human developments and invasive species due to its short wet winters and long dry summers. The Trust has a staff of field specialists and technicians working 6 days a week at various restoration sites across the Santa Monica Mountains to remove invasive plants and aquatic species, provide native plantings and restore critical habitats, including oak woodlands, riparian streams, chaparral and sage-scrub hillsides across the approximately 3,000 acres owned or managed by the Trust. The Trust also continues to work with state and national park units on collaborative projects, as well as jurisdictional agencies on mitigation for unavoidable impacts.

**Program 3 – Environmental Education:** The Trust has five naturalists providing outdoor education field trips for K-12 students from the Greater Los Angeles region. The one-day field trips provide hands-on and experimental environmental science education for approximately 2,500 students per year, primarily from Title 1, or underprivileged schools.

During 2020, due to the global COVID-19 pandemic, in-person educational programming was suspended for the safety of staff and students. Educational programming is expected to resume by 2022, pending public health official guidelines.

## NOTE 2 – Summary of Significant Accounting Policies

***Basis of Presentation***

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

***Principles of Consolidation***

These consolidated financial statements include the accounts of TreePeople and the Trust (collectively, the Organization). Intercompany transactions are eliminated in consolidation.

## NOTE 2 – Summary of Significant Accounting Policies (Continued)

### *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 the Trust financial statements for the year ended December 31, 2019 from which the summarized financial information was derived.

### *Reclassifications*

Certain reclassifications have been made to the 2019 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 the Organization 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:

> ***Without Donor Restrictions*** **-** These generally result from revenue 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*** **–** The Organization 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 the Organization to expend all of the income (or other economic benefits) derived from the donated assets.

## NOTE 2 – Summary of Significant Accounting Policies (Continued)

### *Cash, Cash Equivalents, and Restricted Cash*

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Organization 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. The Organization has not incurred losses related to these investments and believes it is not exposed to any significant credit risk on cash.

The Organization has certain cash funds that are required by donors to be restricted from general operating funds.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated statements of financial position that sum to the total of the same such amounts shown in the consolidated statements of cash flows:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Cash and cash equivalents | $ 7,954,364 | $ 4,327,258 |
| Restricted cash | 158,099 | 651,005 |
| | $ 8,112,463 | $ 4,978,263 |

### *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.

## NOTE 2 – Summary of Significant Accounting Policies (Continued)

### *Accounts and Other Receivables*

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, collection efforts, type of customer, the age of outstanding receivables and existing economic conditions. At December 31, 2020 and 2019, the allowance for doubtful accounts was $38,794 and $22,022, respectively.

### *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. Amortization of leasehold improvements is over the term of the lease agreement. 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 |

### *Property Held for Conservation*

Property held for conservation purposes includes purchased or donated properties to be sold or transferred to governmental agencies or other individuals and organizations for conservation purposes or maintained as a nature preserve in perpetuity. Land and conservation easements are treated as commitments and are recorded in property held for conservation purposes at a minimal value of $1,000 for each parcel of land and $1 for each easement, due to deed restrictions, which affect potential sales and the principal market value.

## NOTE 2 – Summary of Significant Accounting Policies (Continued)

### *Long-Lived Assets*

The Organization 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, 2020.

### *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*

The Organization 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*

Beginning January 1, 2019, the Organization adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2016-09) and ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), and has applied them prospectively.

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend are substantially met.

## NOTE 2 – Summary of Significant Accounting Policies (Continued)

### *Revenue Recognition (Continued)*

Revenue from certain federal, state, and county grants are conditioned upon certain performance requirements, which can include the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Trust has incurred expenditures in compliance with specific contract or grant provisions and any other conditions are met. Any difference between expenses incurred and the total funds received (not to exceed the grant maximum) is recorded as a receivable or an advance, whichever is applicable.

The Organization is party to conditional grants with grant terms through June 2024 and additional funding of approximately $7,956,000 that has not been recognized at December 31, 2020 because qualifying expenditures have not yet been incurred.

Mitigation fee revenue is in accordance with the California Environmental Quality Act in coordination with government agencies, such as the California Department of Fish and Wildlife and the United States Department of Fish and Wildlife, which requires that the potential impacts on species, habitat and farmland, from development be considered. A project proponent may pay an in lieu fee to a lead agency or other designated agency to be used to acquire the required mitigation land or conservation easement. As an approved mitigation agency, the Trust receives mitigation fee revenue from project proponents. These funds may contain certain conditions or restrictions for use of the funding.

### *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 the Organization. The services that these individuals rendered, however, do not meet the above criteria and, as such, are not recognized as revenue.

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

***Concentration of Credit Risks***

The accounts receivable balance outstanding at December 31, 2020 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 the Organization receivables consist of earned fees from contract programs granted by governmental agencies.

The Organization 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***

The Organization 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. The Organization currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. The Organization is also exempt under California Revenue and Taxation Code Section 23701(d).

The Organization 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 the Organization programs and other activities have been presented in the consolidated 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. The Organization uses full-time equivalents to allocate indirect costs.

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

***Use of Estimates***

In preparing the consolidated 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 consolidated financial statements, and revenue and expenses during the reporting period. Actual results could differ from those estimates.

***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.

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.

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

***Recently Issued Accounting Pronouncements***

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 consolidated statement of financial position 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 consolidated statement of activities. During June 2020, the FASB approved a deferral of the effective date of *Topic 842* until annual reporting periods beginning after December 15, 2021. The Organization is currently evaluating the impact of the adoption of the new standard.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit to present contributed nonfinancial assets as a separate line item in the consolidated statement of activities, apart from contributions of cash or other financial assets. Additionally, the standard requires a not-for-profit to disclose a disaggregation of the amount of contributed nonfinancial assets by category that depicts the type of nonfinancial assets and additional information related to the monetization, utilization, and valuation of the contributed nonfinancial assets. The ASU is effective for annual reporting periods beginning after June 15, 2021. The Organization is currently evaluating the impact of the adoption of the new standard.

***Subsequent Events***

The Organization has evaluated subsequent events from the consolidated statement of financial position date through August 4, 2021, the date the consolidated financial statements were available to be issued for the year ended December 31, 2020.

## NOTE 3 – Acquisition

Effective November 1, 2019, TreePeople obtained control over the Trust through an agreement where TreePeople became the sole member of the Trust. The transaction has been treated as an acquisition and assets and liabilities were valued at their fair value at the date of the transaction. No cash consideration was exchanged as part of the agreement, and the Trust continues to be operated as a separate entity. Due to the restricted nature of some of the assets, they are classified as net assets with donor restrictions in the consolidated financial statements.

The operations of the Trust for the period November 1, 2019 to December 31, 2019 are included in the summarized comparative information of the accompanying consolidated financial statements for the Organization for the year ended December 31, 2019.

## NOTE 4 – Liquidity and Availability

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

| | |
|---|---|
| Cash and cash equivalents | $ 7,954,364 |
| Restricted cash | 158,099 |
| Investments | 2,680,854 |
| Accounts and other receivables | 2,748,543 |
| | 13,541,860 |
| Funds held for deferred compensation with contractual restrictions | (548,506) |
| Funds held for insurance proceeds | (405,116) |
| Donor-imposed restrictions: | |
| Funds subject to purpose or time restrictions | (2,696,853) |
| Funds restricted in perpetuity | (2,459,596) |
| | $ 7,431,789 |

The Organization 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, the Organization has one committed line of credit with a remaining capacity of approximately $500,000 as of December 31, 2020, which it could draw upon.

## NOTE 5 – Investments

Investments measured at fair value consists of the following:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **December 31, 2020:** | | | | |
| Mutual funds | $ 51,662 | $ - | $ - | $ 51,662 |
| Marketable equity securities | 2,506,818 | - | - | 2,506,818 |
| Debt securities | 122,374 | - | - | 122,374 |
| | $ 2,680,854 | $ - | $ - | $ 2,680,854 |
| **December 31, 2019:** | | | | |
| Mutual funds | $ 2,152,050 | $ - | $ - | $ 2,152,050 |
| Marketable equity securities | 460,854 | - | - | 460,854 |
| Debt securities | 121,208 | - | - | 121,208 |
| | $ 2,734,112 | $ - | $ - | $ 2,734,112 |

## NOTE 6 – Property Held for Sale

Property held for sale at December 31, 2020 consists of the following:

| | Acres | Value |
|---|---|---|
| Land - Los Angeles County, CA | 138.62 | $ 1,460,080 |

The property is recorded at cost if purchased, or at fair value at the date of donation if donated. This property can be sold and the proceeds used towards the programs or they can be contributed to other organizations.

## NOTE 7 – Property and Equipment

Property and equipment at December 31 consists of the following:

| | 2020 | 2019 |
|---|---|---|
| Conference center | $ 5,396,286 | $ 5,396,286 |
| Environmental Learning Center | 3,182,470 | 3,182,470 |
| Furniture and equipment | 675,848 | 670,348 |
| Computer equipment and software | 220,667 | 220,667 |
| Leasehold improvements | 426,926 | 323,379 |
| Transportation equipment | 344,434 | 352,554 |
| | 10,246,631 | 10,145,704 |
| Less accumulated depreciation and amortization | (6,799,420) | (6,373,400) |
| Property and equipment, net | $ 3,447,211 | $ 3,772,304 |

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 was $432,110 and $414,627, respectively.

## NOTE 8 – Property Held for Conservation

At December 31, 2020, the Organization held 1,376 acres in Los Angeles County that it valued at $39,000, which is restricted for use in its programs and conservation.

Additionally, at December 31, 2020, the Organization held the following easements that are restricted for use in its programs:

| | Acres | Value |
|---|---|---|
| Los Angeles County, CA | 903.23 | $ 59 |
| Ventura County, CA | 466.83 | 5 |
| | 1,370.06 | $ 64 |

**NOTE 12 – Note Payable (Continued)**

The note payable is due to be repaid as follows:

| Year Ending December 31, | |
|---|---|
| 2021 | $ 57,899 |
| 2022 | 60,872 |
| 2023 | 63,999 |
| 2024 | 962,325 |
| | $ 1,145,095 |

Subsequent to year-end, the Organization made an advance payment of $125,000, which was applied to the principle of the loan.

**NOTE 13 – Deferred Revenue**

During 2001, the Organization 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.

The Organization recognized revenue of $36,000 under this contract for each of the years ended December 31, 2020 and 2019.

At December 31, 2020 and 2019, deferred revenue consists of funding from the City for the construction of the conference center and related amenities totaled $415,000 and $451,000, respectively. At December 31, 2020 and 2019, deferred revenue for advance payments on tours consisted of $4,237 for both years.

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 12 – Note Payable (Continued)

The note payable is due to be repaid as follows:

| Year Ending December 31, | |
|---|---|
| 2021 | $ 57,899 |
| 2022 | 60,872 |
| 2023 | 63,999 |
| 2024 | 962,325 |
| | $ 1,145,095 |

Subsequent to year-end, the Organization made an advance payment of $125,000 applied to the principle of the loan.

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- 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 14 – Commitments and Contingencies

### *Contracts*

The Organization'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, the Organization has no provision for the possible disallowance of program costs on its consolidated financial statements.

### *Obligations under Operating Leases*

The Organization has various month-to-month leases. Total rent expense was $33,006 and $33,622 for the years ended December 31, 2020 and 2019, respectively. In addition, the Organization 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, the Organization has agreed to maintain the park grounds, trails and buildings. The agreement expires in 2029. The cost to maintain the park and trails totaled $416,887 and $357,737 for the years ended December 31, 2020 and 2019, respectively.

In addition, the Trust has a $1 per year lease agreement with the City of Calabasas commencing on October 1, 2014 and terminating on September 30, 2024. Additionally, the Trust is granted the right to extend the lease term for one additional period of ten years, until September 30, 2034.

### *Litigation*

A quiet title action was filed in Los Angeles County Superior Court by Canyon Vineyard Estates, LLC against Mountains Restoration Trust, et al. on October 5, 2017. The subject is the conservation restrictions placed on the Tuna Canyon DeJoria property in January 2002. The plaintiff does not seek any monetary damages from the Trust. At the time of the audit report, the court has granted the Trust's motion for summary adjudication on its cross claim that the plaintiff threatened to harm its conservation easement. An appeal is anticipated from the plaintiff.

## NOTE 14 – Commitments and Contingencies (Continued)

***Other***

The Trust and the California Coastal Conservancy (the Conservancy) are working mutually to find a resolution on a disagreement regarding the repayment of a grant provided by the Conservancy in 1984. At the time of this audit, it is unclear how much the Trust may owe to the Conservancy, or if repayment is indeed warranted. In the event that the Conservancy found that the Trust was in violation of the grant agreement, the Conservancy's course of remedy would be the enactment of reversionary interest in four parcels owned by the Trust. With each of these four parcels deed-restricted and valued at $1,000, the financial implications of this potential liability would be a reduction of $4,000 to the Trust's assets.

***Business Risks Associated with the Impact of COVID-19***

Because of the severity and global nature of the COVID-19 pandemic, the impact on the Organization’s business could be significant and have a material impact on its financial position and operating results. Management continues to evaluate the potential future impact on its business and financial statements.

## NOTE 15 – Deferred Compensation Plan

The Organization 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 the Organization. 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 the Organization’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, 2020 and 2019, the Organization has recorded a deferred compensation liability of $548,506 and $515,846, respectively. The Organization recognized $0 and $9,348 as compensation expense related to the plan for the years ended December 31, 2020 and 2019, respectively.

## NOTE 16 – Net Assets With Donor Restrictions

### *Net Assets Restricted for Time and Purpose*

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

| | December 31, | |
|---|---|---|
| | **2020** | **2019** |
| Mountain Forestry/Forest Aid | $ 799,318 | $ 897,545 |
| Policy and research | 482,056 | 846,335 |
| Residential stormwater retrofit projects | 408,681 | 677,343 |
| "Make Everyone TreePeople" campaign | 201,438 | 1,441,702 |
| USACE Valley 2 (Argo Ditch) | 200,937 | 203,348 |
| USACE Creekside | 178,771 | 191,624 |
| Other USACE | 117,269 | 151,539 |
| Urban cooling | 100,000 | 101,496 |
| Stewardship and legal defense funds | 63,362 | 43,618 |
| Other | 54,952 | 213,097 |
| Urban Forestry Initiative | 37,906 | 30,831 |
| USACE Ballard (The Gas Co.) | 29,550 | 185,395 |
| Huntington Park project | 20,897 | 20,897 |
| Education | 1,250 | 62,500 |
| Parking lot renovation | 466 | 95,000 |
| | $ 2,696,853 | $ 5,162,270 |

### *Net Assets Restricted in Perpetuity*

Net assets with donor restrictions that are restricted in perpetuity at December 31, 2020 and 2019 relate to its endowment funds. (See Note 17.)

## NOTE 17 – Endowments

The Organization'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 the Trust for stewardship and restoration.

**NOTE 17 – Endowments (Continued)**

The Organization has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Trust classifies as donor restricted net assets: (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Organization has utilized investment and spending policies for endowment assets that attempt to provide a stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. As a result, the endowment assets are invested in a manner that is intended to produce results that, over the long-term, allow it to grow at a rate exceeding expected inflation. This is consistent with the Trust's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as, to provide additional real growth through new gifts and investment return.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments, diversified between sectors, to achieve its long-term return objectives within prudent risk constraints.

The composition of the endowments at December 31, 2020 consisted of donor-restricted gifts required to be maintained in perpetuity.

The changes in the endowments for the year ended December 31, 2020 are as follows:

| | |
|---|---|
| Endowment net assets – December 31, 2019 | $ 2,102,237 |
| Contributions | 357,359 |
| Investment earnings | 73,401 |
| Expenditure appropriations | (73,401) |
| Endowment net assets – December 31, 2020 | $ 2,459,596 |

## NOTE 18 – PPP Loans

In March 2020, Congress passed the Paycheck Protection Program (PPP), authorizing loans to small businesses for use in paying employees that they continue to employ throughout the COVID-19 pandemic and for rent, utilities and interest on mortgages. Loans obtained through the PPP are eligible to be forgiven as long as the proceeds are used for qualifying purposes and certain other conditions are met.

In April and May 2020, the TreePeople and the Trust were granted loans in the amounts of approximately $737,000 and $154,000, respectively, through the PPP. The organizations have chosen to recognize the PPP loans as conditional grants. As of December 31, 2020, the organizations determined they had met the conditions for forgiveness in the agreement as they had spent the PPP loans on qualifying costs and, therefore, recognized the grants as revenue for the year ended December 31, 2020. In November 2020 and February 2021, TreePeople and the Trust received approval notification for forgiveness of the loan in full from the Small Business Administration, respectively.

In March 2021, the Trust received a second draw from the PPP in the amount of $77,380. To the extent it is not forgiven, the Trust would be required to repay that portion at an interest rate of 1% over a period of five years, beginning ten months after the covered period. Management believes that the proceeds were used only for qualifying purposes; therefore, management anticipates that the loan will be substantially forgiven.

## NOTE 19 – Related-Party Transactions

The Organization receives donations from board members, who are considered related parties to the Organization. The Organization hired the spouse of a current employee for graphic design services. Fees paid to this individual for the year ended December 31, 2020 and 2019 were $27,250 and $11,500, respectively. The Organization also engaged Greenberg Glusker LLP, where a board member is a partner. Fees paid for these legal services for the year ended December 31, 2020 and 2019 were $27,250 and $93,144, respectively.