

**SACRAMENTO TREE
FOUNDATION**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
JUNE 30, 2019 AND 2018**

SACRAMENTO TREE FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Sacramento Tree Foundation
Sacramento, California**

We have audited the accompanying financial statements of Sacramento Tree Foundation, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 of 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 audit opinion.

To the Board of Directors
Sacramento Tree Foundation
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Tree Foundation as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Gilbert CPAs". The signature is written in a cursive, flowing style.

GILBERT CPAs
Sacramento, California

May 19, 2020

SACRAMENTO TREE FOUNDATION

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 240,538	\$ 837,183
Grants and contracts receivable	1,188,051	642,758
Contributions receivable	49,966	
Other receivables, net	2,272	50,370
Inventory	141,539	81,589
Prepaid expenses	29,397	49,580
Total current assets	<u>1,651,763</u>	<u>1,661,480</u>
NON CURRENT ASSETS:		
Contributions receivable, net	70,043	
Investments - endowment	99,206	96,220
Other noncurrent assets	23,492	28,323
Property and equipment, net	<u>262,560</u>	<u>132,724</u>
TOTAL ASSETS	<u>\$ 2,107,064</u>	<u>\$ 1,918,747</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 151,839	\$ 56,113
Accrued expenses	85,497	74,185
Note payable, current	28,607	2,854
Deferred revenue	<u>378,097</u>	<u>286,033</u>
Total current liabilities	644,040	419,185
DEFERRED REVENUE	328,503	314,700
NOTE PAYABLE	<u>87,801</u>	<u>11,083</u>
TOTAL LIABILITIES	<u>1,060,344</u>	<u>744,968</u>
NET ASSETS:		
Without donor restrictions	808,438	1,055,846
With donor restrictions		
Perpetual in nature	95,706	92,970
Time and purpose restricted for future periods	<u>142,576</u>	<u>24,963</u>
	238,282	117,933
Total net assets	<u>1,046,720</u>	<u>1,173,779</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,107,064</u>	<u>\$ 1,918,747</u>

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

SACRAMENTO TREE FOUNDATION

STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2019 AND 2018

NET ASSETS WITHOUT DONOR RESTRICTIONS:	<u>2019</u>	<u>2018</u>
REVENUES:		
Grant and contract income	\$ 2,062,679	\$ 1,769,067
Contributions	276,923	196,606
Donated goods and services	90,413	138,101
Event income (net of direct benefit to donors of \$76,549 in 2019 and \$67,510 in 2018)	76,753	104,892
Investment income	808	3,793
UWR sales income (net cost of good sold \$5,893 in 2019 and \$26,570 in 2018)	60,311	10,587
Other income	31,866	12,299
Net assets released from restriction	985	680
Total revenues	<u>2,600,738</u>	<u>2,236,025</u>
EXPENSES:		
Program services:		
Education	1,141,081	956,060
Urban Wood Rescue	342,422	370,975
Mitigation	506,134	488,330
Restoration	51,956	12,331
Special Projects	106,177	9,530
Total program services	<u>2,147,770</u>	<u>1,837,226</u>
Supporting services:		
General and administrative	489,752	325,555
Fund development	210,624	194,357
Total expenses	<u>2,848,146</u>	<u>2,357,138</u>
Change in inventory valuation and loss on unusable materials	<u> </u>	<u>119,890</u>
DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(247,408)</u>	<u>(241,003)</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	118,348	4,963
Unrealized gain on investments	2,986	7,100
Spendable amount released from restriction	(985)	(680)
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>120,349</u>	<u>11,383</u>
DECREASE IN NET ASSETS	<u>(127,059)</u>	<u>(229,620)</u>
NET ASSETS, Beginning of Year	<u>1,173,779</u>	<u>1,403,399</u>
NET ASSETS, End of Year	<u>\$ 1,046,720</u>	<u>\$ 1,173,779</u>

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

SACRAMENTO TREE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2019

	<u>Education</u>	<u>UWR</u>	<u>Mitigation</u>	<u>Restoration</u>	<u>Special Projects</u>	<u>Total Program Services</u>	<u>Mgmt. & General</u>	<u>Fund Devel.</u>	<u>Total</u>
Salaries and wages	\$ 663,868	\$ 141,465	\$ 335,441	\$ 34,470		\$ 1,175,244	\$ 328,028	\$ 98,266	\$ 1,601,538
Professional services	259,932	20,281	19,986	3,026	\$ 105,683	408,908	97,847	49,708	556,463
Occupancy	52,049	80,429	25,274	3,639		161,391	20,655	5,740	187,786
Equipment and supplies	5,248	45,271	36,670	720	59	87,968	1,374	13,784	103,126
Vehicles	32,737	3,935	22,938	3,634	151	63,395	313	69	63,777
Depreciation	24,202	28,097	6,065	48		58,412	120	1,354	59,886
Computer services	33,251	2,966	6,894	621		43,732	5,749	4,440	53,921
Trees and materials	3,266	245	30,756	3,984		38,251			38,251
Food and events	4,857	91	749	169		5,866	5,280	19,319	30,465
Insurance	6,983	10,701	4,237	397		22,318	6,498	886	29,702
Postage, freight, and printing	15,249	848	4,982	1,014		22,093	1,958	4,894	28,945
Donated services and materials	18,602					18,602		8,451	27,053
Meetings and conferences	7,753	1,444	5,865	82		15,144	5,210	1,694	22,048
Staff development	3,111	2,570	2,730			8,411	3,992	38	12,441
Office supplies	5,500	500	2,051	52		8,103	3,447	385	11,935
Fees	1,155	2,985	1,474	100		5,714	4,969	702	11,385
Miscellaneous and other	56	585	16			657	4,212	894	5,763
Marketing	3,262	9	6		284	3,561	100		3,661
Total	<u>\$ 1,141,081</u>	<u>\$ 342,422</u>	<u>\$ 506,134</u>	<u>\$ 51,956</u>	<u>\$ 106,177</u>	<u>\$ 2,147,770</u>	<u>\$ 489,752</u>	<u>\$ 210,624</u>	<u>\$ 2,848,146</u>

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

SACRAMENTO TREE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2018

	<u>Education</u>	<u>UWR</u>	<u>Mitigation</u>	<u>Restoration</u>	<u>Special Projects</u>	<u>Total Program Services</u>	<u>Mgmt. & General</u>	<u>Fund Devel.</u>	<u>Total</u>
Salaries and wages	\$ 653,403	\$ 130,599	\$ 365,680		\$ 1,003	\$ 1,150,685	\$ 195,625	\$ 103,064	\$ 1,449,374
Professional services	122,740	107,590	353		3,389	234,072	77,162	57,642	368,876
Occupancy	48,216	46,303	29,367	\$ 3,047	975	127,908	11,099	4,070	143,077
Equipment and supplies	4,597	25,146	11,141	2,821		43,705	498	510	44,713
Vehicles	20,740	3,513	29,767	3,031		57,051	242	926	58,219
Depreciation	21,919	16,297	3,882			42,098	358	1,482	43,938
Computer services	22,213	5,449	8,764			36,426	8,276	483	45,185
Trees and materials	1,307	530	24,685	1,749		28,271			28,271
Food and events	2,648	120	1,199	468		4,435	9,124	7,333	20,892
Insurance	3,167	9,505	1,733			14,405	3,112	314	17,831
Postage, freight, and printing	7,642	2,667	4,630		661	15,600	1,578	4,237	21,415
Donated services and materials	32,576	7,795			3,454	43,825		10,252	54,077
Meetings and conferences	2,442	775	2,198			5,415	1,767	100	7,282
Staff development	2,669	637	2,272			5,578	1,661	34	7,273
Office supplies	4,704	847	1,324			6,875	5,823	259	12,957
Fees	650	382	687		15	1,734	8,647	388	10,769
Miscellaneous and other		9,583	648			10,231	351	25	10,607
Marketing	4,427	3,237		1,215	33	8,912	232	3,238	12,382
Total	<u>\$ 956,060</u>	<u>\$ 370,975</u>	<u>\$ 488,330</u>	<u>\$ 12,331</u>	<u>\$ 9,530</u>	<u>\$ 1,837,226</u>	<u>\$ 325,555</u>	<u>\$ 194,357</u>	<u>\$ 2,357,138</u>

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

SACRAMENTO TREE FOUNDATION

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (127,059)	\$ (229,620)
Adjustments to reconcile to net cash used by operating activities		
Net unrealized gain on investments	(2,986)	(7,100)
Depreciation and amortization	59,886	43,939
Gain on disposal of property and equipment	(600)	
Contributed property and equipment, capitalized	(15,000)	
Changes in:		
Grants and contracts receivable	(545,293)	(334,469)
Contributions receivable	(120,009)	
Other receivables, net	48,098	(43,310)
Inventory	(59,950)	44,411
Prepaid expenses	20,183	(33,369)
Other assets	4,831	(301)
Accounts payable	95,726	11,855
Accrued expenses	11,312	10,609
Deferred revenue	105,867	61,633
Net cash used by operating activities	<u>(524,994)</u>	<u>(475,722)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(140,123)	(36,826)
Proceeds from sales of property and equipment	600	
Net cash used by investing activities	<u>(139,523)</u>	<u>(36,826)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	78,446	15,101
Principal payments on note payable	<u>(10,574)</u>	<u>(1,164)</u>
Net cash provided by financing activities	<u>67,872</u>	<u>13,937</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	(596,645)	(498,611)
 CASH AND CASH EQUIVALENTS, Beginning of Year	<u>837,183</u>	<u>1,335,794</u>
 CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 240,538</u>	<u>\$ 837,183</u>
 NON-CASH INVESTING AND FINANCING ACTIVITY:		
Property and equipment obtained by incurring debt	<u>\$ 34,599</u>	<u>\$ -</u>
 CASH PAID FOR INTEREST	<u>\$ 657</u>	<u>\$ 228</u>

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

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

1. ORGANIZATION AND PROGRAMS

The Sacramento Tree Foundation (the Foundation) is a nonprofit organization dedicated to building healthy, livable communities in the Sacramento area by growing the best regional urban forest in the nation. The Foundation is highly skilled at educating and engaging people of all ages and from all neighborhoods to plant, protect, and value trees.

The Foundation's goals are to optimize the benefits of trees throughout the region, create sustainable urban forests and build community-wide appreciation for the region's trees and urban forests.

On March 7, 2008, the Foundation launched a monumental community campaign to plant 5 million trees in the region to realize a net benefit of nearly \$7 billion over 40 years by significantly increasing energy efficiency, lowering air pollution levels, reducing storm water runoff, improving water quality, sequestering carbon and increasing property values.

The Foundation offers many programs and services that engage thousands of volunteers to plant and care for over 10,000 new trees a year. These programs teach thousands of students and adults the science, art, and joy of trees.

The Sacramento Shade program is a nationally recognized, 30-year partnership with the Sacramento Municipal Utility District. This partnership has enlisted 180,000+ citizens to plant and tend over 500,000 shade trees for summer energy savings. The Foundation's mitigation program, NATURE, works to restore, replenish and sustain the native flora and fauna of the Sacramento region by replanting and protecting native trees and woodlands with the help of community volunteers. Annually, this mitigation program plants over up to 1,500 trees and tends several thousand fledgling seedlings.

Science and research have been integral components of the Foundation's work since it began in 1982. The Foundation has become a state and national leader in the translation of the evidence base that links human health to urban greening. With support from funding from CalFire and the US Forest Service, the Foundation has been leading an innovative research project involving public health leaders, urban forest scientists, and GIS experts, to link extent of urban greening to health behaviors and outcomes. The Foundation's many programs and projects will help establish maximum tree cover throughout the region in order to capture and optimize the remarkable benefits of trees.

In July 2015, the Foundation was awarded a grant for Urban Wood Rescue. The goal of the Urban Wood Rescue program is to recover selected logs from Sacramento's urban forest for milling and re-use by area woodworkers. This program diverts logs that normally would have been sent to a land fill or bio-generation power plant. Urban Wood Rescue is funded by a Cal Fire Greenhouse Gas Recovery Grant through the year ending June 30, 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America. The Foundation reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Revenue recognition – Contributions are recognized in full when received or unconditionally promised. Unconditional contributions that are expected to be collected within one year are recorded at net realizable value. Unconditional contributions that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the contribution is received. Amortization of the discounts is included in contribution revenue.

All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in net assets with donor restrictions. When a restriction expires (generally as time restrictions expire or the contributions are used for the restricted purpose) net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted contributions. Revenues from government grants and contracts are recognized when qualifying expenses are incurred. Revenues from events are recognized in the period the events take place.

Donated materials, equipment, and professional services are recorded as in-kind donations and recognized at the estimated fair value as of the date of donation or service. Contributed services that do not meet the criteria for recognition are not reflected in the financial statements. Contributed goods and services meeting the above criteria for recognition amounted to \$90,413 and \$138,101 for the years ended June 30, 2019 and 2018 and was for donated logs for the Urban Wood Rescue program, auction items, advertising and supervision of volunteer labor.

Cash and cash equivalents – For financial statement purposes, the Foundation considers all investments with a maturity at purchase of three months or less to be cash equivalents, unless held for long term purposes.

The Foundation minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and management believes the Foundation is not exposed to any significant credit risk related to cash.

Accounts receivables – Receivables are stated at unpaid balances. Management has established an allowance for uncollectable receivables of \$2,000 based on historical collections. Receivables are determined to be past due based on contractual terms.

Contributions receivable – The Foundation records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Management determines the allowance for contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectible. Management believes that all receivables are collectable and no allowance was deemed necessary as of June 30, 2019 and 2018.

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Investments consist of endowments pooled and managed by a community foundation, and are stated at fair value.

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability):

- | | |
|----------------|---|
| Level 1 Inputs | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. |
| Level 2 Inputs | Inputs other than quoted prices in active markets that are observable either directly or indirectly. |
| Level 3 Inputs | Unobservable inputs for the asset or liability. |

The Foundation's investments are part of a pooled fund held by Sacramento Region Community Foundation (see Note 6). Fair value is quoted by the Community Foundation and based on prices in active markets for the pooled investments as a whole. The pooled funds are classified as Level 3, since the Foundation cannot redeem its investment in the pool since the funds are invested in perpetuity.

Inventory is stated at the lower of cost or market using the retail inventory method (average cost) of recording costs. Inventory is valued based on average costing for individual species of tree. Inventory consists of donated trees for use in the Urban Wood Rescue program.

Property and equipment – Property and equipment in excess of \$500 are capitalized at cost for purchased assets and fair market value for donated assets. Depreciation is provided for using the straight-line method over the estimated service life of the assets.

Deferred revenue – Under the terms of its mitigation contracts, the Foundation records cash received prior to completion of work as deferred revenue and recognizes revenue over a period of three years. The Foundation is required to replace trees that die within three years of planting and is also required to provide irrigation to the site of the replanting if none is available. The Foundation recognizes these costs as incurred.

Functional allocation of expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statement of activities and of functional expenses. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are primarily allocated include salaries and wages, professional services, occupancy, equipment and supplies, computer services,

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

insurance, meetings and conferences, staff development and fees, which are allocated based on employee time and effort; all other expenses, not specifically identifiable to a specific program, are also allocated based on employee time and effort.

Income taxes – The Foundation is a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for income taxes.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates include the valuation of donated inventory, investments, and receivables; the estimated useful lives of property and equipment; and the functional allocation of expenses. Accordingly, actual results could differ from those estimates.

Recent accounting pronouncements – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, and consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, with the exception of the liquidity disclosures, which have not been applied for the year ended June 30, 2018 as allowed by the transition guidance of this ASU.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The new accounting standard develops a common standard that will remove inconsistencies in revenue requirements, improve comparability of revenue recognition practices, provide more useful information to users of financial statements and simplify the preparation of financial statements. Application of this statement is effective for the year ending June 30, 2020. The Foundation is currently evaluating the impact this pronouncement will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, Topic 958, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The new accounting standard clarifies and improves the guidance for (1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. Application of this statement is effective for transactions in which the entity serves as the resource recipient for the year ending June 30, 2020. For transactions in which the entity serves as the resource provider, the statement is effective for the year ending June 30, 2021. The Foundation is currently evaluating the impact this pronouncement will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The new accounting standard requires lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases with terms longer than 12 months. Application of this statement is effective for the year ending June 30, 2022. The Foundation is currently evaluating the impact this pronouncement will have on the financial statements.

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Subsequent events have been reviewed through May 19, 2020, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2019 that requires recognition or disclosure in the financial statements. Refer to Note 12.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's financial assets available within one year of the statement of financial position date for general expenditure are as follows as of June 30, 2019:

Cash and cash equivalents	\$ 240,538
Grants and contracts receivable	1,188,051
Contributions receivable due within 1 year	49,966
Other receivables, net	<u>2,272</u>
Total financial assets, at year end	1,480,827
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Restrictions by donors for purpose (see note 9)	<u>(25,067)</u>
Total financial assets available for general expenditures within one year	<u>\$ 1,455,760</u>

Due to significant number of cost reimbursement grants and contracts, the Foundation requires liquid cash available to support those grant and contract expenditures until paid. As these commitments have expanded, the Foundation has discontinued further investing in the endowment and does not plan on opening any investment accounts; any contributions received in form of stock donations are readily sold; everything is maintained in cash. Further, when financing on asset purchases is available, the Foundation makes a conscious effort to pursue financing in order to preserve cash balances. As part of our liquidity management plan, Tree Foundation maintained a \$250,000 line of credit to help "float" cash needs while awaiting for significant grant and contract reimbursements. The line of credit expired May 15, 2020 and management is in the process of obtaining a renewal. The Foundation is also asking large grants and contracts to provide cash advances in order to improve cash balances and reduce the burden to the Foundation.

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

4. CONTRIBUTIONS RECEIVABLE

The Foundation recognizes contributions receivable at their estimated fair value, on a nonrecurring basis, at the time the unconditional contribution is made. Fair value is determined by calculating the net present value of the estimated future cash flows. The discount rate used in determining the net present value of long-term contributions receivable at June 30, 2019 was 2.80%.

Contributions receivable consist of the following at June 30, 2019:

Gross contributions receivable	\$ 121,534
Less: Unamortized discount	<u>(1,525)</u>
Contributions receivable, net	<u>\$ 120,009</u>

Contributions receivable are due to be collected as follows at June 30, 2019:

Within one year	\$ 49,966
In one to five years	<u>70,043</u>
Contributions receivable, net	<u>\$ 120,009</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Vehicles	\$ 258,419	\$ 212,461
Office furniture and equipment	260,013	135,092
Computers and software	<u>114,091</u>	<u>109,649</u>
	632,523	457,202
Less accumulated depreciation	<u>(369,963)</u>	<u>(324,478)</u>
Property and equipment, net	<u>\$ 262,560</u>	<u>\$ 132,724</u>

6. LINE OF CREDIT

The Foundation had a revolving line of credit agreement with a bank, which allowed for advances up to \$250,000 through May 15, 2020. As of May 19, 2020, the Foundation is in the process of obtaining a renewal on this line of credit. Outstanding borrowings incurred interest at the Bank's Base Commercial Loan Rate plus 1% (calculated as 4.50%) as of June 30, 2019 and 2018. At June 30, 2019 and 2018, no amount was outstanding under this line of credit.

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

7. NOTE PAYABLE

In 2018, the Foundation obtained a note payable for \$15,102 to purchase a forklift for use in the Urban Wood Rescue program. The note is secured by the equipment, bears interest of 3.85%, has monthly principal and interest payments due of \$278, and matures in February 2023. The outstanding balance at June 30, 2019 and 2018 was \$11,126 and \$13,937, respectively.

In 2018, the Foundation obtained a note payable for \$34,599 to purchase a vehicle. The note is secured by the vehicle, bears interest of 2.99%, has monthly principal and interest payments of \$1,005.94, and matures in December 2021. The outstanding balance at June 30, 2019 was \$29,042.

In 2019, the Foundation obtained a note payable for \$78,446 to purchase a kiln for use in the Urban Wood Rescue program. The note is secured by the equipment, bears interest of 5.40% and has monthly principal and interest payments due of \$1,500.80, and matures in April 2024. The outstanding balance at June 30, 2019 was \$76,240.

Future minimum principal payments for notes payable are as follows:

Year Ending June 30,

2020	\$	28,607
2021		29,819
2022		25,052
2023		18,587
2024		<u>14,343</u>
Total	\$	<u>116,408</u>

8. LEASE AGREEMENTS

The Foundation leases its office and space for the Urban Wood Rescue program under the terms of noncancelable operating lease agreements that expire on December 31, 2022 and December 31, 2020, respectively. Under these agreements, the Foundation is responsible for monthly rent and common area maintenance charges. Rent expense was \$157,075 and \$104,250 for the years ended June 30, 2019 and 2018, respectively. Future minimum lease payments are as follows:

Fiscal Year

2020	\$	166,792
2021		125,760
2022		86,816
2023		<u>44,049</u>
Total	\$	<u>423,417</u>

The Foundation entered into a long term non-cancelable sublease agreement in 2017. The agreement was renewed in July 2019 and expires in June 2022. Total revenue received under this lease was \$10,200 and \$10,150 for the years ended June 30, 2019 and 2018, respectively.

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Future minimum rentals are expected to be received on this lease as follows:

<u>Fiscal Year</u>		
2020	\$	10,800
2021		11,433
2022		<u>11,776</u>
Total	\$	<u>34,009</u>

9. NET ASSETS WITH RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of June 30:

	<u>2019</u>	<u>2018</u>
Funds with explicit time restrictions	\$ 117,509	
Sutterville Blvd. Restoration project	20,000	\$ 20,000
Sakuramento Hamani Line project	4,228	4,963
Arden Park	<u>839</u>	<u></u>
Total	\$ <u>142,576</u>	\$ <u>24,963</u>

Net assets held in perpetuity at June 30, 2019 and 2018 consist of funds invested with the Sacramento Region Community Foundation (Community Foundation) based on an endowed agency fund agreement made with the Foundation to provide funds for planning, care and protection of the Sacramento region's urban forest. The Foundation classifies as net assets held in perpetuity (a) the original value of gifts donated to the endowment; (b) board approved transfers of funds to the Community Foundation to be invested in perpetuity, and (c) the accumulated unrealized appreciation and depreciation of endowment investments less the annual spendable amount.

Endowment Fund

The Foundation's endowment includes donor-restricted contributions and funds that were transferred by the Foundation to the Community Foundation. The Community Foundation charges an annual fee of 1.5% to manage the assets of the endowment and calculates amounts that are spendable by the Foundation under the agreement.

Investment Return Objectives, Risk Parameters and Strategies – The Foundation's endowed agency fund is administered in accordance with the policies of the Community Foundation per the terms of the agreement. The Community Foundation's investment policy relies on a total return perspective in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Community Foundation uses a diversified asset allocation based on core-satellite strategy to achieve its long-term objectives within prudent risk constraints.

Spending Policy – The spendable amount of endowed funds is determined by the Community Foundation. The annual dollar amount is determined by calculating the rolling average fair market value of the endowed funds over the previous 12 quarters. This rolling average is then multiplied by

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

the current spending percentage to arrive at the spendable amount. The Community Foundation reviews its spending policy annually, and may increase or decrease the percentage available to spend. For the years ended June 30, 2019 and 2018, the spending percentage was set at 4%.

Changes in the endowment net assets as of June 30, 2019 are shown as follows:

	<u>Net assets without donor restrictions</u>	<u>Net assets held in perpetuity</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ 3,250	\$ 92,970	\$ 96,220
Unrealized gain on investments – (net of expenses of \$476)		2,986	2,986
Spendable amount	<u>250</u>	<u>(250)</u>	<u></u>
Endowment net assets – end of year	<u>\$ 3,500</u>	<u>\$ 95,706</u>	<u>\$ 99,206</u>

Changes in the endowment net assets as of June 30, 2018 are shown as follows:

	<u>Net assets without donor restrictions</u>	<u>Net assets held in perpetuity</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ 2,570	\$ 86,550	\$ 89,120
Unrealized gain on investments – (net of expenses of \$941)		7,100	7,100
Spendable amount	<u>680</u>	<u>(680)</u>	<u></u>
Endowment net assets – end of year	<u>\$ 3,250</u>	<u>\$ 92,970</u>	<u>\$ 96,220</u>

10. AGREEMENTS

The Foundation is under contract with Sacramento Municipal Utility District (SMUD) to perform the tasks required to operate the "Sacramento Shade Program", which includes the planting and stewardship of a prescribed number of energy saving shade trees. The current contract expired on December 31, 2018 and was extended for four years beginning January 1, 2019. The agreement may be terminated by mutual agreement or terminated by SMUD at any time with written notice. Under the terms of the agreement, SMUD reimburses the Foundation for all personnel and other necessary costs that the Foundation incurs in connection with the performance of the agreement. All expenses submitted to SMUD by the Foundation under this agreement are subject to audit by SMUD for the duration of the contract and for a period of three years thereafter. The Foundation recognized \$881,572 and \$722,451 of revenue from this agreement in the years ended June 30, 2019 and 2018, respectively.

The Foundation has an agreement with the 501(c) Agencies Trust which allows the Foundation to self-fund their trust account, and opt out of state unemployment tax, as permitted by federal law. Any unemployment costs associated with separated employees are paid out of the Foundation's trust balance. The balance in this account was \$19,140 and \$23,971 as of June 30, 2019 and 2018, respectively, and is reflected as a long-term other asset on the statement of financial position.

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

11. EMPLOYEE BENEFIT PLAN

The Foundation maintains a retirement plan under the provisions of Internal Revenue Code Section 403(b) covering all eligible employees, as defined in the Plan agreement. The Foundation does not contribute to the plan.

12. SUBSEQUENT EVENT

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to impact the Foundation. Tree deliveries at this time are not considered an 'essential service' under local shelter-in-place order. The Foundation's tree siting goals for March and April are at 90% of goal, the annual fundraiser was cancelled until 2021 and the vast majority of employees are working from home, with the exceptions of two employees who are conducting care of young trees. The Foundation expects these matters to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Additionally, the Foundation expects to transfer the Urban Wood Rescue program to a strategic alliance with a new nonprofit organization within six months of the next fiscal year starting July 1, 2020.