

**SACRAMENTO TREE FOUNDATION
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED**

JUNE 30, 2020 AND 2019



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SACRAMENTO TREE FOUNDATION

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James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sacramento Tree Foundation
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Sacramento Tree Foundation, which comprise the statements of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

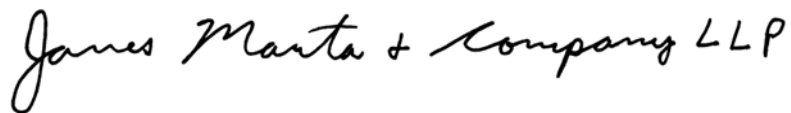
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sacramento Tree Foundation as of June 30, 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.

Other Matters

Prior Period Financial Statements Audited by a Predecessor Auditor

The financial statements of Sacramento Tree Foundation, for the year ended June 30, 2019, were audited by the predecessor auditor, Gilbert CPA, who expressed an unmodified opinion on those statements on May 19, 2020.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
December 3, 2020

FINANCIAL STATEMENTS

SACRAMENTO TREE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 1,276,482	\$ 240,538
Grants and contracts receivable, net	575,497	1,188,051
Contributions receivable	133,933	49,966
Other receivables	25,374	2,272
Inventory	103,711	141,539
Prepaid expenses	31,275	29,397
Total Current Assets	2,146,272	1,651,763
Non Current Assets		
Contributions receivable	46,366	70,043
Investments - endowment	98,880	99,206
Other noncurrent assets	29,913	23,492
Property and equipment, net	226,924	262,560
Total Assets	\$ 2,548,355	\$ 2,107,064
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 53,798	\$ 151,839
Accrued expenses	141,044	85,497
Note payable, current	167,289	28,607
Deferred revenue	460,588	378,097
Total Current Liabilities	822,719	644,040
Deferred Revenue	255,505	328,503
Note Payable	222,644	87,801
Total Liabilities	1,300,868	1,060,344
Net Assets		
Without donor restrictions	899,618	808,438
With donor restrictions		
Perpetual in nature	95,149	95,706
Time and purpose restricted for future periods	252,720	142,576
	347,869	238,282
Total Net Assets	1,247,487	1,046,720
Total Liabilities and Net Assets	\$ 2,548,355	\$ 2,107,064

SACRAMENTO TREE FOUNDATION

STATEMENTS OF ACTIVITIES

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES		
Grant and contract income	\$ 2,520,198	\$ 2,062,679
Contributions	461,879	276,923
Donated goods and services	22,212	90,413
Event income (net of direct benefit to donors of \$31,564 in 2020)	49,793	76,753
Investment income	2,616	808
UWR sales income (net cost of good sold \$53,685 in 2020)	113,601	60,311
Other income	45,612	31,866
Net assets released from restriction	1,330	985
Total Revenue	3,217,241	2,600,738
EXPENSES		
Program services		
Education	610,602	1,141,081
Urban Wood Rescue	454,667	342,422
Mitigation and Restoration	505,090	506,134
Engagement	759,343	51,956
Special Projects	203,086	106,177
Total program services	2,532,788	2,147,770
Supporting services		
General and Administrative	388,487	489,752
Fund Development	204,786	210,624
Total Expenses	3,126,061	2,848,146
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 91,180	\$ (247,408)
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	108,928	118,348
Unrealized gain on investments	1,989	2,986
Spendable amount released from restriction	(1,330)	(985)
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	109,587	120,349
INCREASE (DECREASE) IN NET ASSETS	200,767	(127,059)
Net assets, beginning of year	1,046,720	1,173,779
Net assets, end of year	\$ 1,247,487	\$ 1,046,720

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

SACRAMENTO TREE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	<u>Education</u>	<u>Urban Wood Rescue</u>	<u>Mitigation and Restoration</u>	<u>Engagement</u>	<u>Special Projects</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Fund Development</u>	<u>Total</u>
Salaries and wages	\$ 441,111	\$ 232,538	\$ 413,271	\$ 415,507	\$ -	\$ 1,502,427	\$ 142,045	\$ 142,104	\$ 1,786,576
Professional services	62,046	36,501	11,135	267,197	188,461	565,340	127,257	14,110	706,707
Occupancy	32,632	111,161	28,836	27,016	-	199,645	7,920	7,258	214,823
Equipment and supplies	188	5,125	1,917	4,548	-	11,778	2,772	955	15,505
Vehicles	16,709	1,324	12,498	2,261	-	32,792	29,152	86	62,030
Depreciation	26,406	38,473	2,826	853	-	68,558	142	1,607	70,307
Computers services	19,236	3,948	7,488	9,257	-	39,929	4,691	8,284	52,904
Trees and materials	807	-	15,024	452	14,625	30,908	17,538	-	48,446
Food and events	63	-	518	5,523	-	6,104	30	197	6,331
Insurance	4,471	14,656	3,746	3,126	-	25,999	541	2,865	29,405
Postage, freight, and printing	4,458	700	3,626	7,661	-	16,445	7,231	17,932	41,608
Donated services and materials	-	-	-	6,963	-	6,963	-	-	6,963
Meetings and conferences	541	159	332	1,865	-	2,897	4,566	1,059	8,522
Staff development	698	218	1,603	-	-	2,519	1,255	-	3,774
Office supplies	1,015	34	656	852	-	2,557	3,124	41	5,722
Fees	221	3,814	894	200	-	5,129	17,631	691	23,451
Miscellaneous and other	-	6,016	720	5,397	-	12,133	22,354	6,753	41,240
Marketing	-	-	-	665	-	665	238	844	1,747
Total Expenses	<u>\$ 610,602</u>	<u>\$ 454,667</u>	<u>\$ 505,090</u>	<u>\$ 759,343</u>	<u>\$ 203,086</u>	<u>\$ 2,532,788</u>	<u>\$ 388,487</u>	<u>\$ 204,786</u>	<u>\$ 3,126,061</u>
Percent of total	<u>20%</u>	<u>15%</u>	<u>16%</u>	<u>24%</u>	<u>6%</u>	<u>81%</u>	<u>12%</u>	<u>7%</u>	<u>100%</u>

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

SACRAMENTO TREE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Education	Urban Wood Rescue	Mitigation and Restoration	Engagement	Special Projects	Total Program Services	General and Administrative	Fund Development	Total
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
Computers 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 Expenses	\$ 1,141,081	\$ 342,422	\$ 506,134	\$ 51,956	\$ 106,177	\$ 2,147,770	\$ 489,752	\$ 210,624	\$ 2,848,146
Percent of total	37%	11%	16%	2%	3%	69%	16%	7%	91%

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

SACRAMENTO TREE FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 200,767	\$ (127,059)
Adjustments to reconcile net cash used by operating activities:		
Net unrealized gain on investments	(808)	(2,986)
Depreciation and amortization	70,307	59,886
Loss on disposal of property and equipment	7,931	(600)
Contributed property and equipment, capitalized	-	(15,000)
(Increase) decrease in:		
Grants and contracts receivable	612,554	(545,293)
Contributions receivable	(60,290)	(120,009)
Other receivables, net	(23,102)	48,098
Inventory	37,828	(59,950)
Prepaid expenses	(1,878)	20,183
Other assets	(6,421)	4,831
Increase (decrease) in:		
Accounts payable	(98,041)	95,726
Accrued expenses	55,547	11,312
Deferred revenue	9,493	105,867
Net Cash Provided (used) by operating activities	803,887	(524,994)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(42,602)	(140,123)
Proceeds from sales of property and equipment	-	600
Net Cash Provided (used) by Investing Activities	(42,602)	(139,523)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	308,214	78,446
Principal payments on note payable	(33,555)	(10,574)
Net Cash Provided (used) by investing activities	274,659	67,872
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,035,944	(596,645)
CASH AND CASH EQUIVALENTS, Beginning of Year	240,538	837,183
CASH AND CASH EQUIVALENTS, End of Year	\$ 1,276,482	\$ 240,538

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 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 reuse 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 March 30, 2024.

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 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.

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 \$22,212 and \$90,413 for the years ended June 30, 2020 and 2019 and was for donated logs for the Urban Wood Rescue program, general tree donations, 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.

Grants and contracts receivable

Grants and contracts receivable are stated at unpaid balances. Management has established an allowance for uncollectable receivables of \$15,418 and \$2,000 based on historical collections as of June 30, 2020 and 2019, respectively. Grants and contracts receivable are determined to be past due based on contractual terms.

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020 and 2019.

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 9). 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.

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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 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. The ASU has been applied to the period presented.

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. The ASU has been applied to the period presented.

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 1,276,482	\$ 240,538
Grants and contracts receivable, net	575,497	1,188,051
Contributions receivable due within 1 year	133,933	49,966
Other receivables	25,374	2,272
Total financial assets, at year end	<u>2,011,286</u>	<u>1,480,827</u>
Less assets with donor restrictions:	<u>(347,869)</u>	<u>(238,282)</u>
Total financial assets available for general expenditures within one year	<u>\$ 1,663,417</u>	<u>\$ 1,242,545</u>

The Foundation has made significant improvements in its billing and collections from grant and contract funding and now exceeds its working capital policy goal of maintaining enough cash to cover three months of expenditures. In order to continue to meet this policy, the Foundation requests large grants and contracts to provide cash advances in order to improve cash balances and reduce the burden to the Foundation. Additionally, the Foundation maintains a line of credit up to \$250,000 to provide cash needs if grants or contracts are not able to provide these cash advances. During the initial COVID lockdown, the Foundation applied for a payroll protection program (PPP) loan and received \$308,214 in PPP Funds to offset the cost of non-reimbursable payroll during the lockdown. The Foundation applied for forgiveness of 100% of the proceeds in October 2020.

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 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, 2020 and 2019 was 1.16 and 2.80%, respectively.

Contributions receivable consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Gross contributions receivable	\$ 180,837	\$ 121,534
Less: Unamortized discount	<u>(538)</u>	<u>(1,525)</u>
Contributions receivable, net	<u>\$ 180,299</u>	<u>\$ 120,009</u>

Contributions receivable are due to be collected as follows at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Within one year	\$ 133,933	\$ 49,966
In one to five years	<u>46,366</u>	<u>70,043</u>
Contributions receivable, net	<u>\$ 180,299</u>	<u>\$ 120,009</u>

NOTE 5 – VEHICLES, EQUIPMENT, AND SOFTWARE

Vehicles, equipment, and software consisted of the following at June 30, 2020:

	<u>Balance July 1, 2019</u>	<u>Additions and Transfers</u>	<u>Deductions and Transfers</u>	<u>Balance June 30, 2020</u>
Depreciable assets:				
Vehicles	\$ 258,419	\$ 13,544	\$ -	\$ 271,963
Office furniture and equipment	260,013	29,058	-	289,071
Computers and software	<u>114,091</u>	<u>-</u>	<u>(7,931)</u>	<u>106,160</u>
Totals, at cost	<u>632,523</u>	<u>42,602</u>	<u>(7,931)</u>	<u>667,194</u>
Accumulated depreciation:				
Vehicles	(179,837)	(25,392)	-	(205,229)
Office furniture and equipment	(92,359)	(41,931)	-	(134,290)
Computers and software	<u>(97,767)</u>	<u>(2,984)</u>	<u>-</u>	<u>(100,751)</u>
Total accumulated depreciation	<u>(369,963)</u>	<u>(70,307)</u>	<u>-</u>	<u>(440,270)</u>
Vehicles, equipment and software, net	<u>\$ 262,560</u>	<u>\$ (27,705)</u>	<u>\$ (7,931)</u>	<u>\$ 226,924</u>

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 5 – VEHICLES, EQUIPMENT, AND SOFTWARE (Continued)

Vehicles, equipment, and software consisted of the following at June 30, 2019:

	Balance July 1, 2018	Additions and Transfers	Deductions and Transfers	Balance June 30, 2019
Depreciable assets:				
Vehicles	\$ 212,461	\$ 45,958	\$ -	\$ 258,419
Office furniture and equipment	135,092	124,921	-	260,013
Computers and software	109,649	4,442	-	114,091
Totals, at cost	<u>457,202</u>	<u>175,321</u>	<u>-</u>	<u>632,523</u>
Accumulated depreciation:				
Vehicles	(155,734)	(24,103)	-	(179,837)
Office furniture and equipment	(63,948)	(28,411)	-	(92,359)
Computers and software	(104,796)	(7,372)	14,401	(97,767)
Total accumulated depreciation	<u>(324,478)</u>	<u>(59,886)</u>	<u>14,401</u>	<u>(369,963)</u>
Vehicles, equipment and software, net	<u>\$ 132,724</u>	<u>\$ 115,435</u>	<u>\$ 14,401</u>	<u>\$ 262,560</u>

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 was \$70,307 and \$59,886 respectively.

NOTE 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 January 2021. Outstanding borrowings incurred interest at the higher of a floor rate of 4.5% or the Bank's base Commercial Loan Rate plus 1%. As of June 30, 2020 and 2019 the line of credit had a rate of 4.5%. At June 30, 2020 and 2019, no amount was outstanding under this line of credit.

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 7 – NOTES PAYABLE

Changes in Notes Payable

A schedule of changes in notes payable as of June 30, 2020 is as follows:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020	Due Within One Year
Equipment loan - Forklift	\$ 11,126	\$ -	\$ 2,968	\$ 8,158	\$ 3,091
Equipment loan - Kiln	76,240	-	20,365	55,875	15,369
Vehicle loan - Ford	29,042	-	11,356	17,686	11,702
Line of credit	-	315,000	315,000	-	-
Payroll Protection Program Loan	-	308,214	-	308,214	137,127
Total	\$ 116,408	\$ 623,214	\$ 349,689	\$ 389,933	\$ 167,289

A schedule of changes in notes payable as of June 30, 2019 is as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due Within One Year
Equipment loan - Forklift	\$ 13,937	\$ -	\$ 2,811	\$ 11,126	\$ 2,968
Equipment loan - Kiln	-	78,446	2,206	76,240	20,365
Vehicle loan - Ford	-	34,599	5,557	29,042	5,274
Total	\$ 13,937	\$ 113,045	\$ 10,574	\$ 116,408	\$ 28,607

Forklift Note

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, 2020 was \$8,158. Future minimum note payments are as follows:

Year Ending June 30:	Principal	Interest	Total
2021	\$ 3,091	\$ 249	\$ 3,340
2022	3,212	128	3,340
2023	1,855	295	2,150
Total	\$ 8,158	\$ 672	\$ 8,830

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 7 – NOTES PAYABLE (Continued)

Kiln Note

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 \$1,501, and matures in April 2024. The outstanding balance at June 30, 2020 was \$55,875. Future minimum note payments are as follows:

Year Ending June 30:	Principal	Interest	Total
2021	\$ 15,369	\$ 2,641	\$ 18,010
2022	16,220	1,790	18,010
2023	17,118	892	18,010
2024	7,168	100	7,268
Total	<u>\$ 55,875</u>	<u>\$ 5,423</u>	<u>\$ 61,298</u>

Vehicle Note

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 \$1,006, and matures in December 2021. The outstanding balance at June 30, 2020 was \$17,686. Future minimum note payments are as follows:

Year Ending June 30:	Principal	Interest	Total
2021	\$ 11,702	\$ 371	\$ 12,073
2022	5,984	54	6,038
Total	<u>\$ 17,686</u>	<u>\$ 425</u>	<u>\$ 18,111</u>

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 7 – NOTES PAYABLE (Continued)

Payroll Protection Program Loan

In April 2020, the Foundation received a forgivable note payable to River City Bank, as covered under the Paycheck Protection Program, which provides SBA-guaranteed financing as part of the CARES Act. The loan is interest bearing at 1%, payable in 18 monthly payments of \$17,348 beginning in November 2020 with all outstanding principal and unpaid interest due in April 2022. As of June 30, 2020 conditions have not been met to qualify the note as forgivable and the outstanding balance was \$308,214. Future minimum note payments are as follows:

Year Ending June 30:	Principal	Interest	Total
2021	\$ 137,127	\$ 2,683	\$ 139,810
2022	171,087	779	171,866
Total	<u>\$ 308,214</u>	<u>\$ 3,462</u>	<u>\$ 311,676</u>

NOTE 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 \$176,745 and \$157,075 for the years ended June 30, 2020 and 2019, respectively. In addition, the Foundation leases a copier and postage meter for general operations.

Future minimum lease payments are as follows:

<u>Year ending June 30:</u>	
2021	\$ 51,300
2022	87,027
2023	44,049
Total	<u>\$ 182,376</u>

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 8 – LEASE AGREEMENTS (Continued)

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 \$10,800 and \$10,200 for the years ended June 30, 2020 and 2019, respectively.

Year ending June 30:

2021	\$	11,433
2022		11,776
Total	\$	<u>23,209</u>

NOTE 9 – NET ASSETS WITH RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Funds with explicit time restrictions	\$ 227,106	\$ 117,509
Meadowview Canopy	1,200	-
Sutterville Blvd. Restoration project	20,000	20,000
Sakuramento Hamani Line project	2,851	4,228
Arden Park	1,563	839
Total	<u>\$ 252,720</u>	<u>\$ 142,576</u>

Net assets held in perpetuity at June 30, 2020 and 2019 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.

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 9 – NET ASSETS WITH RESTRICTIONS (Continued)

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 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, 2020 and 2019 the spending percentage was set at 4%.

Changes in the endowment net assets as of June 30, 2020 are shown as follows:

	Net assets without donor restrictions	Net assets held in perpetuity	Total
Endowment net assets - beginning of year	\$ 3,500	\$ 95,706	\$ 99,206
Unrealized gain on investments - (net of expense of \$486)		(326)	(326)
Spendable amount	231	(231)	-
Endowment net assets - end of year	\$ 3,731	\$ 95,149	\$ 98,880

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

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

SACRAMENTO TREE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 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 \$1,008,427 and \$881,572 of revenue from this agreement in the year ended June 30, 2020 and 2019 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 \$22,221 and \$19,140 as of June 30, 2020 and 2019 respectively, and is reflected as a long-term other asset on the statement of financial position.

NOTE 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.

NOTE 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 sell all fixed assets and inventory of the Urban Wood Rescue program to a strategic alliance with a new organization in January 2021. The transaction has not yet occurred as of the report date of December 3, 2020.

Subsequent events have been reviewed through December 3, 2020, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2020 that requires recognition or disclosure in the financial statements.