

American Forests

Financial Statements
and Independent Auditors' Report

September 30, 2019 and 2018

American Forests

Financial Statements
September 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
American Forests

We have audited the accompanying financial statements of the American Forests (AF), which comprise the statements of financial position as of September 30, 2019 and 2018; 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 controls 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 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 AF as of September 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 2 to the financial statements, AF adopted Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in the issuance of the statements of functional expenses, additional footnote disclosures, and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Rogers + Company PLLC". The word "Rogers" is written in a large, stylized cursive font, followed by a plus sign and the words "Company PLLC" in a smaller, more standard cursive font.

Vienna, Virginia
February 4, 2020

American Forests

Statements of Financial Position September 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 2,519,645	\$ 462,977
Certificates of deposit	927,453	874,255
Investments	3,086,586	2,925,774
Government grants receivable	385,388	251,690
Contributions receivable, net	3,075,036	2,476,463
Prepaid expenses and other	50,077	46,979
Deposits	57,375	57,375
Property and equipment, net	283,571	348,787
Total assets	\$ 10,385,131	\$ 7,444,300
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 392,891	\$ 279,820
Grants payable	1,321,389	1,014,223
Deferred rent	379,170	434,952
Total liabilities	2,093,450	1,728,995
Net Assets		
Without donor restrictions	3,691,742	3,690,156
With donor restrictions	4,599,939	2,025,149
Total net assets	8,291,681	5,715,305
Total liabilities and net assets	\$ 10,385,131	\$ 7,444,300

See accompanying notes.

American Forests

Statement of Activities For the Year Ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	\$ 1,507,497	\$ 3,986,586	\$ 5,494,083
Grants and contracts	543,008	4,004,241	4,547,249
Conferences, events, and sales	16,265	-	16,265
Investment income	179,586	8	179,594
Miscellaneous income	2,666	-	2,666
Released from restrictions	5,416,045	(5,416,045)	-
Total revenue and support	<u>7,665,067</u>	<u>2,574,790</u>	<u>10,239,857</u>
Expenses			
Program services:			
Programs	4,927,085	-	4,927,085
Communications	746,336	-	746,336
Total program services	<u>5,673,421</u>	<u>-</u>	<u>5,673,421</u>
Supporting services:			
Development	1,640,592	-	1,640,592
Finance and administration	349,468	-	349,468
Total supporting services	<u>1,990,060</u>	<u>-</u>	<u>1,990,060</u>
Total expenses	<u>7,663,481</u>	<u>-</u>	<u>7,663,481</u>
Change in Net Assets	1,586	2,574,790	2,576,376
Net Assets, beginning of year	<u>3,690,156</u>	<u>2,025,149</u>	<u>5,715,305</u>
Net Assets, end of year	<u><u>\$ 3,691,742</u></u>	<u><u>\$ 4,599,939</u></u>	<u><u>\$ 8,291,681</u></u>

See accompanying notes.

American Forests

Statement of Activities For the Year Ended September 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	\$ 1,121,240	\$ 3,085,970	\$ 4,207,210
Grants and contracts	391,805	1,415,571	1,807,376
Conferences, events, and sales	13,662	-	13,662
Investment income (loss)	227,562	(34,067)	193,495
Miscellaneous income	4,676	-	4,676
Released from restrictions	4,287,271	(4,287,271)	-
Total revenue and support	<u>6,046,216</u>	<u>180,203</u>	<u>6,226,419</u>
Expenses			
Program services:			
Programs	3,492,129	-	3,492,129
Communications	652,414	-	652,414
Total program services	<u>4,144,543</u>	<u>-</u>	<u>4,144,543</u>
Supporting services:			
Development	1,460,505	-	1,460,505
Finance and administration	372,744	-	372,744
Total supporting services	<u>1,833,249</u>	<u>-</u>	<u>1,833,249</u>
Total expenses	<u>5,977,792</u>	<u>-</u>	<u>5,977,792</u>
Change in Net Assets	68,424	180,203	248,627
Net Assets, beginning of year	<u>3,621,732</u>	<u>1,844,946</u>	<u>5,466,678</u>
Net Assets, end of year	<u><u>\$ 3,690,156</u></u>	<u><u>\$ 2,025,149</u></u>	<u><u>\$ 5,715,305</u></u>

See accompanying notes.

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Statement of Functional Expenses For the Year Ended September 30, 2019

	Program Services			Supporting Services			Total Expenses
	Programs	Communications	Total Program Services	Development	Finance and Administration	Total Supporting Services	
Salaries and benefits	\$ 1,270,600	\$ 320,581	\$ 1,591,181	\$ 576,296	\$ 487,131	\$ 1,063,427	\$ 2,654,608
Grants	1,679,084	-	1,679,084	-	-	-	1,679,084
Consulting	947,181	118,268	1,065,449	624,071	546,022	1,170,093	2,235,542
Travel and events	167,652	13,395	181,047	111,910	46,944	158,854	339,901
Advertising	6,535	101,997	108,532	8,162	680	8,842	117,374
Memberships and subscriptions	32,426	20,256	52,682	4,332	7,066	11,398	64,080
Supplies and materials	2,791	496	3,287	15,813	26,602	42,415	45,702
Mailing and production	6,232	45,797	52,029	13,500	6,265	19,765	71,794
Depreciation and amortization	367	-	367	-	64,849	64,849	65,216
Occupancy	-	-	-	-	245,920	245,920	245,920
Other	-	-	-	-	144,260	144,260	144,260
Total direct expenses	4,112,868	620,790	4,733,658	1,354,084	1,575,739	2,929,823	7,663,481
Indirect cost allocation	814,217	125,546	939,763	286,508	(1,226,271)	(939,763)	-
Total Expenses	\$ 4,927,085	\$ 746,336	\$ 5,673,421	\$ 1,640,592	\$ 349,468	\$ 1,990,060	\$ 7,663,481

See accompanying notes.

American Forests

Statement of Functional Expenses For the Year Ended September 30, 2018

	Program Services			Supporting Services			Total Expenses
	Programs	Communications	Total Program Services	Development	Finance and Administration	Total Supporting Services	
Salaries and benefits	\$ 649,905	\$ 314,961	\$ 964,866	\$ 435,496	\$ 657,607	\$ 1,093,103	\$ 2,057,969
Grants	1,443,338	-	1,443,338	-	-	-	1,443,338
Consulting	392,852	56,528	449,380	574,805	427,413	1,002,218	1,451,598
Advertising	4,091	69,140	73,231	1,771	-	1,771	75,002
Travel and events	271,118	16,818	287,936	45,990	31,731	77,721	365,657
Memberships and subscriptions	15,266	16,479	31,745	2,351	4,259	6,610	38,355
Mail and production	6,906	27,521	34,427	17,590	1,647	19,237	53,664
Supplies and materials	4,653	301	4,954	1,310	5,829	7,139	12,093
Depreciation and amortization	-	-	-	2,777	69,125	71,902	71,902
Rent	-	-	-	-	224,399	224,399	224,399
Other	20,222	1,157	21,379	40,557	121,879	162,436	183,815
Total direct expenses	2,808,351	502,905	3,311,256	1,122,647	1,543,889	2,666,536	5,977,792
Indirect cost allocation	683,778	149,509	833,287	337,858	(1,171,145)	(833,287)	-
Total Expenses	\$ 3,492,129	\$ 652,414	\$ 4,144,543	\$ 1,460,505	\$ 372,744	\$ 1,833,249	\$ 5,977,792

See accompanying notes.

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Statements of Cash Flows For the Years Ended September 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 2,576,376	\$ 248,627
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Donated securities	-	(1,038)
Realized and unrealized gain on investments	(82,856)	(139,120)
Depreciation and amortization	65,216	71,902
Change in present value discount	(750)	(4,299)
Change in allowance for doubtful accounts	-	66,892
Change in operating assets and liabilities:		
Decrease (increase) in:		
Government grants receivable	(133,698)	(100,641)
Contributions receivable	(597,823)	(659,841)
Prepaid expenses and other	(3,098)	104
Increase (decrease) in:		
Accounts payable and accrued expenses	113,071	(122,020)
Grants payable	307,166	3,055
Deferred rent	(55,782)	(49,482)
Net cash provided by (used in) operating activities	2,187,822	(685,861)
Cash Flows from Investing Activities		
Purchases of property and equipment	-	(20,567)
Purchases of certificates of deposit	(53,198)	-
Proceeds from maturities of certificates of deposit	-	44,978
Purchases of investments	(118,339)	(265,094)
Proceeds from sales of investments	40,383	101,042
Net cash used in investing activities	(131,154)	(139,641)
Net Increase (Decrease) in Cash and Cash Equivalents	2,056,668	(825,502)
Cash and Cash Equivalents, beginning of year	462,977	1,288,479
Cash and Cash Equivalents, end of year	\$ 2,519,645	\$ 462,977

See accompanying notes.

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Notes to Financial Statements
September 30, 2019 and 2018

1. Nature of Operations

American Forests (AF) restores and protects urban and rural forests. Founded in 1875, the oldest national nonprofit conservation organization in the country has served as a catalyst for many of the important milestones in the conservation movement, including the founding of the U.S. Forest Service, the national forest and national park systems, as well as leading thousands of forest ecosystem restoration projects and public education efforts.

Since 1990, AF has completed restoration work in all 50 U.S. states and 45 countries around the world, helping to plant over 60 million trees in areas of crucial need. These projects have restored forest ecosystems for a variety of critical issues, including wildlife habitat improvement, responses to wildfire and other threats, water resource protection, and carbon offset benefits.

AF's revenue consists primarily of contributions, grants and contracts with various government entities, membership dues, and the sale of merchandise related to AF's exempt activities. A substantial portion of AF's total revenue is derived from voluntary arrangements with donors whose contributions and grants are designated to specific programs.

The major programs of AF are as follows:

Programs – Restoring forest ecosystems, supporting urban forest research and work advocating for sound national forest policies and funding, promoting science and research, and working with local and community partners are the lynchpins of AF's Programs and Public Policy work. In the last 20 years, the Global ReLeaf program has helped restore forests in all 50 states and 45 countries around the world, planting more than 60 million trees. Some other major initiatives bridge research and engagement, such as a campaign focused on America's endangered western forests, in which AF is partnering with leading scientists studying these forests while also creating events for individuals to help aid the efforts to save these forests. For almost two decades, AF has worked with cities and researchers around the country to analyze forest cover in urban environments and to help promote the benefits that trees in cities can provide. For more than a century, AF has been at the forefront of forest policy, meeting with key policymakers and advocating appropriate plans and levels of funding to support needed work in our nation's forests. Throughout the course of its history, AF has grounded its work in the best science of the time, and with the 2011 creation of its Science Advisory Board, AF has aligned itself with some of the nation's premiere scientists to continue developing its work in and around the latest science. For decades, AF has worked with local partners to help restore and protect forests and has served on many local and regional coalitions and community groups to promote strong local forestry practices and partnerships.

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Notes to Financial Statements
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1. Nature of Operations (continued)

Communications – Beyond supporting the work occurring in Programs, AF's Communications program focuses on educating its community about the issues, challenges, and developments in the forestry world. This goal is accomplished through the daily blog, Loose Leaf; the monthly e-newsletter, Forest Files; and the quarterly magazine, *American Forests*. In addition, AF's National Big Tree Program is a prime education effort, promoting more than 750 of America's biggest trees across hundreds of species. Every year, the program receives hundreds of nominations for big trees and uses the publication of its National Register of Big Trees to communicate the important role big trees play in ecosystems across America.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

AF's financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released (to net assets without donor restrictions) when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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Notes to Financial Statements
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2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

For the purpose of the statements of cash flows, AF considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase.

Certificates of Deposit

At September 30, 2019 and 2018, AF held certificates of deposit with original maturity dates greater than a period of 90 days that are carried at amortized cost. Interest earned on the certificates of deposit is included in investment income in the accompanying statements of activities. These certificates of deposit do not qualify as securities as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities*. Therefore, these investments are not included in the fair value disclosures required by FASB ASC 820, *Fair Value Measurements and Disclosures*.

Grants Receivable

Grants receivable consists primarily of amounts to be reimbursed to AF for expenses incurred under agreements with the United States Department of Agriculture (USDA) – U.S. Forest Service. AF uses the allowance method to account for amounts that are considered uncollectible, based on prior years' experience and management's current estimates of potentially uncollectible accounts. No allowance for doubtful grants receivable is recorded at September 30, 2019 and 2018, as management believes that all amounts are fully collectible.

Contributions Receivable

Contributions receivable represent unconditional promises to give reported at fair value at the date the contribution is received. Contributions that are expected to be collected within one year are recorded at their net realizable amount. Contributions that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not recorded as contributions receivable until such time as the conditions are substantially met. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. AF's allowance for doubtful accounts was \$74,542 at both September 30, 2019 and 2018.

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Notes to Financial Statements
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2. Summary of Significant Accounting Policies (continued)

Investments

Investments are recorded at fair value based on quoted market prices. Realized and unrealized gains and losses are reported as a component of investment income in the accompanying statements of activities.

Property and Equipment

Property and equipment acquisitions totaling over \$1,000 with a projected life exceeding one year are capitalized and recorded at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to five years. Additionally, the cost of leasehold improvements is amortized over the life of the lease following the straight-line method. Maintenance and repairs are expensed as incurred.

Grants Payable

Grants made by AF are recorded in the accompanying statements of financial position as grants payable and as an expense at the time written acceptance of the award is received. Grants payable are all expected to be paid within one year at September 30, 2019 and 2018.

Revenue Recognition

All contributions, grants, and contracts are considered to be available for unrestricted use unless specifically restricted by the donor. AF reports gifts of cash and other assets as restricted support if they are received or promised with donor stipulations that limit the use of the donated assets to one of AF's programs or to a future year. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue from all other sources is recognized when earned.

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Notes to Financial Statements
September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

In-Kind Contributions

AF receives in-kind contributions in the form of donated services that are valued at comparable market rates, and are included in the accompanying statements of activities in contribution revenue. Contributions of services are recognized when services (a) create or enhance nonfinancial assets, or (b) require specialized skills, which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services principally consist of legal and web hosting services and totaled \$36,628 and \$34,968 for the years ended September 30, 2019 and 2018, respectively.

In addition, AF was awarded a grant for free online advertising services. These services are valued at fair market value and are recognized in contribution revenue and advertising expenses. The total value of in-kind donations was \$49,077 and \$50,960 for the years ended September 30, 2019 and 2018, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. 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.

Advertising

Costs associated with advertising are charged to expenses as incurred. Advertising expenses were \$117,374 and \$75,002 for the years ended September 30, 2019 and 2018, respectively.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation. These reclassifications have no effect on the change in net assets previously reported.

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Notes to Financial Statements
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2. Summary of Significant Accounting Policies (continued)

Adopted Accounting Pronouncement

On August 18, 2016, the 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, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. AF has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability footnote, which is permitted by the ASU in the year of adoption. The implementation had no impact on previously reported net assets.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its statements of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in AF's fiscal year 2021.

Subsequent Events

In preparing these financial statements, AF has evaluated events and transactions for potential recognition or disclosure through February 4, 2020, the date the financial statements were available to be issued.

3. Liquidity and Availability

AF has \$8,543,084 of financial assets available within one year of the statement of financial position date. AF strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Management periodically reviews AF's liquid asset needs and adjusts the cash and cash equivalent balances as necessary. Amounts in excess of operating liquidity are invested in various short-term and highly liquid securities.

Additionally, AF considers net assets with donor restrictions for use in current programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

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Notes to Financial Statements
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3. Liquidity and Availability (continued)

Financial assets that are available for general expenditures within one year of the statement of financial position date comprise the following at September 30, 2019:

Cash and cash equivalents	\$	2,519,645
Short-term investments		3,086,586
Government grants receivable		385,388
Contributions receivable – current portion due within one year		<u>2,551,465</u>
Total available for general expenditures	\$	<u><u>8,543,084</u></u>

4. Concentrations of Risk

Credit Risk

Financial instruments that potentially subject AF to significant concentrations of credit risk consist of cash and cash equivalents, certificates of deposit, and investments. AF maintains cash deposit and transaction accounts, along with investments, with various financial institutions and these values, from time to time, exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). AF has not experienced any credit losses on its cash and cash equivalents, certificates of deposit, and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

Revenue Risk

AF received a substantial portion of its support and revenue from two organizations during the year ended September 30, 2018, which represented approximately 21% of AF's total revenue and support. There was no concentration of revenue risk during the year ended September 30, 2019.

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5. Contributions Receivable

Contributions receivable consist of the following at September 30:

	<u>2019</u>	<u>2018</u>
Due in less than one year	\$ 2,551,465	\$ 2,304,113
Due in one to five years	<u>608,596</u>	<u>258,125</u>
Total contributions receivable	3,160,061	2,562,238
Less: present value discount	(10,483)	(11,233)
Less: allowance for doubtful accounts	<u>(74,542)</u>	<u>(74,542)</u>
Contributions receivable, net	<u>\$ 3,075,036</u>	<u>\$ 2,476,463</u>

The discount rate used for contributions receivable due in more than one year was 1.60% and 2.59% at September 30, 2019 and 2018, respectively, which approximates the risk-free rate of U.S. Treasury notes for similar maturities.

6. Investments and Fair Value Measurements

AF follows FASB ASC 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument. The inputs used in measuring fair value are categorized into three levels.

Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs.

AF recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

In general, and where applicable, AF uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

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Notes to Financial Statements
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6. Investments and Fair Value Measurements (continued)

The following table presents AF's fair value hierarchy for those investments measured on a recurring basis at September 30, 2019:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Corporate bonds	\$ 1,317,185	\$ -	\$ -	\$ 1,317,185
U.S. equities	1,250,396	-	-	1,250,396
International indexes	519,005	-	-	519,005
Total investments	\$ 3,086,586	\$ -	\$ -	\$ 3,086,586

The following table presents AF's fair value hierarchy for those investments measured on a recurring basis at September 30, 2018:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Corporate bonds	\$ 1,208,771	\$ -	\$ -	\$ 1,208,771
U.S. equities	1,232,934	-	-	1,232,934
International indexes	484,069	-	-	484,069
Total investments	\$ 2,925,774	\$ -	\$ -	\$ 2,925,774

Investment income consists of the following for the years ended September 30:

	2019	2018
Interest and dividends	\$ 109,158	\$ 67,117
Realized gain (loss)	4,346	(35,319)
Unrealized gain	78,510	174,439
Investment management fees	(12,420)	(12,742)
Total investment income	\$ 179,594	\$ 193,495

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7. Property and Equipment

Property and equipment consists of the following at September 30:

	2019	2018
Leasehold improvements	\$ 481,364	\$ 481,364
Furniture, fixtures, and equipment	354,456	354,456
Software	99,745	99,745
 Total property and equipment	 935,565	 935,565
Less: accumulated depreciation and amortization	(651,994)	(586,778)
 Property and equipment, net	 \$ 283,571	 \$ 348,787

8. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following purposes at September 30:

	2019	2018
Community ReLeaf	\$ 1,781,753	\$ 1,240,406
Landscapes	1,193,134	73,654
Policy	1,172,191	166,233
Dollar per Tree	452,861	-
Alcoa	-	250,000
Watershed	-	128,696
Cuyamaca	-	108,646
Global ReLeaf	-	57,514
 Net assets with donor restrictions	 \$ 4,599,939	 \$ 2,025,149

9. Functionalized Expenses

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. Where feasible, AF allocates its expenses directly to specific functions.

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Notes to Financial Statements
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9. Functionalized Expenses (continued)

The expenses that are allocated indirectly include salaries and benefits, which are allocated on the basis of estimates of time and effort. Additionally, expenses such as consulting, travel and events, advertising, memberships and subscriptions, supplies and materials, mailing and production, and depreciation and amortization are allocated utilizing an overhead cost allocation methodology based on estimates of staff time and effort spent on the specific function.

10. Retirement Plan

AF sponsors a defined contribution pension plan for all salaried employees who meet the one month of entry service requirement and are at least 18 years of age. The plan requires AF to match up to 6% of each eligible employee's salary subject to plan and Internal Revenue Service limits, and participants become fully vested in employer contributions after five years. For the years ended September 30, 2019 and 2018, AF recorded contributions to the plan of \$115,893 and \$90,353, respectively.

11. Commitments and Contingencies

Operating Lease

During 2014, AF entered into an agreement to lease office space in Washington, DC that expires on August 31, 2024. The terms of the lease contain provisions for a free rent period and future rent increases of 2.5% per year. In addition, AF was provided a build-out allowance totaling \$387,465 as an incentive to lease the office space.

The unamortized portion of the leasehold improvement allowance, and the cumulative difference between the actual rent paid and the straight-line rent, is reflected as deferred rent in the accompanying statements of financial position.

Rent expense totaled \$245,920 and \$224,399 for the years ended September 30, 2019 and 2018, respectively.

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11. Commitments and Contingencies (continued)

Operating Lease (continued)

Future minimum lease payments under this operating lease are as follows for the years ending September 30:

2020	\$	265,076
2021		271,722
2022		278,498
2023		285,442
2024		292,566
		<hr/>
Total future minimum lease payments	\$	<u>1,393,304</u>

Federal Grants

Funds received from USDA are subject to an audit under the provisions of the grant agreements. The ultimate determination of amounts received under these grants is based upon the allowance of costs reported to and accepted by the oversight agencies. Until such grants are closed out, a potential contingency exists to refund any amounts received in excess of allowable costs. Management is of the opinion that no material liability exists.

Letter of Credit

AF provides funding to USDA to be used under its Global ReLeaf program. As a result, AF was required to establish an irrevocable letter of credit to secure the payment terms of the grant agreement. A \$410,700 letter of credit, which originally expired on December 31, 2013 and has since been renewed annually, was submitted to the USDA in July 2010 and is collateralized by a certificate of deposit. The required letter of credit was \$216,982 and \$216,765 as of September 30, 2019 and 2018, respectively, and is included in cash and cash equivalents in the accompanying statements of financial position.

Employment Agreement

AF has a signed employment agreement with the President and Chief Executive Officer that contains terms that require a severance payment upon the occurrence of certain contractual events.

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12. Income Taxes

AF is recognized as a tax-exempt organization under Internal Revenue Code (IRC) Section 501(c)(3) and is exempt from income taxes except for taxes on unrelated business activities. No tax expense is recorded in the accompanying financial statements, as there was no significant net unrelated business taxable income. Contributions to AF are deductible as provided in IRC Section 170(b)(1)(A)(vi). Management evaluated AF's tax positions and concluded that the financial statements do not include any uncertain tax positions.