

**American Forests**

Financial Statements  
and Independent Auditors' Report

September 30, 2017 and 2016

# American Forests

Financial Statements  
September 30, 2017 and 2016

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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, 2017 and 2016; 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, 2017 and 2016, 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.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, flowing style.

Vienna, Virginia  
February 15, 2018

## American Forests

### Statements of Financial Position September 30, 2017 and 2016

	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,288,479	\$ 1,034,370
Grants receivable	151,049	308,150
Contributions receivable, net	1,879,215	1,089,164
Prepaid expenses and other	47,083	94,833
Total current assets	3,365,826	2,526,517
Investments	3,540,797	4,116,261
Deposits	57,375	58,248
Property and equipment, net	400,122	483,288
Total assets	\$ 7,364,120	\$ 7,184,314
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 401,840	\$ 438,690
Grants payable	1,011,168	611,258
Deferred rent	484,434	527,747
Total current liabilities	1,897,442	1,577,695
Total liabilities	1,897,442	1,577,695
<b>Net Assets</b>		
Unrestricted	3,621,732	3,791,577
Temporarily restricted	1,844,946	1,815,042
Total net assets	5,466,678	5,606,619
Total liabilities and net assets	\$ 7,364,120	\$ 7,184,314

*See accompanying notes.*

## American Forests

### Statement of Activities For the Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>				
Contributions	\$ 1,076,100	\$ 2,943,502	\$ -	\$ 4,019,602
Grants and contracts	282,242	750,000	-	1,032,242
Conferences, events, and sales	27,814	-	-	27,814
Membership dues	21,200	-	-	21,200
Miscellaneous income	7,329	-	-	7,329
Investment income	371,547	28,544	-	400,091
Released from restrictions	3,692,142	(3,692,142)	-	-
<b>Total revenue and support</b>	<b>5,478,374</b>	<b>29,904</b>	<b>-</b>	<b>5,508,278</b>
<b>Expenses</b>				
Program services:				
Programs	3,441,569	-	-	3,441,569
Communications	726,223	-	-	726,223
<b>Total program services</b>	<b>4,167,792</b>	<b>-</b>	<b>-</b>	<b>4,167,792</b>
Supporting services:				
Development	1,236,663	-	-	1,236,663
Finance and administration	243,764	-	-	243,764
<b>Total supporting services</b>	<b>1,480,427</b>	<b>-</b>	<b>-</b>	<b>1,480,427</b>
<b>Total expenses</b>	<b>5,648,219</b>	<b>-</b>	<b>-</b>	<b>5,648,219</b>
<b>Change in Net Assets</b>	<b>(169,845)</b>	<b>29,904</b>	<b>-</b>	<b>(139,941)</b>
<b>Net Assets, beginning of year</b>	<b>3,791,577</b>	<b>1,815,042</b>	<b>-</b>	<b>5,606,619</b>
<b>Net Assets, end of year</b>	<b>\$ 3,621,732</b>	<b>\$ 1,844,946</b>	<b>\$ -</b>	<b>\$ 5,466,678</b>

See accompanying notes.

## American Forests

### Statement of Activities For the Year Ended September 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>				
Contributions	\$ 1,028,226	\$ 2,818,880	\$ -	\$ 3,847,106
Grants and contracts	455,819	495,000	-	950,819
Conferences, events, and sales	135,023	-	-	135,023
Membership dues	16,000	-	-	16,000
Miscellaneous income	11,790	-	-	11,790
Investment income	321,945	63,852	-	385,797
Released from restrictions	3,496,572	(3,465,905)	(30,667)	-
<b>Total revenue and support</b>	<u>5,465,375</u>	<u>(88,173)</u>	<u>(30,667)</u>	<u>5,346,535</u>
<b>Expenses</b>				
Program services:				
Programs	3,315,659	-	-	3,315,659
Communications	653,733	-	-	653,733
<b>Total program services</b>	<u>3,969,392</u>	<u>-</u>	<u>-</u>	<u>3,969,392</u>
Supporting services:				
Development	1,256,941	-	-	1,256,941
Finance and administration	90,008	-	-	90,008
<b>Total supporting services</b>	<u>1,346,949</u>	<u>-</u>	<u>-</u>	<u>1,346,949</u>
<b>Total expenses</b>	<u>5,316,341</u>	<u>-</u>	<u>-</u>	<u>5,316,341</u>
<b>Change in Net Assets</b>	149,034	(88,173)	(30,667)	30,194
<b>Net Assets, beginning of year</b>	<u>3,642,543</u>	<u>1,903,215</u>	<u>30,667</u>	<u>5,576,425</u>
<b>Net Assets, end of year</b>	<u><u>\$ 3,791,577</u></u>	<u><u>\$ 1,815,042</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,606,619</u></u>

**American Forests**

Statement of Functional Expenses  
For the Year Ended September 30, 2017

	Program Services			Supporting Services			Total Expenses
	Programs	Communications	Total Program Services	Development	Finance and Administration	Total Supporting Services	
Salaries and benefits	\$ 590,012	\$ 346,754	\$ 936,766	\$ 370,537	\$ 553,200	\$ 923,737	\$ 1,860,503
Grants	1,792,874	-	1,792,874	-	-	-	1,792,874
Consulting	275,596	35,659	311,255	526,937	349,952	876,889	1,188,144
Advertising	549	113,244	113,793	1,753	90	1,843	115,636
Travel, meals, and catering	84,569	6,927	91,496	32,163	32,006	64,169	155,665
Memberships and subscriptions	11,510	16,107	27,617	3,713	3,535	7,248	34,865
Postage	16,639	47,213	63,852	11,892	5,186	17,078	80,930
Supplies	1,170	64	1,234	625	22,720	23,345	24,579
Depreciation and maintenance	-	-	-	-	84,923	84,923	84,923
Rent	-	-	-	-	214,264	214,264	214,264
Other	11,990	1,394	13,384	19,521	62,931	82,452	95,836
Total direct expenses	2,784,909	567,362	3,352,271	967,141	1,328,807	2,295,948	5,648,219
Indirect cost allocation	656,660	158,861	815,521	269,522	(1,085,043)	(815,521)	-
<b>Total Expenses</b>	<b>\$ 3,441,569</b>	<b>\$ 726,223</b>	<b>\$ 4,167,792</b>	<b>\$ 1,236,663</b>	<b>\$ 243,764</b>	<b>\$ 1,480,427</b>	<b>\$ 5,648,219</b>

See accompanying notes.



## American Forests

### Statement of Functional Expenses For the Year Ended September 30, 2016

	Program Services			Supporting Services			Total Expenses
	Programs	Communications	Total Program Services	Development	Finance and Administration	Total Supporting Services	
Salaries and benefits	\$ 632,965	\$ 332,971	\$ 965,936	\$ 484,540	\$ 374,516	\$ 859,056	\$ 1,824,992
Grants	1,394,410	-	1,394,410	-	-	-	1,394,410
Consulting	410,994	22,842	433,836	426,102	276,552	702,654	1,136,490
Advertising	2,257	97,027	99,284	1,695	980	2,675	101,959
Travel, meals, and catering	184,875	8,083	192,958	34,728	40,753	75,481	268,439
Memberships and subscriptions	9,990	14,609	24,599	1,202	1,869	3,071	27,670
Postage	5,140	30,030	35,170	12,027	9,469	21,496	56,666
Supplies	6,050	3,083	9,133	2,590	41,794	44,384	53,517
Depreciation and amortization	890	-	890	-	115,084	115,084	115,974
Bad debt expense	-	-	-	-	22,107	22,107	22,107
Rent	-	-	-	-	208,490	208,490	208,490
Other	6,734	2,084	8,818	18,964	77,845	96,809	105,627
<b>Total direct expenses</b>	<b>2,654,305</b>	<b>510,729</b>	<b>3,165,034</b>	<b>981,848</b>	<b>1,169,459</b>	<b>2,151,307</b>	<b>5,316,341</b>
Indirect cost allocation	661,354	143,004	804,358	275,093	(1,079,451)	(804,358)	-
<b>Total Expenses</b>	<b>\$ 3,315,659</b>	<b>\$ 653,733</b>	<b>\$ 3,969,392</b>	<b>\$ 1,256,941</b>	<b>\$ 90,008</b>	<b>\$ 1,346,949</b>	<b>\$ 5,316,341</b>

See accompanying notes.

## American Forests

### Statements of Cash Flows For the Years Ended September 30, 2017 and 2016

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (139,941)	\$ 30,194
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized gain on investments	(301,824)	(267,902)
Depreciation and amortization	84,923	115,974
Change in present value discount	15,532	(396)
Change in allowance for doubtful accounts	(4,616)	8,107
Change in operating assets and liabilities:		
(Increase) decrease in:		
Grants receivable	157,101	(32,111)
Contributions receivable	(800,967)	(9,852)
Prepaid expenses and other	47,750	(32,868)
Deposits	873	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(36,850)	76,213
Grants payable	399,910	(135,194)
Deferred rent	(43,313)	(37,312)
	(621,422)	(285,147)
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(1,757)	-
Purchases of investments	(224,056)	(452,941)
Proceeds from sales of investments	1,101,344	560,455
	875,531	107,514
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	254,109	(177,633)
<b>Cash and Cash Equivalents, beginning of year</b>	1,034,370	1,212,003
<b>Cash and Cash Equivalents, end of year</b>	\$ 1,288,479	\$ 1,034,370

See accompanying notes.

## American Forests

Notes to Financial Statements  
September 30, 2017 and 2016

### 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 50 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 50 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.

## American Forests

Notes to Financial Statements  
September 30, 2017 and 2016

### 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 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:

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of AF's operations.
- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of AF or by the passage of time.

#### 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.

#### 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.

## American Forests

Notes to Financial Statements  
September 30, 2017 and 2016

### 2. Summary of Significant Accounting Policies (continued)

#### 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 – 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 accounts is recorded at September 30, 2017 and 2016 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 \$7,650 and \$12,266 at September 30, 2017 and 2016, respectively.

#### 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.

## American Forests

Notes to Financial Statements  
September 30, 2017 and 2016

### 2. Summary of Significant Accounting Policies (continued)

#### Revenue Recognition

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. AF reports gifts of cash and other assets as temporarily 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 purpose restriction is accomplished or time restriction has elapsed, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received.

Revenue from all other sources is recognized when earned.

#### Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The update changes the manner by which nonprofit organizations classify net assets as well as improves information presented in financial statements and notes about nonprofit organization liquidity, financial performance, and cash flows. The guidance is effective beginning in AF's fiscal year 2019.

#### Subsequent Events

In preparing these financial statements, AF has evaluated events and transactions for potential recognition or disclosure through February 15, 2018, the date the financial statements were available to be issued.

## American Forests

Notes to Financial Statements  
September 30, 2017 and 2016

### 3. Concentration of Credit Risk

Financial instruments that potentially subject AF to significant concentrations of credit risk consist of cash and cash equivalents, 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, 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.

### 4. Contributions Receivable

Contributions receivable consist of the following at September 30:

	2017	2016
Due in less than one year	\$ 1,322,740	\$ 1,101,430
Due in one to five years	579,657	-
Total contributions receivable	1,902,397	1,101,430
Less: adjustment to net present value	(15,532)	-
Less: allowance for uncollectible pledges	(7,650)	(12,266)
Contributions receivable, net	\$ 1,879,215	\$ 1,089,164

The discount rate used for contributions receivable due in more than one year was 1.47% at September 30, 2017.

### 5. Investments and Fair Value Measurements

AF follows FASB Accounting Standards Codification 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.

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

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.

The following table presents AF's fair value hierarchy for those investments measured on a recurring basis at September 30, 2017:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Corporate bonds	\$ 1,406,283	\$ -	\$ -	\$ 1,406,283
U.S. equities	1,429,081	-	-	1,429,081
International indexes	603,576	-	-	603,576
Corporate bonds	101,857	-	-	101,857
Total investments	\$ 3,540,797	\$ -	\$ -	\$ 3,540,797

The following table presents AF's fair value hierarchy for those investments measured on a recurring basis at September 30, 2016:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Corporate bonds	\$ 1,381,718	\$ -	\$ -	\$ 1,381,718
U.S. equities	1,589,139	-	-	1,589,139
International indexes	935,956	-	-	935,956
Corporate bonds	190,220	-	-	190,220
U.S. equities	19,228	-	-	19,228
Total investments	\$ 4,116,261	\$ -	\$ -	\$ 4,116,261



## American Forests

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

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 112,905	\$ 131,897
Realized gain	123,347	61,675
Unrealized gain	178,477	206,227
Investment management fees	<u>(14,638)</u>	<u>(14,002)</u>
Total investment income	<u>\$ 400,091</u>	<u>\$ 385,797</u>

### 6. Property and Equipment

Property and equipment consists of the following at September 30:

	<u>2017</u>	<u>2016</u>
Furniture, fixtures, and equipment	\$ 342,288	\$ 342,288
Software	106,011	104,254
Leasehold improvements	<u>481,364</u>	<u>481,364</u>
Total property and equipment	929,663	927,906
Less: accumulated depreciation and amortization	<u>(529,541)</u>	<u>(444,618)</u>
Property and equipment, net	<u>\$ 400,122</u>	<u>\$ 483,288</u>

## American Forests

Notes to Financial Statements  
September 30, 2017 and 2016

### 7. Temporarily Restricted Net Assets

Temporarily restricted net assets were restricted for the following purposes at September 30:

	<u>2017</u>	<u>2016</u>
Purpose restricted:		
Community ReLeaf	\$ 720,265	\$ 855,675
Cuyamaca	281,199	516,656
Global ReLeaf	249,986	249,986
Watershed	93,496	175,755
Alcoa	500,000	-
Urban Forest Railroad	-	10,404
Critical ecosystems	-	6,566
	<u>                    </u>	<u>                    </u>
Temporarily restricted net assets	<u>\$ 1,844,946</u>	<u>\$ 1,815,042</u>

### 8. 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, and participants become fully vested in employer contributions after five years. For the years ended September 30, 2017 and 2016, AF recorded contributions to the plan of \$77,619 and \$74,762, respectively.

### 9. Commitments and Contingencies

#### Operating Lease

During 2014, AF entered into an agreement to lease office space in Washington, DC that expires on August 31, 2023. 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.

## American Forests

Notes to Financial Statements  
September 30, 2017 and 2016

### 9. Commitments and Contingencies (continued)

#### Operating Lease (continued)

Accounting principles generally accepted in the United States of America require that the cost of the build-out be capitalized and depreciated as leasehold improvements. Accounting principles generally accepted in the United States of America also require that the lease incentives, along with the scheduled rent increases resulting from the escalation of base rental payments, be recorded as liabilities and amortized ratably over the life of the lease. Accordingly, AF has recognized leasehold improvements within property and equipment and a liability for deferred rent in the accompanying statements of financial position.

Rent expense totaled \$214,264 and \$208,490 for the years ended September 30, 2017 and 2016, respectively.

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

2018	\$	252,309
2019		258,608
2020		265,076
2021		271,722
2022		278,498
Thereafter		<u>578,009</u>
Total future minimum lease payments	\$	<u><u>1,904,222</u></u>

#### Letter of Credit

AF provides funding to the USDA Forest Service (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 \$216,548 and \$216,332 as of September 30, 2017 and 2016, respectively, and is included in cash and cash equivalents in the accompanying statements of financial position.

## American Forests

Notes to Financial Statements  
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### 9. Commitments and Contingencies (continued)

#### 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.

### 10. 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. 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 \$71,458 and \$52,418 for the years ended September 30, 2017 and 2016, respectively.

In addition, AF was awarded a grant for free online advertising services. These services are valued at fair market value and are recognized as contribution revenue and advertising expenses. The total value of in-kind donations was \$96,129 and \$81,089 for the years ended September 30, 2017 and 2016, respectively.

### 11. 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.