

American Forests

Financial Statements
and Independent Auditors' Report

September 30, 2018 and 2017

American Forests

Financial Statements
September 30, 2018 and 2017

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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, 2018 and 2017; 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, 2018 and 2017, 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 "R" is large and stylized, with a loop at the top. The rest of the text is in a cursive, handwritten style.

Vienna, Virginia
February 5, 2019

American Forests

Statements of Financial Position September 30, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,337,232	\$ 1,288,479
Grants receivable	251,690	151,049
Contributions receivable, net	2,476,463	1,879,215
Prepaid expenses and other	46,979	47,083
Total current assets	4,112,364	3,365,826
Investments	2,925,774	3,540,797
Deposits	57,375	57,375
Property and equipment, net	348,787	400,122
Total assets	\$ 7,444,300	\$ 7,364,120
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 279,820	\$ 401,840
Grants payable	1,014,223	1,011,168
Deferred rent	434,952	484,434
Total current liabilities	1,728,995	1,897,442
Total liabilities	1,728,995	1,897,442
Net Assets		
Unrestricted	3,690,156	3,621,732
Temporarily restricted	2,025,149	1,844,946
Total net assets	5,715,305	5,466,678
Total liabilities and net assets	\$ 7,444,300	\$ 7,364,120

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Statement of Activities For the Year Ended September 30, 2018

	Unrestricted	Temporarily Restricted	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	6,046,216	180,203	6,226,419
Expenses			
Program services:			
Programs	3,492,129	-	3,492,129
Communications	652,414	-	652,414
Total program services	4,144,543	-	4,144,543
Supporting services:			
Development	1,460,505	-	1,460,505
Finance and administration	372,744	-	372,744
Total supporting services	1,833,249	-	1,833,249
Total expenses	5,977,792	-	5,977,792
Change in Net Assets	68,424	180,203	248,627
Net Assets, beginning of year	3,621,732	1,844,946	5,466,678
Net Assets, end of year	\$ 3,690,156	\$ 2,025,149	\$ 5,715,305

See accompanying notes.

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Statement of Activities For the Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
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)	-
Total revenue and support	<u>5,478,374</u>	<u>29,904</u>	<u>5,508,278</u>
Expenses			
Program services:			
Programs	3,441,569	-	3,441,569
Communications	726,223	-	726,223
Total program services	<u>4,167,792</u>	<u>-</u>	<u>4,167,792</u>
Supporting services:			
Development	1,236,663	-	1,236,663
Finance and administration	243,764	-	243,764
Total supporting services	<u>1,480,427</u>	<u>-</u>	<u>1,480,427</u>
Total expenses	<u>5,648,219</u>	<u>-</u>	<u>5,648,219</u>
Change in Net Assets	(169,845)	29,904	(139,941)
Net Assets, beginning of year	<u>3,791,577</u>	<u>1,815,042</u>	<u>5,606,619</u>
Net Assets, end of year	<u><u>\$ 3,621,732</u></u>	<u><u>\$ 1,844,946</u></u>	<u><u>\$ 5,466,678</u></u>

See accompanying notes.

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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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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 and events	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
Mail and production	16,639	47,213	63,852	11,892	5,186	17,078	80,930
Supplies and materials	1,170	64	1,234	625	22,720	23,345	24,579
Depreciation and amortization	-	-	-	-	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)	-
Total Expenses	\$ 3,441,569	\$ 726,223	\$ 4,167,792	\$ 1,236,663	\$ 243,764	\$ 1,480,427	\$ 5,648,219

See accompanying notes.

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Statements of Cash Flows For the Years Ended September 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 248,627	\$ (139,941)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Donated securities	(1,038)	-
Realized and unrealized gain on investments	(139,120)	(301,824)
Depreciation and amortization	71,902	84,923
Change in present value discount	(4,299)	15,532
Change in allowance for doubtful accounts	66,892	(4,616)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Grants receivable	(100,641)	157,101
Contributions receivable	(659,841)	(800,967)
Prepaid expenses and other	104	47,750
Deposits	-	873
Increase (decrease) in:		
Accounts payable and accrued expenses	(122,020)	(36,850)
Grants payable	3,055	399,910
Deferred rent	(49,482)	(43,313)
	(685,861)	(621,422)
Net cash used in operating activities		
	(685,861)	(621,422)
Cash Flows from Investing Activities		
Purchases of property and equipment	(20,567)	(1,757)
Purchases of investments	(145,861)	(224,056)
Proceeds from sales of investments	901,042	1,101,344
	734,614	875,531
Net cash provided by investing activities		
	734,614	875,531
Net Increase in Cash and Cash Equivalents	48,753	254,109
Cash and Cash Equivalents, beginning of year	1,288,479	1,034,370
	1,288,479	1,034,370
Cash and Cash Equivalents, end of year	\$ 1,337,232	\$ 1,288,479

See accompanying notes.

American Forests

Notes to Financial Statements
September 30, 2018 and 2017

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.

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Notes to Financial Statements
September 30, 2018 and 2017

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.

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Notes to Financial Statements
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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 (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, 2018 and 2017 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 and \$7,650 at September 30, 2018 and 2017, 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.

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

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.

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 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.

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 \$34,968 and \$71,458 for the years ended September 30, 2018 and 2017, 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 \$50,960 and \$96,129 for the years ended September 30, 2018 and 2017, respectively.

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.

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

Advertising

Costs associated with advertising are charged to expenses as incurred. Advertising expenses were \$75,002 and \$115,636 for the years ended September 30, 2018 and 2017, respectively.

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 5, 2019, the date the financial statements were available to be issued.

3. Concentrations of Risk

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.

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Notes to Financial Statements
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3. Concentrations of Risk (continued)

Revenue Risk

AF received a substantial portion of its support and revenue from two organizations during the year ended September 30, 2018, which represents approximately 21% of AF's total revenue and support. There were no concentrations of revenue risk during the year ended September 30, 2017.

4. Contributions Receivable

Contributions receivable consist of the following at September 30:

	2018	2017
Due in less than one year	\$ 2,304,113	\$ 1,322,740
Due in one to five years	258,125	579,657
Total contributions receivable	2,562,238	1,902,397
Less: present value discount	(11,233)	(15,532)
Less: allowance for doubtful accounts	(74,542)	(7,650)
Contributions receivable, net	<u>\$ 2,476,463</u>	<u>\$ 1,879,215</u>

The discount rate used for contributions receivable due in more than one year was 2.59% and 1.47% at September 30, 2018 and 2017, respectively, which approximates the risk-free rate of U.S. Treasury notes for similar maturities.

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. The inputs used in measuring fair value are categorized into three levels.

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

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, 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

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	\$ 1,508,140	\$ -	\$ -	\$ 1,508,140
U.S. equities	1,429,081	-	-	1,429,081
International indexes	603,576	-	-	603,576
Total investments	\$ 3,540,797	\$ -	\$ -	\$ 3,540,797

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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>2018</u>	<u>2017</u>
Interest and dividends	\$ 67,117	\$ 112,905
Realized (loss) gain	(35,319)	123,347
Unrealized gain	174,439	178,477
Investment management fees	<u>(12,742)</u>	<u>(14,638)</u>
Total investment income	<u>\$ 193,495</u>	<u>\$ 400,091</u>

6. Property and Equipment

Property and equipment consists of the following at September 30:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 481,364	\$ 481,364
Furniture, fixtures, and equipment	354,456	342,288
Software	<u>99,745</u>	<u>106,011</u>
Total property and equipment	935,565	929,663
Less: accumulated depreciation and amortization	<u>(586,778)</u>	<u>(529,541)</u>
Property and equipment, net	<u>\$ 348,787</u>	<u>\$ 400,122</u>

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7. Temporarily Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Purpose restricted:		
Community ReLeaf	\$ 1,240,406	\$ 720,265
Cuyamaca	108,646	281,199
Global ReLeaf	57,514	249,986
Watershed	128,696	93,496
Alcoa	250,000	500,000
Policy	166,233	-
Landscapes	73,654	-
	<u>\$ 2,025,149</u>	<u>\$ 1,844,946</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 subject to plan and IRS limits, and participants become fully vested in employer contributions after five years. For the years ended September 30, 2018 and 2017, AF recorded contributions to the plan of \$90,353 and \$77,619, 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, 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 \$224,399 and \$214,264 for the years ended September 30, 2018 and 2017, respectively.

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

Operating Lease (continued)

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

2019	\$	258,608
2020		265,076
2021		271,722
2022		278,498
2023		285,442
Thereafter		<u>292,566</u>
Total future minimum lease payments	\$	<u>1,651,912</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 \$216,765 and \$216,548 as of September 30, 2018 and 2017, 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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Notes to Financial Statements
September 30, 2018 and 2017

10. 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.