

American Forests

Financial Statements
and Independent Auditors' Report

September 30, 2020 and 2019

American Forests

Financial Statements
September 30, 2020 and 2019

Contents

Independent Auditors' Report.....	1-2
<i>Financial Statements</i>	
Statements of Financial Position.....	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows.....	8
Notes to Financial Statements.....	9-23

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, 2020 and 2019; 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, 2020 and 2019, 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 discussed in Note 2 to the financial statements, AF adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) and FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, slightly stylized font.

Vienna, Virginia
February 9, 2021

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Statements of Financial Position September 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 2,999,665	\$ 2,519,645
Certificates of deposit	1,392,659	927,453
Investments	3,418,665	3,086,586
Government grants receivable	593,172	385,388
Contributions receivable, net	3,082,088	3,075,036
Prepaid expenses and other	71,442	50,077
Deposits	57,375	57,375
Property and equipment, net	219,274	283,571
Total assets	\$ 11,834,340	\$ 10,385,131
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 806,567	\$ 392,891
Grants payable	1,856,655	1,321,389
Loan payable – Paycheck Protection Program	496,553	-
Deferred rent	316,921	379,170
Total liabilities	3,476,696	2,093,450
Net Assets		
Without donor restrictions	3,785,924	3,691,742
With donor restrictions	4,571,720	4,599,939
Total net assets	8,357,644	8,291,681
Total liabilities and net assets	\$ 11,834,340	\$ 10,385,131

See accompanying notes.

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Statement of Activities For the Year Ended September 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	\$ 1,354,932	\$ 6,541,932	\$ 7,896,864
Grants and contracts	717,812	2,586,858	3,304,670
Conferences, events, and sales	6,470	-	6,470
Investment return	397,659	-	397,659
Miscellaneous income	22,724	-	22,724
Released from restrictions	9,157,009	(9,157,009)	-
Total revenue and support	<u>11,656,606</u>	<u>(28,219)</u>	<u>11,628,387</u>
Expenses			
Program services:			
Programs	8,506,360	-	8,506,360
Communications	1,141,763	-	1,141,763
Total program services	<u>9,648,123</u>	<u>-</u>	<u>9,648,123</u>
Supporting services:			
Development	1,411,972	-	1,411,972
Finance and administration	502,329	-	502,329
Total supporting services	<u>1,914,301</u>	<u>-</u>	<u>1,914,301</u>
Total expenses	<u>11,562,424</u>	<u>-</u>	<u>11,562,424</u>
Change in Net Assets	94,182	(28,219)	65,963
Net Assets, beginning of year	<u>3,691,742</u>	<u>4,599,939</u>	<u>8,291,681</u>
Net Assets, end of year	<u><u>\$ 3,785,924</u></u>	<u><u>\$ 4,571,720</u></u>	<u><u>\$ 8,357,644</u></u>

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 return	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.

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Statement of Functional Expenses For the Year Ended September 30, 2020

	Program Services			Supporting Services			Total Expenses
	Programs	Communications	Total Program Services	Development	Finance and Administration	Total Supporting Services	
Salaries and benefits	\$ 2,392,829	\$ 466,866	\$ 2,859,695	\$ 532,191	\$ 716,293	\$ 1,248,484	\$ 4,108,179
Grants	3,055,688	-	3,055,688	-	-	-	3,055,688
Consulting	1,728,671	326,286	2,054,957	474,642	647,648	1,122,290	3,177,247
Travel and events	262,714	14,454	277,168	101,711	31,414	133,125	410,293
Advertising	5,046	105,418	110,464	584	4,796	5,380	115,844
Memberships and subscriptions	47,799	4,936	52,735	6,286	4,057	10,343	63,078
Supplies and materials	5,019	1,146	6,165	11,638	35,527	47,165	53,330
Mailing and production	4,709	43,041	47,750	11,351	3,186	14,537	62,287
Depreciation and amortization	-	-	-	-	64,297	64,297	64,297
Occupancy	2,628	-	2,628	5	203,810	203,815	206,443
Other	12,663	1,438	14,101	25,745	205,892	231,637	245,738
Total direct expenses	7,517,766	963,585	8,481,351	1,164,153	1,916,920	3,081,073	11,562,424
Indirect cost allocation	988,594	178,178	1,166,772	247,819	(1,414,591)	(1,166,772)	-
Total Expenses	\$ 8,506,360	\$ 1,141,763	\$ 9,648,123	\$ 1,411,972	\$ 502,329	\$ 1,914,301	\$ 11,562,424

See accompanying notes.

American Forests

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.

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Statements of Cash Flows For the Years Ended September 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$ 65,963	\$ 2,576,376
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized gain on investments	(307,921)	(82,856)
Depreciation and amortization	64,297	65,216
Change in present value discount	-	(750)
Change in allowance for doubtful accounts	(54,542)	-
Change in operating assets and liabilities:		
(Increase) decrease in:		
Government grants receivable	(207,784)	(133,698)
Contributions receivable	47,490	(597,823)
Prepaid expenses and other	(21,365)	(3,098)
Increase (decrease) in:		
Accounts payable and accrued expenses	413,676	113,071
Grants payable	535,266	307,166
Deferred rent	(62,249)	(55,782)
Net cash provided by operating activities	472,831	2,187,822
Cash Flows from Investing Activities		
Purchases of certificates of deposit	(465,206)	(53,198)
Purchases of investments	(1,705,145)	(118,339)
Proceeds from sales of investments	1,680,987	40,383
Net cash used in investing activities	(489,364)	(131,154)
Cash Flows from Financing Activity		
Proceeds from issuance of loan – Paycheck Protection Program	496,553	-
Net cash provided by financing activity	496,553	-
Net Increase in Cash and Cash Equivalents	480,020	2,056,668
Cash and Cash Equivalents, beginning of year	2,519,645	462,977
Cash and Cash Equivalents, end of year	\$ 2,999,665	\$ 2,519,645

See accompanying notes.

American Forests

Notes to Financial Statements
September 30, 2020 and 2019

1. Nature of Operations

American Forests (AF) has worked longer than any national nonprofit conservation organization in the United States to protect and restore the country's forests. Since its founding in 1875, AF has been the pathfinders for the forest conservation movement. In the early 1900s, for example, AF rallied forest advocates to champion creation of the U.S. Forest Service. In 2018, AF won a decade-long campaign persuading Congress to provide stable funding for preventing and fighting forest fires.

Now, AF is focused on building a movement to reforest America, from cities to large, rural landscapes. AF strives to do so by accomplishing the following, in partnership with a diverse group of partners, by 2030:

- At least 4 billion trees are planted across 16 million acres of North America; climate-smart practices are used to determine what trees to plant, where to plant them and how to manage them.
- In 100 of America's cities, every underserved neighborhood reaches a passing Tree Equity Score—an indicator that the neighborhood has enough trees in the right places so all people benefit from trees.
- At least 100,000 people, particularly those from marginalized communities, have entered jobs in forestry.

These goals are largely driven by the important role of forests in solving two critical issues: climate change and social inequity. AF's approach to reaching its goals is three-pronged. First, in its Innovation Lab, AF incubates new tools and scientific research to help solve complicated puzzles and empower the forestry field. AF also creates place-based partnerships in cities and large, rural landscapes so it can work with others to develop and implement enduring, science-based data and forestry plans and policies (at the local, state, and federal level). And AF builds movements that inspire and empower actions at a large scale.

AF has two main programs. The American ReLeaf program focuses on large, forested landscapes in rural areas of the U.S. The Community ReLeaf program focuses on urban forests. Through these programs, AF has planted more than 60 million trees, mainly across the U.S., but also in 45 other countries. AF also has a program called Champion Trees that catalogues the biggest trees in the U.S. annually. More than 900 trees are listed in the Champion Trees register.

American Forests

Notes to Financial Statements
September 30, 2020 and 2019

1. Nature of Operations (continued)

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

AF raises awareness about the American Forests brand and programmatic work through a variety of communications and marketing tools and tactics, such as the American Forests website, *American Forests* magazine (published three times a year), periodic e-newsletters, social media channels, and earned media.

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.

Change in Accounting Principles

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update provides clarifications and improves the scope and the accounting guidance for contributions received and contributions made, in particular, evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions, and determining whether a contribution is conditional.

American Forests

Notes to Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Change in Accounting Principles (continued)

For the year ended September 30, 2020, AF has adopted ASU 2018-08 for all transactions in which AF serves as a resource recipient, as required by ASU 2018-08, and has also elected to early adopt ASU 2018-08 for transactions in which AF serves as a resource provider. ASU 2018-08 has been applied on a modified prospective basis for all agreements that were either not completed as of or entered into after October 1, 2019. The adoption of ASU 2018-08 had no impact on previously reported net assets.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 requires an entity to recognize revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity is expected to be entitled in exchange for those goods or services. AF early adopted ASU 2014-09 on October 1, 2019, using the modified retrospective approach.

AF applied the five-step revenue model stipulated by Accounting Standards Codification (ASC) 606 to all of its significant revenue streams in order to determine when revenue is earned and recognized. The five-step model requires AF to i.) identify contracts with customers, ii.) identify performance obligations related to those contracts, iii.) determine the transaction price, iv.) allocate that transaction price to each performance obligation, and v.) recognize revenue when or as AF satisfies a performance obligation. The adoption of ASU 2014-09 did not materially impact the timing or amount of revenue recognized by AF in the financial statements.

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
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Certificates of Deposit

At September 30, 2020 and 2019, 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 return in the accompanying statements of activities. These certificates of deposit do not qualify as securities as defined in FASB 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*.

Investments

Investments are recorded at fair value based on quoted market prices. Interest and dividends, realized and unrealized gains, and investment management fees are reported as a component of investment return in the accompanying statements of activities.

Government Grants Receivable

Government 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, the Bureau of Land Management, and other state and local agencies. 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 government grants receivable is recorded at September 30, 2020 and 2019, 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.

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Notes to Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Contributions Receivable (continued)

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 totaled \$20,000 and \$74,542 at September 30, 2020 and 2019, respectively.

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 grant application is awarded to the recipient. The grant is considered unconditional once awarded, and paid to the recipient over the term of the project. Grants payable are all expected to be paid within one year at September 30, 2020 and 2019.

Revenue Recognition

Revenue Accounted for in Accordance with Contribution Accounting

Grants and contributions that are nonreciprocal are recognized as revenue when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. 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 funds 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.

American Forests

Notes to Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue Accounted for in Accordance with Contribution Accounting (continued)

AF receives certain promises to give, collected over multiple accounting periods, and classifies the portion receivable in future accounting periods as restricted revenue. AF discounts the promises to give using an appropriate discount rate over the contribution period.

Contributions of services that meet the criteria for recognition are recognized at fair value at the time of donation. 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, web hosting, and restoration planning services, and totaled \$35,640 and \$36,628 for the years ended September 30, 2020 and 2019, 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 contributions revenue and advertising expenses. The total value of donated advertising services was \$105,758 and \$49,077 for the years ended September 30, 2020 and 2019, respectively.

Revenue Accounted for as Contracts with Customers

Revenue is recognized when AF satisfies a performance obligation by transferring a promised good to, or performing a service for, a customer. The amount of revenue recognized reflects the consideration AF expects to receive in exchange for satisfying distinct performance obligations. If a performance obligation does not meet the criteria to be considered distinct, AF combines it with other performance obligations until a distinct bundle of goods or services exists. Fees or amounts received in advance of satisfying contractual performance obligations are reflected as deferred revenue in the consolidated statements of financial position. Revenue is recognized either over time or at the point in time that contractual obligations are met.

American Forests

Notes to Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

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.

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.

Advertising

Costs associated with advertising are charged to expenses as incurred. Advertising expenses were \$115,844 and \$117,374 for the years ended September 30, 2020 and 2019, respectively.

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 2023.

Subsequent Events

In preparing these financial statements, AF has evaluated events and transactions for potential recognition or disclosure through February 9, 2021, the date the financial statements were available to be issued.

American Forests

Notes to Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Subsequent Events (continued)

The COVID-19 outbreak in the United States and around the world has caused business disruption due to mandatory lockdowns implemented in most states in order to slow down the spread of the virus. AF's management has been monitoring the situation and implementing certain changes in its operations and upcoming events in order to mitigate the impact of this pandemic. While the disruption is currently expected to be temporary, there is considerable uncertainty around its duration, and the full financial impact cannot be reasonably estimated at this time.

3. Liquidity and Availability

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.

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,999,665	\$ 2,519,645
Certificates of deposit – maturities within one year	637,054	-
Investments	3,418,665	3,086,586
Government grants receivable	593,172	385,388
Contributions receivable – current portion due within one year	<u>2,712,571</u>	<u>2,551,465</u>
Total available for general expenditures	<u>\$ 10,361,127</u>	<u>\$ 8,543,084</u>

American Forests

Notes to Financial Statements
September 30, 2020 and 2019

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 revenue and support from one and two organizations during the years ended September 30, 2020 and 2019, respectively, which represented approximately 13% and 21%, respectively, of AF's total revenue and support.

5. Contributions Receivable

Contributions receivable consist of the following at September 30:

	<u>2020</u>	<u>2019</u>
Due in less than one year	\$ 2,712,571	\$ 2,551,465
Due in one to five years	<u>400,000</u>	<u>608,596</u>
Total contributions receivable	3,112,571	3,160,061
Less: present value discount	(10,483)	(10,483)
Less: allowance for doubtful accounts	<u>(20,000)</u>	<u>(74,542)</u>
Contributions receivable, net	<u>\$ 3,082,088</u>	<u>\$ 3,075,036</u>

The discount rate used for contributions receivable due in more than one year was 0.13% and 1.60% at September 30, 2020 and 2019, respectively, which approximates the risk-free rate of U.S. Treasury notes for similar maturities.

American Forests

Notes to Financial Statements
September 30, 2020 and 2019

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.

The following table presents AF's fair value hierarchy for those investments measured on a recurring basis at September 30, 2020:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Corporate bonds	\$ 1,251,115	\$ -	\$ -	\$ 1,251,115
U.S. equities	1,337,188	-	-	1,337,188
International indexes	830,362	-	-	830,362
Total investments	\$ 3,418,665	\$ -	\$ -	\$ 3,418,665

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Notes to Financial Statements
September 30, 2020 and 2019

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	<u>\$ 3,086,586</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,086,586</u>

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

	2020	2019
Interest and dividends	\$ 102,615	\$ 109,158
Realized gain	35,609	4,346
Unrealized gain	272,312	78,510
Investment management fees	(12,877)	(12,420)
Total investment return	<u>\$ 397,659</u>	<u>\$ 179,594</u>

7. Property and Equipment

Property and equipment consists of the following at September 30:

	2020	2019
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	<u>(716,291)</u>	<u>(651,994)</u>
Property and equipment, net	<u>\$ 219,274</u>	<u>\$ 283,571</u>

American Forests

Notes to Financial Statements
September 30, 2020 and 2019

8. Loan Payable – Paycheck Protection Program

AF applied for a loan under the Paycheck Protection Program (PPP) pursuant to Division A, Title 1 of the CARES Act, which was enacted on March 27, 2020. The PPP is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll through the COVID-19 coronavirus, for which AF qualified. After the loans are granted, the Small Business Administration (SBA) will forgive loans if all employee retention criteria are met, and the funds are used for eligible expenses (which primarily consist of payroll costs, costs used to continue group healthcare benefits, rent, and utilities).

The loan was granted to AF on June 5, 2020 in the amount of \$496,553 and management has used the entire loan amount for qualifying expenses in order to apply for full forgiveness. Once the loan is, in part or wholly, forgiven and legal release is received, AF will reduce the liability by the amount forgiven and record a gain on extinguishment in the statements of activities.

If AF is not approved for full forgiveness by the SBA, the loan would bear interest at a fixed rate of 1.00%, which is payable monthly commencing on December 5, 2020 and maturing on May 5, 2022. To date, no principal or interest payments have been made on the loan as full forgiveness is expected by the SBA during 2021. The proceeds from this loan may be repaid by AF at any time prior to maturity with no prepayment penalties should full forgiveness not be granted. At June 30, 2020, AF recorded \$496,553 as a loan payable, which is reflected in the accompanying statements of financial position.

Principal payments on the loan obligation are as follows for the years ending June 30:

2021	\$	274,942
2022		<u>221,611</u>
Total principal payments	\$	<u><u>496,553</u></u>

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Notes to Financial Statements
September 30, 2020 and 2019

9. Net Assets With Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Career Pathways	\$ 1,003,845	\$ -
Cost Share Cities	829,286	-
American ReLeaf	477,472	-
1T.ORG	435,447	-
Policy	330,632	1,172,191
Community ReLeaf	329,561	1,781,753
Lower Rio Grande	291,193	-
Forest Soils	282,058	-
Landscapes	235,271	1,193,134
Other programs	356,955	-
Dollar per Tree	-	452,861
	<u> </u>	<u> </u>
Net assets with donor restrictions	<u>\$ 4,571,720</u>	<u>\$ 4,599,939</u>

10. 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. The expenses that are allocated indirectly include salaries and benefits, which are allocated on the basis of estimates of time and effort. Additionally, other expenses are allocated utilizing an overhead cost allocation methodology based on estimates of staff time and effort spent on the specific function.

11. 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, 2020 and 2019, AF recorded contributions to the plan of \$183,205 and \$115,893, respectively.

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Notes to Financial Statements
September 30, 2020 and 2019

12. Commitments and Contingencies

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.

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.

Occupancy expense totaled \$206,443 and \$245,920 for the years ended September 30, 2020 and 2019, respectively.

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

2021	\$	271,722
2022		278,498
2023		285,442
2024		<u>292,566</u>
Total future minimum lease payments	\$	<u><u>1,128,228</u></u>

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Notes to Financial Statements
September 30, 2020 and 2019

12. Commitments and Contingencies (continued)

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 \$637,054 and \$216,982 as of September 30, 2020 and 2019, respectively, and is included in certificates of deposit 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.

13. 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.