

**American Forests**

Financial Statements  
and Independent Auditors' Report

September 30, 2015 and 2014

**American Forests**

Financial Statements  
September 30, 2015 and 2014

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
American Forests

We have audited the accompanying financial statements of the American Forests (AF), which comprise the statement of financial position as of September 30, 2015; the related statements of activities, functional expenses, and cash flows for the year then ended; and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matter*

The financial statements of AF as of September 30, 2014, were audited by other auditors whose report, dated June 12, 2015, expressed an unmodified opinion on those statements.

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

Vienna, Virginia  
February 5, 2016

## American Forests

### Statements of Financial Position September 30, 2015 and 2014

	2015	2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,212,003	\$ 1,313,774
Grants receivable	276,039	104,258
Contributions receivable, net	1,087,023	635,372
Prepaid expenses and other	61,965	60,847
Total current assets	2,637,030	2,114,251
Investments	3,955,873	4,498,229
Deposits	58,248	58,248
Property and equipment, net	599,262	709,075
Total assets	\$ 7,250,413	\$ 7,379,803
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 362,477	\$ 255,851
Grants payable	746,452	676,849
Deferred revenue	-	21,500
Deferred rent	565,059	573,724
Total current liabilities	1,673,988	1,527,924
Total liabilities	1,673,988	1,527,924
<b>Net Assets</b>		
Unrestricted	3,642,543	3,862,666
Temporarily restricted	1,903,215	1,958,546
Permanently restricted	30,667	30,667
Total net assets	5,576,425	5,851,879
Total liabilities and net assets	\$ 7,250,413	\$ 7,379,803

*See accompanying notes.*

## American Forests

### Statement of Activities For the Year Ended September 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>				
Contributions	\$ 1,213,865	\$ 2,374,075	\$ -	\$ 3,587,940
Grants and contracts	372,920	450,000	-	822,920
Sales	123,160	-	-	123,160
Membership dues	17,775	-	-	17,775
Miscellaneous income	13,671	-	-	13,671
Investment loss	(30,683)	(32,106)	-	(62,789)
Released from restrictions	2,847,300	(2,847,300)	-	-
<b>Total revenue and support</b>	<u>4,558,008</u>	<u>(55,331)</u>	<u>-</u>	<u>4,502,677</u>
<b>Expenses</b>				
Program services:				
Programs	2,900,115	-	-	2,900,115
Communications	589,026	-	-	589,026
<b>Total program services:</b>	<u>3,489,141</u>	<u>-</u>	<u>-</u>	<u>3,489,141</u>
Supporting services:				
Development	1,120,472	-	-	1,120,472
Finance and administration	168,518	-	-	168,518
<b>Total supporting services</b>	<u>1,288,990</u>	<u>-</u>	<u>-</u>	<u>1,288,990</u>
<b>Total expenses</b>	<u>4,778,131</u>	<u>-</u>	<u>-</u>	<u>4,778,131</u>
<b>Change in Net Assets</b>	(220,123)	(55,331)	-	(275,454)
<b>Net Assets, beginning of year</b>	<u>3,862,666</u>	<u>1,958,546</u>	<u>30,667</u>	<u>5,851,879</u>
<b>Net Assets, end of year</b>	<u>\$ 3,642,543</u>	<u>\$ 1,903,215</u>	<u>\$ 30,667</u>	<u>\$ 5,576,425</u>

See accompanying notes.

## American Forests

### Statement of Activities For the Year Ended September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>				
Contributions	\$ 926,311	\$ 2,175,960	\$ -	\$ 3,102,271
Grants and contracts	279,752	476,030	-	755,782
Sales	56,802	-	-	56,802
Membership dues	9,400	-	-	9,400
Miscellaneous income	56,642	-	-	56,642
Investment income	301,843	5,940	-	307,783
Released from restrictions	2,474,690	(2,474,690)	-	-
<b>Total revenue and support</b>	<b>4,105,440</b>	<b>183,240</b>	<b>-</b>	<b>4,288,680</b>
<b>Expenses</b>				
Program services:				
Programs	2,313,267	-	-	2,313,267
Communications	496,064	-	-	496,064
<b>Total program services:</b>	<b>2,809,331</b>	<b>-</b>	<b>-</b>	<b>2,809,331</b>
Supporting services:				
Development	963,784	-	-	963,784
Finance and administration	795,492	-	-	795,492
<b>Total supporting services</b>	<b>1,759,276</b>	<b>-</b>	<b>-</b>	<b>1,759,276</b>
<b>Total expenses</b>	<b>4,568,607</b>	<b>-</b>	<b>-</b>	<b>4,568,607</b>
<b>Change in Net Assets</b>	<b>(463,167)</b>	<b>183,240</b>	<b>-</b>	<b>(279,927)</b>
<b>Net Assets, beginning of year</b>	<b>4,325,833</b>	<b>1,775,306</b>	<b>30,667</b>	<b>6,131,806</b>
<b>Net Assets, end of year</b>	<b>\$ 3,862,666</b>	<b>\$ 1,958,546</b>	<b>\$ 30,667</b>	<b>\$ 5,851,879</b>

See accompanying notes.

**American Forests**

Statement of Functional Expenses  
For the Year Ended September 30, 2015

	Program Services			Supporting Services			Total Expenses
	Programs	Communications	Total Program Services	Development	Finance and Administration	Total Supporting Services	
Salaries and benefits	\$ 570,918	\$ 300,068	\$ 870,986	\$ 535,095	\$ 388,615	\$ 923,710	\$ 1,794,696
Grants	1,240,352	-	1,240,352	-	-	-	1,240,352
Consulting	303,300	38,090	341,390	173,642	303,141	476,783	818,173
Advertising	21,139	69,056	90,195	-	-	-	90,195
Travel, meals, and catering	127,332	6,885	134,217	12,730	17,825	30,555	164,772
Memberships and subscriptions	7,506	14,598	22,104	150	1,567	1,717	23,821
Postage	21,301	30,243	51,544	134,093	2,909	137,002	188,546
Supplies	23,838	70	23,908	2,760	22,638	25,398	49,306
Depreciation and amortization	-	-	-	-	117,945	117,945	117,945
Rent	-	-	-	-	212,873	212,873	212,873
Other	3,076	1,166	4,242	16,851	56,359	73,210	77,452
<b>Total direct expenses</b>	<b>2,318,762</b>	<b>460,176</b>	<b>2,778,938</b>	<b>875,321</b>	<b>1,123,872</b>	<b>1,999,193</b>	<b>4,778,131</b>
<b>Indirect cost allocation</b>	<b>581,353</b>	<b>128,850</b>	<b>710,203</b>	<b>245,151</b>	<b>(955,354)</b>	<b>(710,203)</b>	<b>-</b>
<b>Total Expenses</b>	<b>\$ 2,900,115</b>	<b>\$ 589,026</b>	<b>\$ 3,489,141</b>	<b>\$ 1,120,472</b>	<b>\$ 168,518</b>	<b>\$ 1,288,990</b>	<b>\$ 4,778,131</b>

See accompanying notes.



**American Forests**

Statement of Functional Expenses  
For the Year Ended September 30, 2014

	Program Services			Supporting Services			Total Expenses
	Programs	Communications	Total Program Services	Development	Finance and Administration	Total Supporting Services	
Salaries and benefits	\$ 508,242	\$ 235,858	\$ 744,100	\$ 548,616	\$ 418,902	\$ 967,518	\$ 1,711,618
Grants	1,145,232	-	1,145,232	-	-	-	1,145,232
Consulting	359,235	19,633	378,868	113,757	283,495	397,252	776,120
Advertising	9,346	73,035	82,381	545	-	545	82,926
Travel, meals, and catering	62,612	2,842	65,454	56,600	15,003	71,603	137,057
Meeting registrations	3,675	1,024	4,699	-	688	688	5,387
Memberships and subscriptions	3,995	24,570	28,565	591	3,461	4,052	32,617
Postage	8,006	1,942	9,948	41,274	4,458	45,732	55,680
Printing and copying	18,558	29,383	47,941	53,992	12	54,004	101,945
List rental	-	-	-	8,936	-	8,936	8,936
Supplies	24,894	275	25,169	2,197	32,252	34,449	59,618
Depreciation and amortization	-	-	-	-	113,220	113,220	113,220
Insurance	1,290	-	1,290	1,513	10,922	12,435	13,725
Telephone and internet	2,531	1,106	3,637	1,355	19,910	21,265	24,902
Rent	-	-	-	-	245,821	245,821	245,821
Other	8,437	391	8,828	25,709	19,266	44,975	53,803
<b>Total direct expenses</b>	<b>2,156,053</b>	<b>390,059</b>	<b>2,546,112</b>	<b>855,085</b>	<b>1,167,410</b>	<b>2,022,495</b>	<b>4,568,607</b>
Indirect cost allocation	157,214	106,005	263,219	108,699	(371,918)	(263,219)	-
<b>Total Expenses</b>	<b>\$ 2,313,267</b>	<b>\$ 496,064</b>	<b>\$ 2,809,331</b>	<b>\$ 963,784</b>	<b>\$ 795,492</b>	<b>\$ 1,759,276</b>	<b>\$ 4,568,607</b>

See accompanying notes.

## American Forests

### Statements of Cash Flows For the Years Ended September 30, 2015 and 2014

	2015	2014
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (275,454)	\$ (279,927)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized loss (gain) on investments	215,092	(175,633)
Depreciation and amortization	117,945	113,220
Loss on disposal of property and equipment	-	15,632
Change in present value discount	172	(374)
Change in allowance for doubtful accounts	(7,097)	(37,284)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Grants receivable	(171,781)	(9,491)
Contributions receivable	(444,726)	14,035
Prepaid expenses and other	(1,118)	26,950
Deposits	-	12,503
Increase (decrease) in:		
Accounts payable and accrued expenses	106,626	(132,021)
Grants payable	69,603	234,664
Deferred revenue	(21,500)	16,200
Deferred rent	(8,665)	174,755
Net cash used in operating activities	(420,903)	(26,771)
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(8,132)	(216,667)
Purchases of investments	(203,687)	(904,625)
Proceeds from sales of investments	530,951	1,237,944
Net cash provided by investing activities	319,132	116,652
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(101,771)	89,881
<b>Cash and Cash Equivalents, beginning of year</b>	1,313,774	1,223,893
<b>Cash and Cash Equivalents, end of year</b>	\$ 1,212,003	\$ 1,313,774

See accompanying notes.

# American Forests

Notes to Financial Statements  
September 30, 2015 and 2014

## 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, 2015 and 2014

### 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.
- *Permanently restricted net assets* represent funds in which the principal must be held in perpetuity, while the earnings may be available for general operations or restricted purposes imposed by the donors. Permanently restricted net assets are \$30,667 at both September 30, 2015 and 2014 and represent funds from one donor. Due to the small amount, additional endowment disclosures are not presented in AF's footnotes.

#### 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, 2015 and 2014

### 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, 2015 and 2014 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 \$4,159 and \$11,256 at September 30, 2015 and 2014, 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 (loss) 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, 2015 and 2014

### 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.

#### Subsequent Events

In preparing these financial statements, AF has evaluated events and transactions for potential recognition or disclosure through February 5, 2016, the date the financial statements were available to be issued.

### 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 Depository 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.

## American Forests

Notes to Financial Statements  
September 30, 2015 and 2014

### 4. Contributions Receivable

Contributions receivable consist of the following at September 30:

	<u>2015</u>	<u>2014</u>
Due in less than one year	\$ 1,071,856	\$ 560,724
Due in one to five years	<u>19,722</u>	<u>86,128</u>
Total contributions receivable	1,091,578	646,852
Less: adjustment to net present value	(396)	(224)
Less: allowance for uncollectible pledges	<u>(4,159)</u>	<u>(11,256)</u>
Total contributions receivable, net	<u>\$ 1,087,023</u>	<u>\$ 635,372</u>

The discount rate used for contributions receivable due in more than one year was .13% at both September 30, 2015 and 2014.

### 5. Investments and Fair Value Measurements

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

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs.

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

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

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Notes to Financial Statements  
September 30, 2015 and 2014

### 5. 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, 2015:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Corporate bonds	\$ 1,665,169	\$ -	\$ -	\$ 1,665,169
U.S. equities	1,392,069	-	-	1,392,069
International equities	519,388	-	-	519,388
Corporate bonds	368,187	-	-	368,187
U.S. equities	11,060	-	-	11,060
<b>Total investments</b>	<b>\$ 3,955,873</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,955,873</b>

The following table presents AF's fair value hierarchy for those investments measured on a recurring basis at September 30, 2014:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Corporate bonds	\$ 1,893,466	\$ -	\$ -	\$ 1,893,466
U.S. equities	1,582,924	-	-	1,582,924
International equities	590,597	-	-	590,597
Corporate bonds	418,666	-	-	418,666
U.S. equities	12,576	-	-	12,576
<b>Total investments</b>	<b>\$ 4,498,229</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,498,229</b>

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

	2015	2014
Interest and dividends	\$ 164,756	\$ 145,836
Realized (loss) gain	(6,646)	16,489
Unrealized (loss) gain	(208,446)	159,144
Investment management fees	(12,453)	(13,686)
<b>Total investment (loss) income</b>	<b>\$ (62,789)</b>	<b>\$ 307,783</b>



## American Forests

Notes to Financial Statements  
September 30, 2015 and 2014

### 6. Property and Equipment

Property and equipment consists of the following at September 30:

	2015	2014
Furniture, fixtures, and equipment	\$ 342,288	\$ 433,653
Software	104,254	6,711
Leasehold improvements	481,364	481,364
Total property and equipment	927,906	921,728
Less: accumulated depreciation and amortization	(328,644)	(212,653)
Property and equipment, net	\$ 599,262	\$ 709,075

### 7. Temporarily Restricted Net Assets

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

	2015	2014
Purpose restricted:		
Cuyamaca	\$ 716,803	\$ 1,015,012
Community ReLeaf	657,192	599,056
Global ReLeaf	445,683	163,564
Critical ecosystems	62,893	75,406
Urban Forest Railroad	20,644	20,732
Alcoa	-	84,776
Temporarily restricted net assets	\$ 1,903,215	\$ 1,958,546

### 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, 2015 and 2014, AF recorded contributions to the plan of \$73,922 and \$85,831, respectively.

## American Forests

Notes to Financial Statements  
September 30, 2015 and 2014

### 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.

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 \$212,873 and \$245,821 for the years ended September 30, 2015 and 2014, respectively.

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

2016	\$	240,139
2017		246,140
2018		252,309
2019		258,608
2020		265,076
Thereafter		<u>1,128,229</u>
Total future minimum lease payments	\$	<u>2,390,501</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 expired on December 31, 2013, was submitted to the USDA in July 2010 and is collateralized by a certificate of deposit. The required letter of credit was \$216,116 and \$215,900 as of September 30, 2015 and 2014, respectively, and is included in cash and cash equivalents in the accompanying statements of financial position.

## American Forests

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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 \$43,525 and \$10,000 for the years ended September 30, 2015 and 2014, 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 \$80,848 and \$82,270 for the years ended September 30, 2015 and 2014, respectively.

### 11. Related-Party Transactions

AF enters into cooperative agreements with other organizations in carrying out its mission. As of September 30, 2015, AF has one such agreement with an organization that is represented by a member of AF's Board of Directors. The total amount paid under this agreement was \$71,000 and \$93,061 for the years ended September 30, 2015 and 2014, respectively. AF complied with its normal procurement and monitoring procedures in entering and evaluating the consultants' performance under this agreement.

### 12. Income Taxes

AF is recognized as a tax-exempt organization under Internal Revenue Code (IRC) Section 501(c)(3) and is exempt from income taxes except for taxes on unrelated business activities. No tax expense is recorded in the accompanying financial statements, as there was no significant net unrelated business taxable income. Contributions to AF are deductible as provided in IRC Section 170(b)(1)(A)(vi).

Management evaluated AF's tax positions and concluded that the financial statements do not include any uncertain tax positions.