

**American Forests**

Financial Statements  
and Independent Auditors' Report

September 30, 2021 and 2020

# American Forests

Financial Statements  
September 30, 2021 and 2020

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
American Forests

We have audited the accompanying financial statements of American Forests (AF), which comprise the statements of financial position as of September 30, 2021 and 2020; 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*

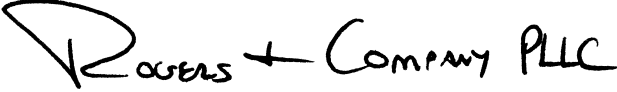
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2021 and 2020, 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, and the rest of the text is in a cursive-like script.

Vienna, Virginia  
February 17, 2022

## American Forests

### Statements of Financial Position September 30, 2021 and 2020

	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 3,784,018	\$ 2,999,665
Certificates of deposit	1,446,751	1,392,659
Investments	3,985,453	3,418,665
Government grants receivable	508,289	593,172
Contributions receivable, net	5,285,638	3,082,088
Prepaid expenses and other	271,996	71,442
Deposits	57,375	57,375
Property and equipment, net	160,123	219,274
Total assets	\$ 15,499,643	\$ 11,834,340
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,240,477	\$ 806,567
Grants payable	2,245,460	1,856,655
Loan payable – Paycheck Protection Program	-	496,553
Deferred rent	248,026	316,921
Total liabilities	3,733,963	3,476,696
<b>Net Assets</b>		
Without donor restrictions	3,778,588	3,785,924
With donor restrictions	7,987,092	4,571,720
Total net assets	11,765,680	8,357,644
Total liabilities and net assets	\$ 15,499,643	\$ 11,834,340

*See accompanying notes.*

## American Forests

### Statement of Activities For the Year Ended September 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support</b>			
Contributions	\$ 1,930,089	\$ 8,368,604	\$ 10,298,693
Grants and contracts	1,048,578	4,086,177	5,134,755
Investment return	611,106	-	611,106
Miscellaneous income	505,317	-	505,317
Released from restrictions	9,039,409	(9,039,409)	-
Total revenue and support	<u>13,134,499</u>	<u>3,415,372</u>	<u>16,549,871</u>
<b>Expenses</b>			
Program services:			
Programs	9,037,115	-	9,037,115
Communications	1,739,944	-	1,739,944
Total program services	<u>10,777,059</u>	<u>-</u>	<u>10,777,059</u>
Supporting services:			
Development	1,654,728	-	1,654,728
Finance and administration	710,048	-	710,048
Total supporting services	<u>2,364,776</u>	<u>-</u>	<u>2,364,776</u>
Total expenses	<u>13,141,835</u>	<u>-</u>	<u>13,141,835</u>
<b>Change in Net Assets</b>	(7,336)	3,415,372	3,408,036
<b>Net Assets, beginning of year</b>	<u>3,785,924</u>	<u>4,571,720</u>	<u>8,357,644</u>
<b>Net Assets, end of year</b>	<u><u>\$ 3,778,588</u></u>	<u><u>\$ 7,987,092</u></u>	<u><u>\$ 11,765,680</u></u>

See accompanying notes.

## American Forests

### Statement of Activities For the Year Ended September 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support</b>			
Contributions	\$ 1,354,932	\$ 6,541,932	\$ 7,896,864
Grants and contracts	717,812	2,586,858	3,304,670
Investment return	397,659	-	397,659
Miscellaneous income	29,194	-	29,194
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>
<b>Expenses</b>			
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>
<b>Change in Net Assets</b>	94,182	(28,219)	65,963
<b>Net Assets, beginning of year</b>	<u>3,691,742</u>	<u>4,599,939</u>	<u>8,291,681</u>
<b>Net Assets, end of year</b>	<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 Functional Expenses For the Year Ended September 30, 2021

	Program Services			Supporting Services			Total Expenses
	Programs	Communications	Total Program Services	Development	Finance and Administration	Total Supporting Services	
Salaries and benefits	\$ 3,502,373	\$ 636,235	\$ 4,138,608	\$ 578,645	\$ 895,565	\$ 1,474,210	\$ 5,612,818
Grants	2,764,875	-	2,764,875	-	-	-	2,764,875
Consulting	1,507,459	588,162	2,095,621	806,657	706,231	1,512,888	3,608,509
Travel and events	37,686	5,878	43,564	71,596	17,714	89,310	132,874
Advertising	7,777	165,892	173,669	-	10,379	10,379	184,048
Memberships and subscriptions	150,049	30,914	180,963	8,656	53,055	61,711	242,674
Supplies and materials	14,501	74	14,575	164	68,166	68,330	82,905
Mailing and production	566	70,709	71,275	9,047	4,930	13,977	85,252
Depreciation and amortization	-	-	-	-	59,151	59,151	59,151
Occupancy	2,409	-	2,409	-	215,605	215,605	218,014
Other	10,486	2,239	12,725	31,836	106,154	137,990	150,715
<b>Total direct expenses</b>	<b>7,998,181</b>	<b>1,500,103</b>	<b>9,498,284</b>	<b>1,506,601</b>	<b>2,136,950</b>	<b>3,643,551</b>	<b>13,141,835</b>
Indirect cost allocation	1,038,934	239,841	1,278,775	148,127	(1,426,902)	(1,278,775)	-
<b>Total Expenses</b>	<b>\$ 9,037,115</b>	<b>\$ 1,739,944</b>	<b>\$ 10,777,059</b>	<b>\$ 1,654,728</b>	<b>\$ 710,048</b>	<b>\$ 2,364,776</b>	<b>\$ 13,141,835</b>

See accompanying notes.



## American Forests

### 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
<b>Total direct expenses</b>	<b>7,517,766</b>	<b>963,585</b>	<b>8,481,351</b>	<b>1,164,153</b>	<b>1,916,920</b>	<b>3,081,073</b>	<b>11,562,424</b>
Indirect cost allocation	988,594	178,178	1,166,772	247,819	(1,414,591)	(1,166,772)	-
<b>Total Expenses</b>	<b>\$ 8,506,360</b>	<b>\$ 1,141,763</b>	<b>\$ 9,648,123</b>	<b>\$ 1,411,972</b>	<b>\$ 502,329</b>	<b>\$ 1,914,301</b>	<b>\$ 11,562,424</b>

See accompanying notes.

## American Forests

### Statements of Cash Flows For the Years Ended September 30, 2021 and 2020

	2021	2020
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 3,408,036	\$ 65,963
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized gain on investments	(565,004)	(307,921)
Depreciation and amortization	59,151	64,297
Gain from forgiveness of loan payable – Paycheck Protection Program	(496,553)	-
Change in present value discount on contributions receivable	31,164	-
Change in allowance for doubtful contributions receivable	47	(54,542)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Government grants receivable	84,883	(207,784)
Contributions receivable	(2,234,761)	47,490
Prepaid expenses and other	(200,554)	(21,365)
Increase (decrease) in:		
Accounts payable and accrued expenses	433,910	413,676
Grants payable	388,805	535,266
Deferred rent	(68,895)	(62,249)
Net cash provided by operating activities	840,229	472,831
<b>Cash Flows from Investing Activities</b>		
Purchases of certificates of deposit	(54,092)	(465,206)
Purchases of investments	(1,006,654)	(1,705,145)
Proceeds from sales of investments	1,004,870	1,680,987
Net cash used in investing activities	(55,876)	(489,364)
<b>Cash Flows from Financing Activity</b>		
Proceeds from issuance of loan – Paycheck Protection Program	-	496,553
Net cash provided by financing activity	-	496,553
<b>Net Increase in Cash and Cash Equivalents</b>	784,353	480,020
<b>Cash and Cash Equivalents, beginning of year</b>	2,999,665	2,519,645
<b>Cash and Cash Equivalents, end of year</b>	\$ 3,784,018	\$ 2,999,665

See accompanying notes.

## American Forests

Notes to Financial Statements  
September 30, 2021 and 2020

### 1. Nature of Operations

American Forests (AF) is the oldest national nonprofit conservation organization in the United States. Since its founding in 1875, AF has been the pathfinders for creating healthy forests from coast to coast. Now AF is largely driven by the important role of forests in solving two critical issues: climate change and social inequities that people in socioeconomically disadvantaged communities face. AF is also driven by the need to protect America's water and wildlife.

AF works with a diverse group of entities, such as forestry practitioners, government agencies, foundations, corporations and community advocates, to achieve several goals by 2030. These goals include ensuring that cities have enough trees so that under-resourced neighborhoods have tree equity, helping reforest millions of acres of public land, and more people join the forestry workforce, particularly those from marginalized communities.

AF's approach to reaching its goals is three-pronged: AF incubates new tools and scientific research to help solve complicated puzzles and empower the forestry field; AF creates place-based partnerships in cities and large natural landscapes; and AF builds movements that inspire and empower actions at a large scale.

AF's revenue consists primarily of contributions, grants, and contracts with various government entities. 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.

## American Forests

Notes to Financial Statements  
September 30, 2021 and 2020

### 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 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.

#### 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 90 days or less at the time of purchase.

#### Certificates of Deposit

At September 30, 2021 and 2020, 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC 320), *Investments – Debt and Equity Securities*. Therefore, these investments are not included in the fair value disclosures required by FASB ASC 820, *Fair Value Measurements and Disclosures*.

#### 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.

## American Forests

Notes to Financial Statements  
September 30, 2021 and 2020

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

#### 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, 2021 and 2020, 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 contributions by identifying troubled donors and by using historical experience applied to an aging of contributions. AF's allowance for doubtful contributions totaled \$20,047 and \$20,000 at September 30, 2021 and 2020, 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.

## American Forests

Notes to Financial Statements  
September 30, 2021 and 2020

### 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 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 that are expected to be paid within one year are recorded at their net realizable amount. Grants that are expected to be paid in future years are recorded at the present value of their estimated future cash flows. Grants payable expected to be paid in more than one year at September 30, 2021 are not discounted to present value due to immateriality. Grants payable are all expected to be paid within one year at September 30, 2020.

#### 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.

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.

## American Forests

Notes to Financial Statements  
September 30, 2021 and 2020

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

#### Revenue Recognition (continued)

##### *Revenue Accounted for in Accordance with Contribution Accounting (continued)*

*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, membership, and restoration planning services, and totaled \$144,852 and \$35,640 for the years ended September 30, 2021 and 2020, 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 \$146,201 and \$105,758 for the years ended September 30, 2021 and 2020, 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 statements of financial position. Revenue is recognized either over time or at the point in time that contractual obligations are met.

#### 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.

## American Forests

Notes to Financial Statements  
September 30, 2021 and 2020

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

#### 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

Costs associated with advertising are charged to expenses as incurred. Advertising expenses were \$184,048 and \$115,844 for the years ended September 30, 2021 and 2020, respectively.

#### Recently Issued Accounting Pronouncements

In February 2016, the 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 2023.

In July 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which is intended to increase transparency of contributed nonfinancial assets for nonprofit entities through enhancements in presentation and disclosure requirements. Nonprofit entities will be required to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash and other financial contributions. Nonprofit entities will also be required to disclose various information related to contributed nonfinancial assets. ASU 2020-07 is effective beginning in AF's fiscal year 2022, and management is currently in the process of evaluating the impact of the new accounting guidance on its financial statements.

#### Subsequent Events

In preparing these financial statements, AF has evaluated events and transactions for potential recognition or disclosure through February 17, 2022, the date the financial statements were available to be issued.



## American Forests

Notes to Financial Statements  
September 30, 2021 and 2020

### 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:

	2021	2020
Cash and cash equivalents	\$ 3,784,018	\$ 2,999,665
Certificates of deposit – maturities within one year	643,401	637,054
Investments	3,985,453	3,418,665
Government grants receivable	508,289	593,172
Contributions receivable – current portion due within one year	4,369,832	2,712,571
Total available for general expenditures	\$ 13,290,993	\$ 10,361,127

### 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.

## American Forests

Notes to Financial Statements  
September 30, 2021 and 2020

### 4. Concentrations of Risk (continued)

#### Revenue Risk

AF received a substantial portion of its revenue and support from one source during each year ended September 30, 2021 and 2020, which represented approximately 10% and 13%, respectively, of AF's total revenue and support.

### 5. Contributions Receivable

Contributions receivable consist of the following at September 30:

	<u>2021</u>	<u>2020</u>
Due in less than one year	\$ 4,369,832	\$ 2,712,571
Due in one to three years	<u>977,500</u>	<u>400,000</u>
Total contributions receivable	5,347,332	3,112,571
Less: present value discount	(41,647)	(10,483)
Less: allowance for doubtful contributions	<u>(20,047)</u>	<u>(20,000)</u>
Contributions receivable, net	<u>\$ 5,285,638</u>	<u>\$ 3,082,088</u>

The discount rate used for contributions receivable due in more than one year was 1.99% and 0.13% at September 30, 2021 and 2020, respectively, which approximates the risk-free rate of U.S. Treasury notes for similar maturities.

### 6. Investments and Fair Value Measurements

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

## American Forests

Notes to Financial Statements  
September 30, 2021 and 2020

### 6. Investments and Fair Value Measurements (continued)

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

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

The following table presents AF's fair value hierarchy for those investments measured on a recurring basis at September 30, 2021:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Corporate bonds	\$ 1,655,990	\$ -	\$ -	\$ 1,655,990
U.S. equities	1,428,419	-	-	1,428,419
International indexes	901,044	-	-	901,044
Total investments	\$ 3,985,453	\$ -	\$ -	\$ 3,985,453

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

## American Forests

Notes to Financial Statements  
September 30, 2021 and 2020

### 6. Investments and Fair Value Measurements (continued)

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

	2021	2020
Interest and dividends	\$ 63,753	\$ 102,615
Realized gain	304,392	35,609
Unrealized gain	260,612	272,312
Investment management fees	(17,651)	(12,877)
Total investment return	\$ 611,106	\$ 397,659

### 7. Property and Equipment

Property and equipment consists of the following at September 30:

	2021	2020
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	(775,442)	(716,291)
Property and equipment, net	\$ 160,123	\$ 219,274

### 8. Grants Payable

Grants payable consists of the following at September 30:

	2021	2020
Payable in less than one year	\$ 2,231,694	\$ 1,856,655
Payable in one to two years	13,766	-
Total grants payable	\$ 2,245,460	\$ 1,856,655

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### 9. 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 initial loan was granted to AF on June 5, 2020 in the amount of \$496,553, with terms including a fixed interest rate and maturity date of May 5, 2022. At September 30, 2020, AF recorded \$496,553 as a loan payable in the accompanying statement of financial position. On August 4, 2021, the SBA approved full forgiveness of the loan, and remitted the forgiveness amount to the financial institution, including applicable interest accruals. AF recorded the amount of forgiveness as miscellaneous income in the accompanying statement of activities.

### 10. Net Assets With Donor Restrictions

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

	2021	2020
Community ReLeaf	\$ 1,577,683	\$ 329,561
American ReLeaf	1,514,508	477,472
Career Pathways	949,987	1,003,845
Landscapes and Other Landscapes	1,169,955	526,464
Work in Specific Cities	1,416,743	829,286
Other programs	676,085	356,955
CIS and Mapping	298,787	-
Forest Soils	150,093	282,058
1T.ORG	137,875	435,447
Policy	95,376	330,632
	<u>7,987,092</u>	<u>4,571,720</u>
Net assets with donor restrictions	<u>\$ 7,987,092</u>	<u>\$ 4,571,720</u>

## American Forests

Notes to Financial Statements  
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### 11. 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.

### 12. 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, 2021 and 2020, AF recorded contributions to the plan of \$288,750 and \$183,205, respectively.

### 13. 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.

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### 13. Commitments and Contingencies (continued)

#### Operating Lease (continued)

Occupancy expense totaled \$218,014 and \$206,443 for the years ended September 30, 2021 and 2020, respectively.

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

2022	\$	278,498
2023		285,442
2024		<u>292,566</u>
Total future minimum lease payments	\$	<u><u>856,506</u></u>

#### Letter of Credit

AF provides funding to USDA to be used under its American 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 \$643,401 and \$637,054 as of September 30, 2021 and 2020, 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.

### 14. Supplementary Disclosure of Cash Flow Information

Total interest expenses were \$1,498 and \$0 for the years ended September 30, 2021 and 2020, respectively.

Noncash financing transactions for the year ended September 30, 2021 included forgiveness of the PPP loan described in Note 9 in the amount of \$496,553. There were no noncash financing transactions for the year ended September 30, 2020.

## American Forests

Notes to Financial Statements  
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### **15. 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.

### **16. COVID-19 Pandemic**

AF was impacted by COVID-19 disruptions and restrictions throughout the fiscal year. The emergence of variants and resulting outbreaks required the organization to adjust many aspects of its work. Some planned activities, such as convening leaders in the forestry field or in-person partner planting events, often were not possible. In some cases, grant activities were carried out virtually rather than in person as originally planned. In addition, AF's staff members largely continued to collaborate with each other and have team meetings through virtual platforms instead of face-to-face in the office or the field.