



American Forests
Financial Statements
Year Ended December 31, 2010

American Forests

Financial Statements
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American Forests

Contents

Independent Auditors' Report	3
Financial Statements	
Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9-18



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Independent Auditors' Report

The Board of Directors
American Forests
Washington, DC

We have audited the accompanying statement of financial position of American Forests as of December 31, 2010 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of American Forests' management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of American Forests' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Forests at December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

July 19, 2011

Financial Statements

American Forests
Statement of Financial Position

December 31, 2010

Assets

Cash and cash equivalents	\$	3,767,436
Investments		4,433,414
Grants receivable		465,085
Contributions receivable, net		1,597,450
Prepaid expenses		31,750
Deposits		13,376
Property and equipment, net		102,909

Total Assets **\$ 10,411,420**

Liabilities and Net Assets

Liabilities

Accounts payable	\$	53,624
Grants payable		1,323,355
Accrued expenses		126,701
Deferred revenue		43,312
Deferred rent		153,374

Total Liabilities **1,700,366**

Net Assets

Unrestricted		5,064,121
Temporarily restricted		3,616,933
Permanently restricted		30,000

Total Net Assets **8,711,054**

Total Liabilities and Net Assets **\$ 10,411,420**

See accompanying notes to financial statements.

American Forests

Statement of Activities

<i>Year Ended December 31, 2010</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Membership dues	\$ -	\$ 73,980	\$ -	\$ 73,980
Contributions	244,872	5,021,438	30,000	5,296,310
Grants and contracts	152,469	793,281	-	945,750
Net realized and unrealized gain on investments	90,146	-	-	90,146
Investment income	58,620	-	-	58,620
Sales	95,788	-	-	95,788
Miscellaneous income	130,826	-	-	130,826
Net assets released from restrictions	5,246,466	(5,246,466)	-	-
Total Revenue	6,019,187	642,233	30,000	6,691,420
Expenses				
Forest Policy Center	504,659	-	-	504,659
Urban Forest Center	514,036	-	-	514,036
Global ReLeaf	2,537,514	-	-	2,537,514
Communications	410,864	-	-	410,864
Membership	272,253	-	-	272,253
Fundraising	191,753	-	-	191,753
Finance and administration	943,179	-	-	943,179
Total Expenses	5,374,258	-	-	5,374,258
Change in Net Assets	644,929	642,233	30,000	1,317,162
Net Assets, beginning of year (as restated)	4,419,192	2,974,700	-	7,393,892
Net Assets, end of year	\$ 5,064,121	\$ 3,616,933	\$ 30,000	\$ 8,711,054

See accompanying notes to financial statements.

American Forests

Statement of Functional Expenses

<i>Year Ended December 31, 2010</i>	Forest Policy Center	Urban Forest Center	Global ReLeaf	Commun- ications	Total Program Services	Membership	Fundraising	Finance and Administration	Total Support Services	Total Expenses
Salaries	\$ 95,609	\$ 337,827	\$ 249,216	\$ 146,883	\$ 829,535	\$ 124,722	\$ 116,294	\$ 449,048	\$ 690,064	\$ 1,519,599
Personnel Costs	14,934	33,448	31,617	17,009	97,008	13,886	12,268	65,221	91,375	188,383
Travel	39,469	7,378	31,456	8,906	87,209	64	-	32,577	32,641	119,850
Consultants	108,129	65,930	223,482	121,445	518,986	88,839	1,651	302,164	392,654	911,640
Postage	-	495	13,324	11,963	25,782	17,807	-	5,395	23,202	48,984
Grants	217,826	-	1,892,390	-	2,110,216	-	-	-	-	2,110,216
Supplies	2,694	5,638	20,605	3,914	32,851	489	4,149	7,759	12,397	45,248
Printing	-	2,106	10,823	65,086	78,015	22,237	-	2,032	24,269	102,284
Telephone	2,287	5,548	6,209	2,955	16,999	-	4,653	7,457	12,110	29,109
Equipment Rental	967	2,270	2,381	1,334	6,952	-	2,100	2,992	5,092	12,044
Taxes and Insurance	1,579	3,708	3,889	2,178	11,354	-	4,674	3,430	8,104	19,458
Rent	16,052	37,684	39,530	22,139	115,405	-	34,860	47,508	82,368	197,773
Depreciation and amortization	5,113	12,004	12,592	7,052	36,761	-	11,104	15,133	26,237	62,998
Other	-	-	-	-	-	4,209	-	2,463	6,672	6,672
Total	\$ 504,659	\$ 514,036	\$ 2,537,514	\$ 410,864	\$ 3,967,073	\$ 272,253	\$ 191,753	\$ 943,179	\$ 1,407,185	\$ 5,374,258

See accompanying notes to financial statements.

American Forests
Statement of Cash Flows

<i>Year ended December 31,</i>	2010
Operating Activities	
Change in net assets	\$ 1,317,162
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	62,998
Net gain from investments	(148,766)
Changes in assets and liabilities:	
Grants receivable	482,700
Contributions receivable	(758,041)
Prepaid expenses	(8,432)
Accounts payable	(383,446)
Grants payable	622,592
Accrued expenses	35,598
Deferred revenue	2,573
Deferred rent	(35,793)
Net cash provided by operating activities	1,189,145
Investing Activities	
Purchases of property and equipment	(28,642)
Purchases of investments	(3,586,174)
Proceeds from the sales of investments	419,770
Net cash used in investing activities	(3,195,046)
Net Decrease in Cash and Cash Equivalents	(2,005,901)
Cash and Cash Equivalents, beginning of year	5,773,337
Cash and Cash Equivalents, end of year	\$ 3,767,436

See accompanying notes to financial statements.

American Forests

Notes to Financial Statements

1. Organization and Nature of Operations

American Forests ("AF") was founded in 1875 by citizens concerned with the waste and destruction then taking place on America's forest lands. The objective of American Forests and its members is to protect and restore forests and the ecosystems they support.

In its early years, AF was instrumental in the establishment of the National Forest System and National Park System. AF regularly leads efforts to develop improved understanding and workable solutions on issues of forest conservation.

AF seeks to accomplish its objectives through providing scientific information, education and action-oriented programs, especially tree planting for ecosystem restoration.

Basis of Accounting

The financial statements of AF are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Consequently, revenue is recognized when earned and expenses are recognized when an obligation is incurred.

Basis of Presentation

AF's net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net asset changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations and are fully available at the discretion of management and the Board of Directors.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of AF and/or the passage of time. At such time, these assets will be reclassified as unrestricted net assets. Contributions received with donor imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by AF. Generally, the donors of these assets permit AF to use all, or part of, the return on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has

American Forests

Notes to Financial Statements

been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate as to reflect the fair value at the date of the gift. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contributions and nature of fund-raising activity.

Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

The major programs of AF, which are reported in these financial statements, include the following:

- *Forest Policy Center*

The Forest Policy Center consists of research and policy programs. The research program identifies current and emerging information needs, coordinates research among scientists, and interprets the results to policymakers and the public. The program provides policymakers, federal and state agencies and private organizations with the best scientific information on trees and forests, and advocates the sustainable management of all forest ecosystems.

- *Urban Forest Center*

In 2010, American Forests made a strategic decision to close down the Urban Forest Center, which had been established originally to conduct research on the latest issues in urban forestry. This center also conducted urban ecosystem analysis for selected urban areas in the United States.

- *Global ReLeaf*

The Global ReLeaf program makes grants to support urban tree plantings, reforestation of damaged rural ecosystems and other projects that demonstrate the energy saving benefits of trees in our communities.

American Forests

Notes to Financial Statements

- *Communications*

The Communications program provides the latest conservation education information to members and the public through magazines, newsletters, books, videos, meetings, conferences and other educational materials.

2. Significant Accounting Policies

Cash and Cash Equivalents

For financial statement purposes, AF considers cash and cash equivalents to include cash in banks and liquid investments with an original maturity of three months or less.

Investments

Investments in marketable securities are carried at fair value determined by quoted market prices. Donated investments received by gift are recorded by estimated fair value at the date of acquisition. Net realized and unrealized gains (losses) on investments are reflected in the accompanying statement of activities.

Grants Receivable

Grants receivable are recorded at the amounts due and do not bear interest. AF estimates an allowance for doubtful accounts based upon management's best estimate of the amount of probable credit losses existing in grants receivable. At December 31, 2010, AF's allowance for doubtful accounts was \$0.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted private gifts, grants and contracts in the financial statements. Conditional promises to give are not recorded as contributions receivable until such time as the conditions are substantially met. AF estimates an allowance for doubtful accounts based upon management's best estimate of the amount of probable credit losses existing in contributions receivable.

American Forests

Notes to Financial Statements

Property and Equipment

AF capitalizes all property and equipment purchases greater than \$400. Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation on property and equipment is calculated on the straight-line method over estimated useful lives of 5 years for furniture and fixtures, 3 years for equipment, and 3 years for software. Leasehold improvements are amortized over the lesser of the useful life or minimum lease term. Maintenance and repairs are expensed as incurred.

Deferred Revenue

Deferred revenue consists of cash received by AF for grants and sale of gift certificates that have not been earned as of year end.

Deferred Rent

Deferred rent consists of (i) the excess of the allocable straight-line rent expense to date as compared to the total amount of rent due and payable through such period, and (ii) funds received from landlords to reimburse AF for the cost, or a portion of the cost, of leasehold improvements. Deferred rent is amortized as a reduction to rent expense over the term of the lease.

Revenues

AF's revenues are mostly from contributions, grants and contracts primarily 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 sponsors whose contributions and grants are designed by donors to specific programs.

Membership dues are solicited and received throughout the year. Members restrict their dues to the Global ReLeaf program, requiring AF to plant a tree for every dollar of dues.

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 certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results may differ from those estimates.

American Forests

Notes to Financial Statements

Income Taxes

AF is a not-for-profit organization incorporated in the District of Columbia and is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It has been determined that the Organization is not a private foundation as defined in Section 509(9a).

AF is subject to unrelated business income tax on any net advertising and sales revenue related to its publications. AF did not have any material unrelated business income for the year ended December 31, 2010.

Restatement

For the year ended December 31, 2009, AF made an adjustment to its previously presented net asset classification and balances in order to present the net asset balances in accordance with applicable standards and donor requirements. The adjustment affected previously presented unrestricted and temporarily restricted net asset balances and classifications. The cumulative adjustments included in the restatement of the previously issued financial statements as of December 31, 2009 were as follows:

	As Previously Reported	Restatement Adjustments	As Restated
Unrestricted net assets	\$ 4,146,828	\$ 272,364	\$ 4,419,192
Temporarily restricted net assets	\$ 3,168,623	\$ (193,923)	\$ 2,974,700

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2010-06, *Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"). ASU 2010-06 amends FASB Accounting Standards Codification (the "ASC") topic 820 to provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Level 1, 2, and 3. The provisions of ASU 2010-06 pertaining to the activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010. The remaining provisions of ASU 2010-06 are effective for fiscal years beginning after December 15, 2009. The adoption of the provisions of ASU 2010-06 that became effective during 2010 did not have a material impact to AF's financial statements.

In January 2010, the FASB also issued ASU 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions* ("ASU 2010-07") which amends the ASC for the issuance of FASB ASC 958-805, *Business Combinations* (formerly FASB Statement No. 164, *Not-for-Profit Entities - Mergers and Acquisitions*). The amendments in ASU 2010-07 provide guidance on accounting for combinations of not-for-profit entities. Those transactions or other events include mergers of two or more not for profit entities and acquisitions by a not-for-profit entity that result in its initially recognizing

American Forests

Notes to Financial Statements

another not-for-profit entity, a business, or a nonprofit activity in its financial statements. The provisions of ASU 2010-07 are effective for reporting periods beginning after December 15, 2009. As AF did not have any mergers and acquisitions, the adoption of the provisions of ASU 2010-07 that were effective for AF during 2010 did not have a material impact to AF's financial statements.

3. Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 - inputs utilize quoted prices in active markets for identical assets or liabilities.

Level 2 - inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in markets that are not active;
- Observable inputs other than quoted prices for the asset or liability;
- Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3 - inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

The following tables summarize the levels in the ASC 820 fair value hierarchy of AF's investments as of December 31, 2010:

	Level 1	Level 2
Certificates of deposit	\$ -	\$ 716,388
Marketable securities	\$ 3,717,026	\$ -

The above marketable securities include equity investments in large and medium cap entities with sufficient trading volume to adequately access fair value. At December 31, 2010, AF had no investments which were considered to be Level 3.

American Forests

Notes to Financial Statements

AF has not elected to report financial instruments at fair value, as provided by the fair value option in ASC 825, *Financial Instruments*. The guidance requires disclosure of fair value of all financial instruments if the fair value option is not elected. AF's financial instruments consist of cash and cash equivalents, grants and contributions receivable, accounts payable, grants payable, and accrued expenses.

The carrying amounts of cash and cash equivalents, grants receivable, accounts payable, grants payable, and accrued expenses approximate fair value due to the relative terms and short maturity of these financial instruments. The carrying amounts of contributions receivable approximate fair value since these instruments are recorded at net present value.

4. Concentration of Credit Risk

Financial instruments, which subject AF to a concentration of credit risk, consist of cash and cash equivalents placed with financial institutions. At December 31, 2010, funds not covered by Federal deposit insurance included \$2,272,605 in bank and brokerage accounts.

At December 31, 2010, AF had grants receivable due from two third-parties representing 58% and 36% of total grants receivable, respectively, and contributions receivable due from two other third-parties representing 38% and 20% of total contributions receivable, respectively.

5. Investments

Investments are stated at market value, and their unrealized gains (losses) are included in investment income as a component of unrestricted net assets in the statement of activities.

Investments consisted of the following:

<i>December 31,</i>	2010	
	Market Value	Cost
Certificates of deposit	\$ 716,388	\$ 672,000
Fixed income	2,291,299	2,352,577
Equity securities	1,425,727	1,229,714
Total investments	\$ 4,433,414	\$ 4,254,291

American Forests

Notes to Financial Statements

6. Contributions Receivable, Net

Contributions receivable, net is summarized as follows:

<i>December 31,</i>	2010
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Unconditional promises expected to be collected in:	
Less than one year	\$ 1,609,600
One year to five years	13,632
Over five years	13,632
	<hr/>
	1,636,864
Less unamortized discount (discount rate of 0.29%)	(352)
Less allowance for uncollectible pledges	(39,062)
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Contributions receivable, net	\$ 1,597,450
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7. Net Realized and Unrealized Gain on Investments

Net realized and unrealized gain on investments included the following:

<i>Year ended December 31,</i>	2010
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Net realized gains on sale of investments	\$ 24,438
Net unrealized gains on investments	65,708
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Net realized and unrealized gain on investments	\$ 90,146
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American Forests

Notes to Financial Statements

8. Property and Equipment, Net

Property and equipment, net consisted of the following:

<i>December 31,</i>	2010
Furniture and fixtures	\$ 58,916
Equipment	201,460
Software	310,689
Leasehold improvements	181,710
Total property and equipment	752,775
Less: accumulated depreciation and amortization	(649,866)
Property and equipment, net	\$ 102,909

Depreciation and amortization expense for the year ended December 31, 2010 was \$62,998.

9. Retirement Plan

AF has a defined contribution retirement plan, which covers all eligible employees. Under the terms of the plan, AF will match elective deferral contributions up to a maximum of 6% of a participant's annual compensation. AF may also make discretionary contributions. Under the terms of the plan, discretionary contributions plus any forfeited employer contributions are allocated as of the last day of each plan year based on each eligible employee. Vesting occurs at the rate of 20% per year after the first full year of service. Total contributions for the year ended December 31, 2010 were \$57,908.

10. Commitment and Contingencies

During 2003, AF entered into a lease for office space which covers the period October 2003 through November 2013. In connection with leasing this office space, AF was granted a period of free rent which was recorded as a part of deferred rent. The unamortized balance of the free rent at December 31, 2010 was \$101,244, and is reflected as part of deferred rent in the accompanying statement of financial position.

Office rent expense for the year ended December 31, 2010 was \$197,773.

American Forests

Notes to Financial Statements

The remaining minimum payments under this lease are as follows:

For the year ending December 31,

2011	\$ 218,362
2012	227,096
2013	215,914
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Total	\$ 661,372

11. Subsequent Events

AF's management has evaluated subsequent events from December 31, 2010 (the date of the statement of position) through July 19, 2011 (the date of the audit report). During this period, no material recognizable subsequent events were identified.