

National Forest Foundation

Financial Report
September 30, 2019

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7-17



RSM US LLP

Independent Auditor's Report

To the Board of Directors
National Forest Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of National Forest Foundation (the Foundation), which comprise the statement of financial position as of September 30, 2019, 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 control 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 National Forest Foundation as of September 30, 2019, 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.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, the Foundation retrospectively adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in the statement of functional expenses, additional disclosures over liquidity and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 29, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2020, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

RSM US LLP

McLean, Virginia
January 21, 2020

National Forest Foundation

Statement of Financial Position
September 30, 2019
(With Comparative Totals for 2018)

	2019	2018
Assets		
Cash and cash equivalents	\$ 8,531,342	\$ 5,688,504
Receivables, net	4,766,543	2,613,264
Investments	11,966,131	12,561,674
Deferred compensation plan assets	221,097	331,330
Prepaid expenses and other assets	47,461	65,146
Property, equipment and leasehold improvements, net	1,256,152	68,845
	<u>\$ 26,788,726</u>	<u>\$ 21,328,763</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,992,205	\$ 2,180,496
Deferred revenue	3,635,497	3,343,379
Lines of credit	550,000	-
Deferred compensation plan liability	221,097	331,330
	<u>7,398,799</u>	<u>5,855,205</u>
Commitments and contingencies (Notes 8 and 9)		
Net assets:		
Without donor restrictions	3,604,541	3,359,752
With donor restrictions	15,785,386	12,113,806
	<u>19,389,927</u>	<u>15,473,558</u>
	<u>\$ 26,788,726</u>	<u>\$ 21,328,763</u>

See notes to financial statements.

National Forest Foundation

Statement of Activities
 Year Ended September 30, 2019
 (With Comparative Totals for 2018)

	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Contributions:				
Foundations	\$ 223,816	\$ 2,242,686	\$ 2,466,502	\$ 1,944,866
Corporations	1,529,082	6,688,952	8,218,034	4,582,181
Individuals	389,881	641,284	1,031,165	1,146,627
In-kind	262,265	-	262,265	334,553
Contract and reimbursable grant revenue	4,078,963	83,979	4,162,942	2,087,957
U.S. Government grants	3,057,142	-	3,057,142	3,047,601
State and local grants	-	1,110,687	1,110,687	202,801
Special events	221,410	14,315	235,725	1,058,049
Other income	30,364	-	30,364	34,772
Investment income, net of expenses	114,708	79,382	194,090	231,774
Net assets released from restrictions	7,189,705	(7,189,705)	-	-
Total support and revenue	17,097,336	3,671,580	20,768,916	14,671,181
Expenses:				
Program services:				
Conservation	11,930,426	-	11,930,426	5,546,559
Grants and awards	2,350,615	-	2,350,615	5,195,137
Total program services	14,281,041	-	14,281,041	10,741,696
Supporting services:				
General and administrative	842,224	-	842,224	752,325
Marketing, development and communications	1,729,282	-	1,729,282	1,737,277
Total supporting services	2,571,506	-	2,571,506	2,489,602
Total expenses	16,852,547	-	16,852,547	13,231,298
Change in net assets	244,789	3,671,580	3,916,369	1,439,883
Net assets:				
Beginning	3,359,752	12,113,806	15,473,558	14,033,675
Ending	\$ 3,604,541	\$ 15,785,386	\$ 19,389,927	\$ 15,473,558

See notes to financial statements.

National Forest Foundation

Statement of Functional Expenses Year Ended September 30, 2019 (With Comparative Totals for 2018)

	2019							2018 Total
	Program Services			Supporting Services			Total	
	Conservation	Grants & Awards	Total Program Services	General & Administrative	Development & Communications	Total Supporting Services		
Salaries	\$ 1,542,003	\$ 12,409	\$ 1,554,412	\$ 397,524	\$ 645,934	\$ 1,043,458	\$ 2,597,870	\$ 2,258,720
Fringe benefits	304,408	2,370	306,778	98,849	127,348	226,197	532,975	490,812
Contract and professional fees	1,922,307	4,000	1,926,307	112,134	331,449	443,583	2,369,890	2,208,842
Supplies	52,677	166	52,843	18,956	69,271	88,227	141,070	238,581
Office expenses	47,740	291	48,031	21,768	118,841	140,609	188,640	173,887
Rent and occupancy costs	33,602	238	33,840	15,398	37,760	53,158	86,998	104,938
Equipment, equipment rental and maintenance	5,096	-	5,096	8,475	3,468	11,943	17,039	22,709
Information technology	18,474	-	18,474	53,096	46,653	99,749	118,223	158,364
Depreciation	20,870	160	21,030	4,708	8,753	13,461	34,491	21,276
Travel	206,646	-	206,646	12,565	77,961	90,526	297,172	208,527
Conferences and meetings	23,170	-	23,170	70,328	5,959	76,287	99,457	198,983
Insurance	9,530	-	9,530	9,569	2,754	12,323	21,853	21,062
Dues and staff development	20,555	-	20,555	2,214	10,532	12,746	33,301	16,819
Advertising	15,694	-	15,694	3,466	39,351	42,817	58,511	20,860
Miscellaneous	114,388	-	114,388	13,174	7,549	20,723	135,111	26,174
Grants & subawards	7,535,328	2,330,981	9,866,309	-	-	-	9,866,309	6,722,743
In-Kind goods and services	57,938	-	57,938	-	195,699	195,699	253,637	338,001
	\$ 11,930,426	\$ 2,350,615	\$ 14,281,041	\$ 842,224	\$ 1,729,282	\$ 2,571,506	\$ 16,852,547	\$ 13,231,298

See notes to financial statements.

National Forest Foundation

Statement of Cash Flows
Year Ended September 30, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 3,916,369	\$ 1,439,883
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	34,491	21,276
Realized and unrealized gain on investments, net	(103,331)	(168,903)
Decrease in discount on receivables	(14,849)	(28,616)
Bad debt expense	77,234	-
Contributions restricted for endowment in perpetuity	(3,500)	(3,000)
Donated vehicles	(1,170,000)	-
Changes in assets and liabilities:		
Decrease (increase) in:		
Receivables	(2,215,664)	528,317
Prepaid expenses and other assets	17,685	7,934
Increase (decrease) in:		
Accounts payable and accrued expenses	811,709	756,105
Deferred revenue	292,118	(119,687)
Net cash provided by operating activities	1,642,262	2,433,309
Cash flows from investing activities:		
Purchases of investments	(2,050,760)	(6,169,985)
Proceeds from sales of investments	2,749,634	2,944,000
Purchases of property and equipment	(51,798)	(50,172)
Net cash provided by (used in) investing activities	647,076	(3,276,157)
Cash flows from financing activities:		
Contributions restricted for endowment perpetuity	3,500	3,000
Draws on lines of credit	550,000	-
Net cash provided by financing activities	553,500	3,000
Net increase (decrease) in cash and cash equivalents	2,842,838	(839,848)
Cash and cash equivalents:		
Beginning	5,688,504	6,528,352
Ending	\$ 8,531,342	\$ 5,688,504
Supplemental schedule of noncash investing activities		
Donated vehicles	\$ 1,170,000	\$ -

See notes to financial statements.

National Forest Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: National Forest Foundation (the Foundation) was established by Congress on November 16, 1990, pursuant to the National Forest Foundation Act, as a nonprofit, charitable organization. The purpose of the Foundation is to collect gifts to be used to support the Forest Service of the U.S. Department of Agriculture (USDA) and to conduct educational and technical programs that promote a higher quality of life and further purposes of the national forests.

A summary of the Foundation's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Not-for-Profit Entities Topics of the Codification, Balance Sheet and Income Statement, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Cash and cash equivalents: For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and certificates of deposit that mature within three months held in the investment portfolios are excluded from cash and cash equivalents and reported in investments.

Financial risk: The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally-insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant financial risk on cash.

The Foundation invests in professionally managed portfolios that contain various securities that are exposed to risks, such as market, interest and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near-term could materially affect investment balances and the amounts reported in the financial statements.

Receivables: Receivables stem from unconditional contributions and grants received by the Foundation, federal contracts and reimbursable grants. Unconditional contributions and grants to be received after one year are discounted, based on estimated future cash flows, at a discount rate commensurate with the risks involved. Amortization of the discounts is included in support and revenue. There was no discount at September 30, 2019 as all receivables are expected to be collected within one year. An allowance for uncollectible receivables is provided based upon management's judgment, including such factors as prior collection history, type of contribution and nature of the fund-raising activity. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. At September 30, 2019, the allowance for doubtful accounts was \$77,234.

Conditional contributions and similar grants are not recognized as support until such times as the conditions are substantially met. The Foundation is the recipient of \$13,128,710 of conditional promises to give at September 30, 2019. The Foundation will earn and receive the conditional funds contingent upon the Foundation meeting certain milestones documented in the agreements.

National Forest Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Investments: Investments in money market funds, certificates of deposit, equities, mutual and exchange traded funds and the hedge fund are carried at fair value. Cash held within the investment portfolio is reported at cost. To adjust the carrying value, unrealized and realized gains and losses are included in the accompanying statement of activities. The hedge fund is reported at estimated fair value based on a percentage of ownership practical expedient provided by the investment manager. The Foundation believes the carrying amount of this financial instrument is a reasonable estimate of fair value. Because the hedge fund is not readily marketable, its estimated value is subject to additional uncertainty, and therefore, value realized upon disposition may vary significantly from the currently reported value.

Property, equipment and leasehold improvements: Property and equipment purchases and donations are capitalized and depreciated on a straight-line basis over their estimated lives, generally three to five years. Leasehold improvements are depreciated over the lesser of the life of the asset or lease. The Foundation capitalizes all equipment and improvements with a cost of \$2,500 or more.

Support and revenue: Unconditional contributions and unconditional state and local grants received are recorded as support with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions. Conditional contributions and grants are recognized when all conditions are realized or as qualifying expenses are incurred. Contributions and grants received with de minimis conditions are recorded as support when received.

The Foundation receives grants from federal agencies for various purposes. Federal grant awards revenue and receivable are recognized as expenses have been incurred for the purposes specified by an approved grant. The Foundation defers federal grant payments under approved awards to the extent that the payments received exceed expenses incurred for the purposes specified under the grant restrictions. Contract revenue is comprised of total contracted labor and other direct costs (ODCs). Labor revenue is recognized in accordance with total units worked for each employee multiplied by that employee's contracted hourly or daily rate. ODC revenue is recognized as qualifying expenses are incurred.

Special event revenue consists of contributions, silent auction proceeds, sponsorships and registrations. Revenue is recognized when received or at the time of the event.

Donated services and assets: Contributions of services are recognized in the financial statements as in-kind contributions if the services enhance or create nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would typically be purchased if not provided by donation. These services are recorded at their estimated fair values at the date of donation and are recognized in the financial statements as in-kind contributions. Donated assets are recorded at their estimated fair values at the date of donation and are recognized in the financial statements as contributions and presented on the accompanying statement of activities based on the resource provider.

Expense allocation: Program and supporting services have been presented on a functional basis in the accompanying statement of activities and functional expenses. Certain costs, such as depreciation, rent and occupancy costs, and information technology have been allocated among programs, general and administrative, marketing, development and communications based on salary by department.

National Forest Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Income taxes: The Foundation is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Foundation did not have any net unrelated business income for the year ended September 30, 2019.

Management evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that require adjustment to the financial statements.

Use of estimates: The preparation of financial statements 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 support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior year information: The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended September 30, 2018, from which the summarized information was derived.

Adopted accounting pronouncements: In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of nonprofit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a nonprofit entity's liquidity, financial performance and cash flows. The ASU was retrospectively adopted by the Foundation during the year ended September 30, 2019.

Pending accounting pronouncements: In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. The updated standard will be effective for resource recipients for annual reporting periods beginning after December 15, 2018 and for resource providers beginning after December 15, 2019.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2020.

National Forest Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Subsequent events: The Foundation evaluated subsequent events through January 21, 2020, which is the date the financial statements were available to be issued.

Note 2. Liquidity and Financial Availability

Financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following:

Cash and cash equivalents	\$ 8,531,342
Receivables, net	4,766,543
Investments	11,966,131
Lines of credit	3,048,000
Total liquidity	<u>28,312,016</u>
Less	
Investments subject to withdrawal restrictions	746,420
Net assets with donor restrictions	15,785,386
Board designated quasi-endowment net assets*	870,178
	<u>17,401,984</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 10,910,032</u>

* The Board designated net assets can be used to meet general expenditures at the discretion of the Board of Directors

The Foundation regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations.

Note 3. Property, Equipment, and Leasehold Improvements

Vehicles	\$ 1,170,000
Furniture and equipment	188,790
leasehold improvements	11,210
	<u>1,370,000</u>
Less accumulated depreciation	113,848
	<u>\$ 1,256,152</u>

During the year ended September 30, 2019, the Foundation received a donation of 26 Jeeps with a total value provided by the donor of \$1,732,704. Based on the Foundation's determination of the fair value, the Foundation recorded the Jeeps and related contribution support in the amount of \$1,170,000.

National Forest Foundation

Notes to Financial Statements

Note 4. Related Party Transactions

Receivables from Board members and their affiliated organizations amounted to approximately \$210,000 at September 30, 2019. During the year ended September 30, 2019, the Foundation received approximately \$340,000 of contribution support from Board members and their affiliated organizations.

Note 5. Fair Value Measurements and Investments

The Foundation follows the Codification Topic, Fair Value Measurement. The topic applies to all assets and liabilities that are being measured and reported on a fair value basis. The topic establishes a framework for measuring fair value in accordance with U.S. GAAP and expands disclosure about fair value measurements. The topic enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

National Forest Foundation

Notes to Financial Statements

Note 5. Fair Value Measurements and Investments (Continued)

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to the topic, Fair Value Measurement.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at September 30, 2019:

	Level 1	Level 2	Total
Assets:			
Investments:			
Certificates of deposit	\$ -	\$ 5,901,333	\$ 5,901,333
Money market funds	534,327	-	534,327
Equities:			
Technology	125,232	-	125,232
Financial	86,414	-	86,414
Healthcare	80,925	-	80,925
Services	64,633	-	64,633
Basic materials	35,586	-	35,586
Industrials	25,108	-	25,108
Consumer defensive	23,837	-	23,837
Financial services	22,558	-	22,558
Consumer goods	22,506	-	22,506
Consumer cyclical	18,242	-	18,242
Energy	14,815	-	14,815
Communication services	13,113	-	13,113
Industrial goods	11,280	-	11,280
Utilities	7,301	-	7,301
Real estate	7,206	-	7,206
Total equities	558,756	-	558,756
Equity mutual funds and exchange traded funds:			
Foreign large blend	172,729	-	172,729
Diversified emerging markets	171,787	-	171,787
Large value	152,152	-	152,152
Mid-cap growth	129,335	-	129,335
Large blend	125,086	-	125,086
Foreign large growth	117,867	-	117,867
Small growth	111,974	-	111,974
Foreign large value	76,081	-	76,081
Large growth	64,376	-	64,376
Large cap	59,063	-	59,063
Small value	43,671	-	43,671
Real estate	29,994	-	29,994
Infrastructure	29,791	-	29,791
Global real estate	27,675	-	27,675
Foreign small/mid blend	26,058	-	26,058
Small blend	17,197	-	17,197
Total equity mutual funds and exchange traded funds	1,354,836	-	1,354,836

(Continued)

National Forest Foundation

Notes to Financial Statements

Note 5. Fair Value Measurements and Investments (Continued)

	Level 1	Level 2	Total
Assets – investments (continued):			
Fixed income mutual funds and exchange traded funds:			
Intermediate-term bond	\$ 168,487	\$ -	\$ 168,487
Intermediate government	155,834	-	155,834
Corporate bond	150,797	-	150,797
Ultrashort Bond	89,097	-	89,097
Short-term bond	81,839	-	81,839
Multisector bond	56,499	-	56,499
Inflation-protected bond	41,822	-	41,822
Nontraditional bond	39,119	-	39,119
Long government	36,737	-	36,737
Bank loan	28,150	-	28,150
High yield bond	14,861	-	14,861
Total fixed income mutual funds and exchange traded funds	<u>863,242</u>	<u>-</u>	<u>863,242</u>
	<u>\$ 3,311,161</u>	<u>\$ 5,901,333</u>	<u>9,212,494</u>
Hedge fund measured using a practical expedient			<u>746,420</u>
Total investments at fair value			<u>9,958,914</u>
Plus cash held at cost			<u>2,007,217</u>
Total investments			<u>\$ 11,966,131</u>
Investments in deferred compensation plan:			
Money market funds	\$ 221,097	\$ -	\$ 221,097
Total investments in deferred compensation plan	<u>221,097</u>	<u>-</u>	<u>221,097</u>
Total assets at fair value	<u>\$ 3,532,258</u>	<u>\$ 5,901,333</u>	<u>\$ 10,180,011</u>
Liabilities:			
Investments in deferred compensation plan	\$ -	\$ 221,097	\$ 221,097
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 221,097</u>	<u>\$ 221,097</u>

The money market funds, equities and mutual and exchange traded funds are classified as Level 1 instruments as they are actively traded on public exchanges with identical assets.

Certificates of deposit are classified as Level 2 instruments as there are not quoted market prices in active markets for identical assets. Their value is determined using models and other valuation methodologies, which are corroborated by market data.

The deferred compensation plan liability is based on the fair market value of the deferred compensation plan assets, which are observable inputs; however, the liability is not publicly traded and are, therefore, considered a Level 2 item.

The Foundation's hedge fund, valued using a practical expedient, totaled \$746,420 at September 30, 2019. At September 30, 2019, there are no unfunded commitments. The amount invested is subject to rolling three-year lock-up periods, and the current one will expire during the fiscal year ended September 30, 2021. There is a 90-day notice period for withdrawal before the current lock up period ends. The fund invests the majority of its assets in common and preferred stocks in companies based in the United States and internationally.

National Forest Foundation

Notes to Financial Statements

Note 6. Net Assets With Donor Restrictions

Net assets with donor restrictions at September 30, 2019 and changes in net assets with donor restrictions during the year ended September 30, 2019 are as follows:

	Balance September 30, 2018	Additions	Released	Balance September 30, 2019
Tree Planting	\$ 1,746,567	\$ 3,254,091	\$ (1,436,011)	\$ 3,564,647
Tehachapi Renewable Transmission Project	-	1,900,000	-	1,900,000
Treasured Landscapes	570,487	1,065,235	(493,652)	1,142,070
Ski Conservation Fund	694,504	894,128	(775,098)	813,534
Bill Williams Mountain Restoration	-	850,000	(127,500)	722,500
Hendricks	725,157	9,976	(115,829)	619,304
Angeles National Forest	612,312	500	(45,657)	567,155
Midewin National Tallgrass Prairie	1,204,500	292,167	(1,067,158)	429,509
Wildfire Assistance Fund	-	500,000	(111,798)	388,202
Northern Arizona Forest Fund	465,302	266,123	(429,814)	301,611
San Juan National Forest	408,544	9,945	(132,862)	285,627
Chippewa Soo Line Bridge	-	200,000	(15,000)	185,000
CA Tahoe Crown Family Philanthropies	326,755	4,873	(167,448)	164,180
White River National Forest	192,333	10,000	(45,766)	156,567
Mount Hood NF	-	160,000	(35,125)	124,875
Eagle Creek Fire Restoration	104,306	15,579	(11,825)	108,060
Med-Bow Routh National Forest Water Replenishment	-	112,401	(8,540)	103,861
NH - Cornelia Cogswell Rossi Foundation	54,744	50,000	(5,915)	98,829
Northern Rockies Position	62,500	104,500	(70,504)	96,496
Yuba Deuce National Forest	-	83,979	-	83,979
CA SGNM Edison International	87,733	-	(4,789)	82,944
Carbon Capital Fund	96,425	-	(16,364)	80,061
Forest Stewardship	104,457	43,525	(84,083)	63,899
Trail Restoration	67,000	-	(6,994)	60,006
5BRC	57,899	50	(5,502)	52,447
Connecting California to Tree Mortality	50,900	-	-	50,900
California Wildfire Restoration	-	62,433	(15,267)	47,166
CO - Gates Frontiers Fund	47,461	-	(422)	47,039
San Gabriel National Monument	66,343	155,441	(175,317)	46,467
Panhandle National Forest	35,548	-	-	35,548
Comanche Creek	108,199	-	(72,955)	35,244
Pacific Northwest Recreation Enhancement	-	50,000	(15,000)	35,000
Youth Engagement	67,263	-	(32,860)	34,403
Gunnison Stewardship Fund	20,000	15,000	(3,900)	31,100
Tahoe National Forest	23,904	5,000	(222)	28,682
Northern Yuba River	30,053	-	(4,463)	25,590
New Hampshire White Mountain	27,392	175	(4,501)	23,066
Ocala National Forest	98,064	155	(75,762)	22,457
Eastern Field Office	-	2,000	16,583	18,583
CO - Find Your Fourteeners	453,719	-	(435,905)	17,814
Utah Uinta-Wasatch-Cache National Forest	14,362	-	1,972	16,334
Find Your Fourteeners	-	24,335	(10,000)	14,335
Banning Creek Forest Restoration	-	14,900	(745)	14,155
Mill Creek	13,762	2,500	(2,622)	13,640
Tahoe Headwaters	16,286	-	(3,390)	12,896
Conservation Connect Fellow Program	-	40,000	(28,793)	11,207
Rim Fire Recovery Fund	11,102	-	-	11,102
Mount Hood	10,162	250	(30)	10,382
Trail Improvement	10,395	-	(100)	10,295
Angoon Youth Conservation Corps	-	10,000	-	10,000
Arundo Removal	10,000	-	-	10,000
East Vail Pass Study	-	10,000	-	10,000
Halliburton Volunteer Event	-	10,000	-	10,000
State Forest Action Plans	-	9,211	-	9,211
Glen Ellis Project	-	10,000	(1,500)	8,500
Western Headlands Waterways	8,500	-	-	8,500
Post-Fire Restoration in Idaho	-	10,000	(1,614)	8,386
MN - Polaris Chippewa Soo Line Trail	8,099	-	-	8,099
Trailhead Improvement	25,000	10,000	(27,305)	7,695
Conjejos Peak District, Rio Grande National Forest	7,578	-	-	7,578
Tongass National Forest	30,675	-	(23,150)	7,525

(Continued)

National Forest Foundation

Notes to Financial Statements

Note 6. Net Assets With Donor Restrictions (Continued)

	Balance September 30, 2018			Balance September 30, 2019		
		Additions	Released			
Admiralty Island National Monument	\$ 10,000	\$ -	\$ (2,709)	\$ 7,291		
Bald Mountain Stewardship Project	-	10,000	(3,395)	6,605		
Alaska Forest Fund	18,236	100,200	(111,863)	6,573		
Panhandle Forest Collaborative	-	7,000	(1,050)	5,950		
Southeastern United States	33,448	-	(27,627)	5,821		
Alaska Forest Fund - Youth Corps	-	5,000	-	5,000		
Arizona Sonora Desert Museum	-	5,000	-	5,000		
White Mountain National Forest	5,000	-	-	5,000		
Columbia River Gorge	-	5,000	(750)	4,250		
Lower Salt River Riparian Restoration	-	5,000	(750)	4,250		
Chugach NF Turnagain Pass	4,250	-	(105)	4,145		
El Yunque Projects	-	3,952	(105)	3,847		
Open the National Forests	-	3,755	(161)	3,594		
Nature Ambassadors	4,500	-	(908)	3,592		
Coconino National Forest	3,077	50,000	(50,000)	3,077		
Mokelumne Fund	3,014	-	-	3,014		
Beaverhead Deerlodge Working Group	-	7,700	(5,200)	2,500		
Boot Spur Trail Bridge	8,500	-	(6,217)	2,283		
Post-Fire Community Engagement & Citizen Science	-	40,000	(37,722)	2,278		
Idaho Panhandle National Forest	20,440	-	(18,466)	1,974		
Restoring Florida' Longleaf Pine Forest	-	50,000	(48,071)	1,929		
Southern Arizona Forest Fund	850	1,225	(246)	1,829		
Iditarod Trailwork	-	10,000	(8,470)	1,530		
Mount Hood National Forest	71,603	-	(70,293)	1,310		
Washington Okanogan-Wenatchee National Forest	630	200	302	1,132		
Southern Colorado & Northern New Mexico National Forests	-	4,800	(4,000)	800		
Crawford Path Trail	66,552	-	(65,941)	611		
Nantahala Pisgah National Forest	13,061	576	(13,127)	510		
Colorado Projects	1,828	809	(2,136)	501		
Monument Peak Lookout Tower	-	10,000	(9,768)	232		
OW Methow National Forest Projects	-	200	-	200		
Alder Creek Trail	23,509	-	(23,509)	-		
AZ NAFF City of Phoenix	72,241	-	(72,241)	-		
Bitterroot or Lolo National Forest	-	713	(713)	-		
CA Tahoe Coca-Cola Stewardship	113,888	-	(113,888)	-		
Chetco Bar Fire Restoration	7,519	-	(7,519)	-		
Earth Conservation Internship on the Coronado National Forest	-	4,800	(4,800)	-		
Ecosystem services	672	-	(672)	-		
Elliott Meadow, Tahoe NF	84,957	-	(84,957)	-		
Grand Rio Mar	16,000	-	(16,000)	-		
Idaho Sun Valley	1,088	-	(1,088)	-		
International Forestry Fellows Program	-	30,000	(30,000)	-		
Mountain Loop Highway Conservation Projects	-	15,000	(15,000)	-		
Mt. Baker-Snoqualmie Youth Engagement	-	10,000	(10,000)	-		
Non-Motorized Trails Project	-	918	(918)	-		
Ochoco National Forest	-	100,000	(100,000)	-		
Pikes Peak Ranger District	100	-	(100)	-		
Porter Fork Culverts	-	20,000	(20,000)	-		
Tahoe National Forest, French Meadow	28,646	-	(28,646)	-		
Trail Restoration Fishlake NF	2,997	-	(2,997)	-		
Trails Training Event	1,699	-	(1,699)	-		
Tread School Program	-	8,058	(8,058)	-		
Treadwell Trail Restoration	27,095	-	(27,095)	-		
Utah Projects	-	25	(25)	-		
Washington post-fire restoration	500	-	(500)	-		
Net assets with donor restrictions before endowment	9,422,192	10,778,403	(7,189,705)	13,010,890		
Endowment	2,691,614	82,882	-	2,774,496		
	<u>\$ 12,113,806</u>	<u>\$ 10,861,285</u>	<u>\$ (7,189,705)</u>	<u>\$ 15,785,386</u>		

National Forest Foundation

Notes to Financial Statements

Note 6. Net Assets With Donor Restrictions (Continued)

Management has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of original donor-restricted contributions as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of cash contributions to donor-restricted permanent endowment, and (b) the discounted value of future cash contributions to donor-restricted permanent endowment, net of allowance for uncollectible pledges. The remaining portion of donor-restricted cash contributions are classified as net assets with donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted cash contributions:

- The purposes of the Foundation and donor-restricted endowment fund
- The duration and preservation of the fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other available financial resources
- Investment policies

Investment policy: The Foundation has adopted an investment policy for endowment net assets that attempts to provide both preservation and appreciation.

Spending policy: Earnings for the endowment are reflected in endowment net assets, until appropriated for expenditure in a prudent manner by the Board of Directors.

The endowment net asset composition by type of fund as of September 30, 2019, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 870,178	\$ -	\$ 870,178
Donor-restricted endowment funds	-	2,774,496	2,774,496
	<u>\$ 870,178</u>	<u>\$ 2,774,496</u>	<u>\$ 3,644,674</u>

For the year ended September 30, 2019, the Foundation had the following endowment-related activities:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 856,198	\$ 2,691,614	\$ 3,547,812
Additions	-	3,500	3,500
Net investment gain	13,980	79,382	93,362
Endowment net assets, end of year	<u>\$ 870,178</u>	<u>\$ 2,774,496</u>	<u>\$ 3,644,674</u>

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. As of September 30, 2019, there were no such deficiencies.

National Forest Foundation

Notes to Financial Statements

Note 6. Net Assets With Donor Restrictions (Continued)

Board designated endowment: Net assets not subject to donor-imposed restrictions (without donor restrictions), but designated as part of the quasi-endowment fund by the Board of Directors.

Note 7. Retirement Plans

The Foundation sponsors a 403(b) defined contribution pension plan covering all of its eligible full-time employees. To be eligible, an employee must have completed one year of service and must be an active contributor to the plan. The plan is administered by an outside agent. Employee participation is voluntary, and contribution amounts are determined by the participants. Under the guidelines for 501(c)(3) nonprofit corporations, the contribution amounts are payroll-deducted on a pre-tax basis. After meeting eligibility requirements and completing one year of service, the Foundation contributes up to 5% of the participant's salary to the plan. The Foundation's contribution was approximately \$95,000 for the year ended September 30, 2019.

The Foundation also sponsors a 457(b) deferred compensation plan for its former President. The Foundation made no contributions to the plan during the year ended September 30, 2019.

Note 8. Lines of Credit

The Foundation has a \$1,000,000 line of credit that will expire on March 28, 2020. The line of credit accrues interest at the greater of the bank's prime lending rate, plus 1% or 5% and is secured by the assets of the Foundation. The outstanding balance on the line of credit was \$200,000 at September 30, 2019.

The Foundation has an agreement with a private funder that allows for the Foundation to borrow a maximum of \$2,598,000, with minimum borrowings of \$100,000, to fund specific forest restoration activities in connection with the project located in the North Yuba River Watershed of the Tahoe National Forest in California. The agreement matures on November 1, 2023. The outstanding principal balance was \$350,000 at September 30, 2019, and bears no interest.

Note 9. Contingencies

Federal awards: The Foundation participates in a number of federally-assisted grant programs that are subject to financial and compliance audits by the federal government or its representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.