

# **National Forest Foundation**

Financial Report  
September 30, 2018

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**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, 2018, the related statements of activities 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, 2018, 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.

**Report on Summarized Comparative Information**

We have previously audited the Foundation's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 23, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, 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 29, 2019, 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 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 29, 2019

**National Forest Foundation**

**Statement of Financial Position  
September 30, 2018  
(With Comparative Totals for 2017)**

|   | 2018                 | 2017                 |
|---|----------------------|----------------------|
| <b>Assets</b>                                 |                      |                      |
| Cash and cash equivalents                     | \$ 5,688,504         | \$ 6,528,352         |
| Receivables, net                              | 2,613,264            | 3,112,965            |
| Investments                                   | 12,561,674           | 9,166,786            |
| Deferred compensation plan assets             | 331,330              | 309,724              |
| Prepaid expenses and other assets             | 65,146               | 73,080               |
| Equipment and leasehold improvements, net     | 68,845               | 39,949               |
|   | <u>\$ 21,328,763</u> | <u>\$ 19,230,856</u> |
| <b>Liabilities and Net Assets</b>             |                      |                      |
| Liabilities:                                  |                      |                      |
| Accounts payable and accrued expenses         | \$ 2,180,496         | \$ 1,424,391         |
| Deferred revenue                              | 3,343,379            | 3,463,066            |
| Deferred compensation plan liability          | 331,330              | 309,724              |
|   | <u>5,855,205</u>     | <u>5,197,181</u>     |
| Commitments and contingencies (Notes 6 and 8) |                      |                      |
| Net assets:                                   |                      |                      |
| Unrestricted                                  | 3,359,752            | 3,144,409            |
| Temporarily restricted                        | 9,692,681            | 8,441,141            |
| Permanently restricted                        | 2,421,125            | 2,448,125            |
|   | <u>15,473,558</u>    | <u>14,033,675</u>    |
|   | <u>\$ 21,328,763</u> | <u>\$ 19,230,856</u> |

See notes to financial statements.

## National Forest Foundation

### Statement of Activities Year Ended September 30, 2018 (With Comparative Totals for 2017)

|  | 2018              |                           |                           | Total             | 2017<br>Total     |
|--|-------------------|---------------------------|---------------------------|-------------------|-------------------|
|  | Unrestricted      | Temporarily<br>Restricted | Permanently<br>Restricted |                   |                   |
| Support and revenue:                             |                   |                           |                           |                   |                   |
| Contributions:                                   |                   |                           |                           |                   |                   |
| Foundations                                      | \$ 195,565        | \$ 1,746,301              | \$ 3,000                  | \$ 1,944,866      | \$ 2,123,999      |
| Corporations                                     | 84,617            | 4,497,564                 | -                         | 4,582,181         | 3,382,255         |
| Individuals                                      | 798,790           | 347,837                   | -                         | 1,146,627         | 2,396,516         |
| In-kind  | 334,553           | -                         | -                         | 334,553           | 304,397           |
| U.S. Government grants                           | 3,047,601         | -                         | -                         | 3,047,601         | 2,823,558         |
| State and local grants                           | -                 | 202,801                   | -                         | 202,801           | 889,813           |
| Special events                                   | 1,029,624         | 28,425                    | -                         | 1,058,049         | 283,962           |
| Contract and reimbursable grant revenue          | 2,087,957         | -                         | -                         | 2,087,957         | 1,885,717         |
| Other income                                     | 34,772            | -                         | -                         | 34,772            | 70,754            |
| Investment income                                | 87,235            | 144,539                   | -                         | 231,774           | 471,611           |
| Net assets released from restrictions            | 5,715,927         | (5,715,927)               | -                         | -                 | -                 |
| <b>Total support and revenue</b>                 | <b>13,416,641</b> | <b>1,251,540</b>          | <b>3,000</b>              | <b>14,671,181</b> | <b>14,632,582</b> |
| Expenses:  |                   |                           |                           |                   |                   |
| Program services:                                |                   |                           |                           |                   |                   |
| Grants and awards                                | 5,195,137         | -                         | -                         | 5,195,137         | 7,133,770         |
| Conservation                                     | 5,546,559         | -                         | -                         | 5,546,559         | 4,301,147         |
| <b>Total program services</b>                    | <b>10,741,696</b> | <b>-</b>                  | <b>-</b>                  | <b>10,741,696</b> | <b>11,434,917</b> |
| Supporting services:                             |                   |                           |                           |                   |                   |
| General and administrative                       | 752,325           | -                         | -                         | 752,325           | 932,235           |
| Marketing, development and communications        | 1,737,277         | -                         | -                         | 1,737,277         | 1,579,842         |
| <b>Total supporting services</b>                 | <b>2,489,602</b>  | <b>-</b>                  | <b>-</b>                  | <b>2,489,602</b>  | <b>2,512,077</b>  |
| <b>Total expenses</b>                            | <b>13,231,298</b> | <b>-</b>                  | <b>-</b>                  | <b>13,231,298</b> | <b>13,946,994</b> |
| <b>Change in net assets before other changes</b> | <b>185,343</b>    | <b>1,251,540</b>          | <b>3,000</b>              | <b>1,439,883</b>  | <b>685,588</b>    |
| Reclassification of net assets                   | 30,000            | -                         | (30,000)                  | -                 | -                 |
| <b>Change in net assets</b>                      | <b>215,343</b>    | <b>1,251,540</b>          | <b>(27,000)</b>           | <b>1,439,883</b>  | <b>685,588</b>    |
| Net assets:                                      |                   |                           |                           |                   |                   |
| Beginning  | 3,144,409         | 8,441,141                 | 2,448,125                 | 14,033,675        | 13,348,087        |
| Ending   | \$ 3,359,752      | \$ 9,692,681              | \$ 2,421,125              | \$ 15,473,558     | \$ 14,033,675     |

See notes to financial statements.

**National Forest Foundation**

**Statement of Cash Flows**  
**Year Ended September 30, 2018**  
**(With Comparative Totals for 2017)**

|   | 2018                | 2017                |
|---|---------------------|---------------------|
| Cash flows from operating activities:   |                     |                     |
| Change in net assets  | \$ 1,439,883        | \$ 685,588          |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                     |                     |
| Depreciation  | 21,276              | 14,824              |
| Realized and unrealized gain on investments, net  | (168,903)           | (455,209)           |
| Decrease in discount on receivables   | (28,616)            | (19,638)            |
| Contributions restricted for permanent endowment  | (3,000)             | (30,000)            |
| Changes in assets and liabilities:  |                     |                     |
| Decrease (increase) in:   |                     |                     |
| Receivables   | 528,317             | 1,329,954           |
| Prepaid expenses and other assets   | 7,934               | (17,912)            |
| Increase (decrease) in:   |                     |                     |
| Accounts payable and accrued expenses   | 756,105             | 140,230             |
| Deferred revenue  | (119,687)           | 556,082             |
| <b>Net cash provided by operating activities</b>  | <b>2,433,309</b>    | <b>2,203,919</b>    |
| Cash flows from investing activities:   |                     |                     |
| Purchases of investments  | (6,169,985)         | (5,921,522)         |
| Proceeds from sales of investments  | 2,944,000           | 5,839,000           |
| Purchases of property and equipment   | (50,172)            | (30,555)            |
| <b>Net cash used in investing activities</b>  | <b>(3,276,157)</b>  | <b>(113,077)</b>    |
| Cash flows from financing activities:   |                     |                     |
| Contributions restricted for permanent endowment  | 3,000               | 30,000              |
| <b>Net cash provided by financing activities</b>  | <b>3,000</b>        | <b>30,000</b>       |
| <b>Net (decrease) increase in cash and cash equivalents</b>                                 | <b>(839,848)</b>    | <b>2,120,842</b>    |
| Cash and cash equivalents:  |                     |                     |
| Beginning   | 6,528,352           | 4,407,510           |
| Ending  | <b>\$ 5,688,504</b> | <b>\$ 6,528,352</b> |

See notes to financial statements.

## National Forest Foundation

### Notes to Financial Statements

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#### 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 three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**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 held in the investment portfolios is 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. 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. There was no provision for doubtful receivables at September 30, 2018. Management believes all receivables are fully collectible.



## National Forest Foundation

### Notes to Financial Statements

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#### 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.

**Equipment and leasehold improvements:** Equipment purchases 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 unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets 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:** 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.

**Expense allocation:** Program and supporting services have been presented on a functional basis in the accompanying statement of activities. Certain overhead costs have been allocated among programs, general and administrative, marketing, development and communications.

## National Forest Foundation

### Notes to Financial Statements

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#### 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, 2018.

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, 2017, from which the summarized information was derived.

**Pending 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 will be effective for fiscal years beginning after December 15, 2017. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied.

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. The Foundation has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

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 resource providers one year later. Management is currently evaluating the effect on the financial statements.

## National Forest Foundation

### Notes to Financial Statements

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

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, 2019.

**Subsequent events:** The Foundation evaluated subsequent events through January 29, 2019, which is the date the financial statements were available to be issued.

#### Note 2. Receivables

Receivables at September 30, 2018, are comprised of the following:

|  |                            |
|--|----------------------------|
| Unconditional contributions and grants, federal contracts and reimbursable grants expected to be collected in: |                            |
| Less than one year   | \$ 2,330,412               |
| One year to five years   | <u>297,701</u>             |
| Gross unconditional contributions and grants, federal contracts and reimbursable grants                        | 2,628,113                  |
| Less unamortized discount (at a rate of 5.25%)   | <u>(14,849)</u>            |
| Total unconditional contributions, federal and non-federal contracts and reimbursable grants                   | <u><u>\$ 2,613,264</u></u> |

Receivables from Board members and their affiliated organizations amounted to approximately \$400,000 at September 30, 2018. During the year ended September 30, 2018, the Foundation received approximately \$350,000 of contribution support from Board members and their affiliated organizations.

#### Note 3. 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

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.

## National Forest Foundation

### Notes to Financial Statements

#### Note 3. Fair Value Measurements and Investments (Continued)

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, 2018:

|   | Level 1   | Level 2      | Total        |
|---|-----------|--------------|--------------|
| Assets:   |           |              |              |
| Investments:  |           |              |              |
| Certificates of deposit                             | \$ -      | \$ 5,181,073 | \$ 5,181,073 |
| Money market funds                                  | 461,923   | -            | 461,923      |
| Equities:   |           |              |              |
| Financial   | 136,199   | -            | 136,199      |
| Technology  | 125,361   | -            | 125,361      |
| Healthcare  | 119,142   | -            | 119,142      |
| Services  | 69,781    | -            | 69,781       |
| Basic materials                                     | 63,497    | -            | 63,497       |
| Consumer goods                                      | 29,140    | -            | 29,140       |
| Industrial goods                                    | 23,706    | -            | 23,706       |
| Industrials   | 17,291    | -            | 17,291       |
| Energy  | 10,560    | -            | 10,560       |
| Communication services                              | 9,954     | -            | 9,954        |
| Real estate   | 9,800     | -            | 9,800        |
| Consumer cyclical                                   | 8,675     | -            | 8,675        |
| Consumer defensive                                  | 5,399     | -            | 5,399        |
| Financial service                                   | 2,742     | -            | 2,742        |
| Utilities   | 2,436     | -            | 2,436        |
| Total equities                                      | 633,683   | -            | 633,683      |
| Equity mutual funds and exchange traded funds:      |           |              |              |
| Foreign large blend                                 | 208,280   | -            | 208,280      |
| Diversified emerging markets                        | 169,998   | -            | 169,998      |
| Foreign large growth                                | 146,455   | -            | 146,455      |
| Small growth  | 134,381   | -            | 134,381      |
| Large blend   | 116,727   | -            | 116,727      |
| Large growth  | 91,188    | -            | 91,188       |
| Foreign large value                                 | 89,686    | -            | 89,686       |
| Large value   | 72,221    | -            | 72,221       |
| Mid-cap growth                                      | 65,228    | -            | 65,228       |
| Mid-cap value                                       | 63,511    | -            | 63,511       |
| Foreign large blend                                 | 58,737    | -            | 58,737       |
| Small value   | 41,046    | -            | 41,046       |
| Foreign small/mid blend                             | 26,011    | -            | 26,011       |
| Global real estate                                  | 25,167    | -            | 25,167       |
| Real estate   | 24,121    | -            | 24,121       |
| Small blend   | 21,209    | -            | 21,209       |
| Total equity mutual funds and exchange traded funds | 1,353,966 | -            | 1,353,966    |

(Continued)

## National Forest Foundation

### Notes to Financial Statements

#### Note 3. Fair Value Measurements and Investments (Continued)

|   | Level 1             | Level 2             | Total                |
|---|---------------------|---------------------|----------------------|
| Assets – investments (continued):                         |                     |                     |                      |
| Fixed income mutual funds and exchange traded funds:      |                     |                     |                      |
| Corporate bond  | \$ 176,513          | \$ -                | \$ 176,513           |
| Intermediate-term bond                                    | 175,819             | -                   | 175,819              |
| Multisector bond  | 87,613              | -                   | 87,613               |
| Short government  | 42,293              | -                   | 42,293               |
| Intermediate government                                   | 42,035              | -                   | 42,035               |
| Bank loan   | 40,570              | -                   | 40,570               |
| Inflation-protected bond                                  | 39,455              | -                   | 39,455               |
| Nontraditional bond                                       | 36,807              | -                   | 36,807               |
| Intermediate government                                   | 33,590              | -                   | 33,590               |
| Long government   | 33,005              | -                   | 33,005               |
| World bond  | 22,801              | -                   | 22,801               |
| High yield bond   | 14,120              | -                   | 14,120               |
| Total fixed income mutual funds and exchange traded funds | <u>744,621</u>      | <u>-</u>            | <u>744,621</u>       |
|   | <u>\$ 3,194,193</u> | <u>\$ 5,181,073</u> | <u>8,375,266</u>     |
| Hedge fund measured using a practical expedient           |                     |                     | 708,711              |
| Total investments at fair value                           |                     |                     | 9,083,977            |
| Plus cash held at cost                                    |                     |                     | 3,477,697            |
| Total investments   |                     |                     | <u>\$ 12,561,674</u> |
| Investments in deferred compensation plan:                |                     |                     |                      |
| Equity mutual funds:                                      |                     |                     |                      |
| Large growth  | \$ 221,374          | \$ -                | \$ 221,374           |
| Health  | 50,896              | -                   | 50,896               |
| Financial   | 31,323              | -                   | 31,323               |
| Large blend   | 27,737              | -                   | 27,737               |
| Total investments in deferred compensation plan           | <u>331,330</u>      | <u>-</u>            | <u>331,330</u>       |
| Total assets at fair value                                | <u>\$ 3,525,523</u> | <u>\$ 5,181,073</u> | <u>\$ 9,415,307</u>  |
| Liabilities:  |                     |                     |                      |
| Investments in deferred compensation plan                 | \$ -                | \$ (331,330)        | \$ (331,330)         |
| Total liabilities at fair value                           | <u>\$ -</u>         | <u>\$ (331,330)</u> | <u>\$ (331,330)</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 \$708,711 at September 30, 2018. At September 30, 2018, there are no unfunded commitments. The amount invested has a three-year lock-up period that expired during the fiscal year ended September 30, 2018. There is a 90-day notice period after the 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 3. Fair Value Measurements and Investments (Continued)

Investment income for the year ended September 30, 2018, consists of the following:

|                                    |                   |
|------------------------------------|-------------------|
| Realized and unrealized gains, net | \$ 168,903        |
| Interest and dividends             | 62,871            |
|                                    | <u>\$ 231,774</u> |

#### Note 4. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets during the year ended September 30, 2018, by purposes are as follows:

|   | Balance<br>September 30,<br>2017 | Additions  | Released     | Balance<br>September 30,<br>2018 |
|---|----------------------------------|------------|--------------|----------------------------------|
| Tree Planting                                     | \$ 1,670,580                     | \$ 845,920 | \$ (769,934) | \$ 1,746,566                     |
| Midewin National Tallgrass Prairie                | -                                | 1,204,500  | -            | 1,204,500                        |
| Hendricks   | 814,676                          | -          | (89,519)     | 725,157                          |
| Ski Conservation Fund                             | 667,458                          | 721,995    | (694,948)    | 694,505                          |
| Angeles National Forest                           | 632,519                          | 165,049    | (185,256)    | 612,312                          |
| Treasured Landscapes                              | -                                | 977,454    | (409,076)    | 568,378                          |
| Northern Arizona Forest Fund                      | 265,863                          | 515,120    | (315,680)    | 465,303                          |
| CO - Find Your Fourteeners                        | 165,237                          | 291,190    | (2,709)      | 453,718                          |
| San Juan National Forest                          | -                                | 409,116    | (572)        | 408,544                          |
| CA Tahoe Crown Family Philanthropies              | 369,049                          | -          | (42,294)     | 326,755                          |
| White River National Forest                       | 280,310                          | 1,832      | (89,809)     | 192,333                          |
| CA Tahoe Coca-Cola Stewardship                    | 169,860                          | -          | (55,973)     | 113,887                          |
| Comanche Creek                                    | -                                | 115,000    | (6,801)      | 108,199                          |
| Forest Stewardship Fund                           | 84,727                           | 52,204     | (32,475)     | 104,456                          |
| Eagle Creek Fire Restoration                      | 14,978                           | 90,814     | (1,486)      | 104,306                          |
| Ocala National Forest                             | 32,611                           | 68,000     | (2,547)      | 98,064                           |
| Carbon Capital Fund                               | 23,287                           | -          | 73,138       | 96,425                           |
| CA SGNM Edison International                      | 104,487                          | -          | (16,754)     | 87,733                           |
| Elliott Meadow, Tahoe NF                          | -                                | 100,000    | (15,043)     | 84,957                           |
| AZ NAFF City of Phoenix                           | 234,421                          | -          | (160,179)    | 74,242                           |
| Mount Hood National Forest                        | -                                | 77,000     | (5,397)      | 71,603                           |
| Trail Restoration                                 | -                                | 67,000     | -            | 67,000                           |
| Crawford Path Trail                               | -                                | 73,000     | (6,448)      | 66,552                           |
| San Gabriel National Monument                     | -                                | 66,343     | -            | 66,343                           |
| Northern Rockies Position                         | -                                | 62,500     | -            | 62,500                           |
| 5BRC  | 86,089                           | -          | (28,189)     | 57,900                           |
| NH - Cornelia Cogswell Rossi Foundation           | 113,815                          | -          | (59,071)     | 54,744                           |
| Youth Engagement                                  | -                                | 140,000    | (85,576)     | 54,424                           |
| Connecting California to Tree Mortality           | -                                | 50,900     | -            | 50,900                           |
| CO - Gates Frontiers Fund                         | 49,094                           | -          | (1,632)      | 47,462                           |
| Trailhead Improvement                             | -                                | 45,000     | -            | 45,000                           |
| Panhandle National Forest                         | -                                | 35,548     | -            | 35,548                           |
| Southeastern United States                        | -                                | 33,448     | -            | 33,448                           |
| Tongass National Forest                           | -                                | 30,675     | -            | 30,675                           |
| Northern Yuba River                               | -                                | 30,053     | -            | 30,053                           |
| Tahoe National Forest, French Meadow              | -                                | 28,646     | -            | 28,646                           |
| New Hampshire White Mountain                      | 30,111                           | -          | (2,719)      | 27,392                           |
| Treadwell Trail Renovation                        | -                                | 50,000     | (22,905)     | 27,095                           |
| Tahoe National Forest                             | 23,904                           | -          | -            | 23,904                           |
| Alder Creek Trail                                 | -                                | 26,610     | (3,101)      | 23,509                           |
| Idaho Panhandle National Forest                   | 9,388                            | 13,000     | (1,948)      | 20,440                           |
| Alaska Forest Fund                                | -                                | 18,236     | -            | 18,236                           |
| Tahoe Headwaters                                  | -                                | 16,286     | -            | 16,286                           |
| Grant Rio Mar                                     | -                                | 16,000     | -            | 16,000                           |
| Utah Uinta-Wasatch-Cache National Forest          | 46,747                           | 109,701    | (142,086)    | 14,362                           |
| Mill Creek  | -                                | 22,300     | (8,538)      | 13,762                           |
| Nantahala Pisgash National Forest                 | -                                | 20,025     | (6,964)      | 13,061                           |
| Youth National Forest                             | -                                | 57,800     | (44,961)     | 12,839                           |
| Rim Fire Recovery Fund                            | 11,102                           | -          | -            | 11,102                           |
| Trail Improvement                                 | -                                | 10,395     | -            | 10,395                           |
| Mount Hood  | -                                | 10,162     | -            | 10,162                           |
| Admiralty Island National Monument                | -                                | 10,000     | -            | 10,000                           |
| Arundo Removal                                    | -                                | 10,000     | -            | 10,000                           |
| Boot Spur Trail Bridge                            | -                                | 8,500      | -            | 8,500                            |
| Western Headlands Waterways                       | -                                | 8,500      | -            | 8,500                            |
| MN Polar Bear Chippewa Soo Line Trail             | 7,000                            | -          | 1,099        | 8,099                            |
| Conejos Peak District, Rio Grande National Forest | -                                | 10,000     | (2,423)      | 7,577                            |
| Chetco Bar Fire Restoration                       | -                                | 8,625      | (1,106)      | 7,519                            |
| White Mountain National Forest                    | -                                | 5,000      | -            | 5,000                            |
| Nature Ambassadors                                | -                                | 4,500      | -            | 4,500                            |
| Chugach National Forest Turnagain Pass            | -                                | 5,000      | (750)        | 4,250                            |

(Continued)

# National Forest Foundation

## Notes to Financial Statements

### Note 4. Temporarily Restricted Net Assets (Continued)

|   | Balance<br>September 30,<br>2017 | Additions           | Released              | Balance<br>September 30,<br>2018 |
|---|----------------------------------|---------------------|-----------------------|----------------------------------|
| Coconino National Forest  | \$ 3,076                         | \$ -                | \$ -                  | \$ 3,076                         |
| Mokelumne Fund  | 3,008                            | 6                   | -                     | 3,014                            |
| Trails, Fishlake National Forest  | -                                | 36,000              | (33,003)              | 2,997                            |
| Colorado Projects   | 1,828                            | -                   | -                     | 1,828                            |
| Trails Training Event   | -                                | 12,000              | (10,301)              | 1,699                            |
| Idaho Sun Valley  | 6,346                            | -                   | (5,258)               | 1,088                            |
| Southern Arizona Forest Fund  | -                                | 850                 | -                     | 850                              |
| Ecosystem services  | 672                              | -                   | -                     | 672                              |
| Washington Okanogan-Wenatchee National Forest                           | 2,830                            | -                   | (2,200)               | 630                              |
| Washington post-fire restoration  | 500                              | -                   | -                     | 500                              |
| Perazzo Meadows Watershed Restoration                                   | -                                | 125                 | (15)                  | 110                              |
| Pikes Peak Ranger District  | -                                | 10,000              | (9,900)               | 100                              |
| Disney  | 712,496                          | -                   | (712,496)             | -                                |
| REI   | 250,000                          | -                   | (250,000)             | -                                |
| Midewin Donnelley Foundation  | 128,620                          | -                   | (128,620)             | -                                |
| Midewin Grand Victoria Foundation                                       | 128,620                          | -                   | (128,620)             | -                                |
| Midewin Turnbull Burnstein Family Charitable Fund                       | 95,997                           | -                   | (95,997)              | -                                |
| Benson Family Fund  | 90,465                           | -                   | (90,465)              | -                                |
| CA Tahoe Coca Cola French Meadows                                       | 85,000                           | -                   | (85,000)              | -                                |
| Tree Planting - Salt River Project                                      | 69,222                           | -                   | (69,222)              | -                                |
| IL - Midewin/Donnelley Foundation                                       | 58,772                           | -                   | (58,772)              | -                                |
| Illinois Midewin Tallgrass Prairie                                      | 55,656                           | -                   | (55,656)              | -                                |
| CA Pacific Gas & Electric   | 51,484                           | -                   | (51,484)              | -                                |
| FL Polaris Apalachicola Silver Lake Trail                               | 50,000                           | -                   | (50,000)              | -                                |
| Tree Planting - Pernod Ricard   | 50,000                           | -                   | (50,000)              | -                                |
| Angeles National Forest - SGNM REI                                      | 46,362                           | -                   | (46,362)              | -                                |
| ID - Charles Engelhard Foundation                                       | 42,451                           | -                   | (42,451)              | -                                |
| AZ NAFF City of Mesa  | 37,950                           | -                   | (37,950)              | -                                |
| FL - Spurlino Foundation - Restoration of long leaf pine                | 34,000                           | -                   | (34,000)              | -                                |
| UT - UWC Sorenson Legacy Foundation                                     | 30,750                           | -                   | (30,750)              | -                                |
| AZ NAFF City of Glendale  | 30,100                           | -                   | (30,100)              | -                                |
| Tree Planting - Revision Skincare                                       | 30,021                           | -                   | (30,021)              | -                                |
| Grant Foundation  | 30,000                           | -                   | (30,000)              | -                                |
| AZ NAFF City of Scottsdale  | 25,000                           | -                   | (25,000)              | -                                |
| Tree Planting - MinuteKey   | 23,585                           | -                   | (23,585)              | -                                |
| CA Tahoe CA Foundation for Stronger Communities                         | 20,000                           | -                   | (20,000)              | -                                |
| NH Mary Smart Tuckerman Ravine  | 20,000                           | -                   | (20,000)              | -                                |
| CA SGNM Boeing  | 18,210                           | -                   | (18,210)              | -                                |
| AZ NAFF Crown Family Philanthropies                                     | 13,883                           | -                   | (13,883)              | -                                |
| Tree Planting - Imperial International                                  | 12,750                           | -                   | (12,750)              | -                                |
| ID - Cross Charitable Foundation  | 12,048                           | -                   | (12,048)              | -                                |
| AZ NAFF - Bonneville Foundation   | 9,351                            | -                   | (9,351)               | -                                |
| AZ NAFF Nina Mason Pulliam Trust  | 8,982                            | -                   | (8,982)               | -                                |
| Tree Planting - Santa Fe Natural Tobacco Co                             | 8,925                            | -                   | (8,925)               | -                                |
| Angeles National Forest - SGNM Alcoa Foundation                         | 8,646                            | -                   | (8,646)               | -                                |
| CO - Berniece Gates Hopper Family Fund                                  | 8,627                            | -                   | (8,627)               | -                                |
| Kutnick Foundation  | 8,500                            | -                   | (8,500)               | -                                |
| Midewin - C3 Presents   | 8,500                            | -                   | (8,500)               | -                                |
| NH - Cricket Foundation   | 8,500                            | -                   | (8,500)               | -                                |
| Arizona Projects  | 8,116                            | -                   | (8,116)               | -                                |
| AZ SAFF - Tucson Electric   | 7,713                            | -                   | (7,713)               | -                                |
| AZ NAFF - Patagonia   | 6,800                            | -                   | (6,800)               | -                                |
| Tree Planting - The Mitchell Gold CO                                    | 6,499                            | -                   | (6,499)               | -                                |
| CA SGNM Southwest Airlines  | 6,390                            | -                   | (6,390)               | -                                |
| OR Mt. Hood General   | 5,119                            | -                   | (5,119)               | -                                |
| New Hampshire General   | 5,000                            | -                   | (5,000)               | -                                |
| CA Amrod Charitable Foundation  | 4,500                            | -                   | (4,500)               | -                                |
| UT - UWC Hemingway Foundation   | 4,250                            | -                   | (4,250)               | -                                |
| NH - Fields Pond  | 3,204                            | -                   | (3,204)               | -                                |
| NH - White Mountain   | 2,778                            | -                   | (2,778)               | -                                |
| CA SGNM Southern Cal Gas Company  | 2,493                            | -                   | (2,493)               | -                                |
| OR Mt Hood Jackson Foundation   | 1,500                            | -                   | (1,500)               | -                                |
| Rasmussen Foundation  | 1,023                            | -                   | (1,023)               | -                                |
| WA - C. C. Filson Co  | 500                              | -                   | (500)                 | -                                |
| Midewin General Donations   | 160                              | -                   | (160)                 | -                                |
| WA Mehtow Moccasin Lake Foundation                                      | 100                              | -                   | (100)                 | -                                |
| Beaverhead-Deerlodge National Forest                                    | -                                | 5,000               | (5,000)               | -                                |
| Internships   | -                                | 2,500               | (2,500)               | -                                |
| Porter Fork   | -                                | 2,500               | (2,500)               | -                                |
| Sawtooth National Forest  | -                                | 15,000              | (15,000)              | -                                |
| Temporarily restricted net assets before accumulated gains on endowment | 8,315,191                        | 6,822,928           | (5,715,927)           | 9,422,192                        |
| Endowment - Temp Restricted   | 125,950                          | 144,539             | -                     | 270,489                          |
|   | <u>\$ 8,441,141</u>              | <u>\$ 6,967,467</u> | <u>\$ (5,715,927)</u> | <u>\$ 9,692,681</u>              |

## National Forest Foundation

### Notes to Financial Statements

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#### Note 5. Permanently Restricted Net Assets and Board Designated Endowment

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 permanently restricted net assets (a) the original value of permanently restricted cash contributions, and (b) the discounted value of future permanently restricted cash contributions, net of allowance for uncollectible pledges. The remaining portion of donor-restricted cash contributions are classified as temporarily restricted net assets 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, 2018, is as follows:

|                                  | Unrestricted      | Temporarily Restricted | Permanently Restricted | Total               |
|----------------------------------|-------------------|------------------------|------------------------|---------------------|
| Board-designated endowment funds | \$ 856,198        | \$ -                   | \$ -                   | \$ 856,198          |
| Donor-restricted endowment funds | -                 | 270,489                | 2,421,125              | 2,691,614           |
|                                  | <u>\$ 856,198</u> | <u>\$ 270,489</u>      | <u>\$ 2,421,125</u>    | <u>\$ 3,547,812</u> |

For the year ended September 30, 2018, the Foundation had the following endowment-related activities:

|   | Unrestricted      | Temporarily Restricted | Permanently Restricted | Total               |
|---|-------------------|------------------------|------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 507,686        | \$ 125,950             | \$ 2,448,125           | \$ 3,081,761        |
| Additions                               | 293,021           | -                      | 3,000                  | 296,021             |
| Net investment gain                     | 25,491            | 144,539                | -                      | 170,030             |
| Reclassification of net assets          | 30,000            | -                      | (30,000)               | -                   |
| Endowment net assets, end of year       | <u>\$ 856,198</u> | <u>\$ 270,489</u>      | <u>\$ 2,421,125</u>    | <u>\$ 3,547,812</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 unrestricted net assets. As of September 30, 2018, there were no such deficiencies.

**Board designated endowment:** Net assets not subject to donor-imposed restrictions (unrestricted), but designated as part of the quasi-endowment fund by the Board of Directors.



## National Forest Foundation

### Notes to Financial Statements

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#### **Note 6. 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 \$81,000 for the year ended September 30, 2018.

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, 2018.

#### **Note 7. Line of Credit**

The Foundation has a \$1,000,000 line of credit that will expire on October 30, 2019. 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. There was no outstanding balance on the line at September 30, 2018.

#### **Note 8. 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.