

FLORESTA U.S.A., INCORPORATED

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

June 30, 2008 and 2007

FLORESTA U.S.A., INCORPORATED
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For the Years Ended June 30, 2008 and 2007

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FLORESTA U.S.A., INCORPORATED
STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 212,182	184,995
Contributions receivable	-	1,667
Property and equipment, net (Note 3)	24,449	21,953
Investments (Note 4)	175,000	175,000
Investment in Los Arbolitos (Note 5)	28,307	28,307
Prepaid expenses	25,403	18,161
Rent deposit	<u>3,267</u>	<u>1,850</u>
Total assets	<u>\$ 468,608</u>	<u>431,933</u>

See Accompanying Notes to Financial Statements

FLORESTA U.S.A., INCORPORATED
STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

LIABILITIES AND NET ASSETS

	2008	2007
Liabilities:		
Accounts payable and accrued expenses	\$ 28,778	21,338
Sales tax payable	377	377
Note payable (Note 6)	30,000	-
Total liabilities	59,155	21,715
Net assets:		
Unrestricted, as previously reported	322,903	244,097
Adjustment to recognize understatement of unrestricted revenue (Note 12)	-	9,762
Unrestricted, as restated	322,903	253,859
Temporarily restricted, as previously reported	86,550	76,913
Adjustment to recognize understatement of temporarily restricted revenue (Note 12)	-	79,446
Temporarily restricted, as restated (Note 10)	86,550	156,359
Total net assets	409,453	410,218
Total liabilities and net assets	\$ 468,608	431,933

See Accompanying Notes to Financial Statements

FLORESTA U.S.A., INCORPORATED
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2008 and 2007

	2008			2007
	Unrestricted	Temporarily Restricted	Total	
Changes in unrestricted net assets:				
Support and revenue:				
Donations from individuals, corporations and foundations	\$ 1,360,166	760,577	2,120,743	1,552,864
Interest and dividend income	17,045	-	17,045	13,317
Net assets released from restrictions	830,386	(830,386)	-	-
Total support and revenue	2,207,597	(69,809)	2,137,788	1,566,181
Expenditures:				
Program activities:				
Floresta Dominican Republic	384,177	-	384,177	308,622
Floresta Mexico	281,333	-	281,333	237,828
Floresta Haiti	455,700	-	455,700	304,546
Floresta Tanzania	210,322	-	210,322	137,754
Floresta Thailand	61,192	-	61,192	-
Other countries	49,973	-	49,973	30,647
Constituency education	393,677	-	393,677	247,657
Total program activities	1,836,374	-	1,836,374	1,267,054
Supporting activities:				
General and administrative	125,576	-	125,576	104,330
Fund raising	176,603	-	176,603	118,630
Total supporting activities	302,179	-	302,179	222,960
Total expenditures	2,138,553	-	2,138,553	1,490,014
Change in net assets	69,044	(69,809)	(765)	76,167
Net assets, beginning of year, as previously reported	244,097	76,913	321,010	334,051
Adjustment to recognize understatement of revenue (Note 12)	9,762	79,446	89,208	-
Net assets, beginning of year, as restated	253,859	156,359	410,218	334,051
Net assets, end of year	\$ 322,903	86,550	409,453	410,218

See Accompanying Notes to Financial Statements

FLORESTA U.S.A., INCORPORATED
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (765)	76,167
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	6,386	5,125
Amortization	1,173	587
Loss on disposal of assets	2,066	
Changes in assets and liabilities:		
Contributions receivable	1,667	(1,667)
Prepaid expenses and other assets	(8,659)	(18,161)
Accounts payable and accrued expenses	7,440	17,843
Sales tax payable	-	377
	9,308	80,271
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(12,121)	(11,313)
	(12,121)	(11,313)
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds from issuance of loan	30,000	-
	30,000	-
Net cash provided by financing activities		
Net increase in cash	27,187	68,958
Cash, beginning of year	184,995	116,037
Cash, end of year	\$ 212,182	184,995

See Accompanying Notes to Financial Statements

FLORESTA U.S.A., INCORPORATED
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2008
(With Comparative Totals for the Year Ended June 30, 2007)

	Program Activities							Supporting Activities			Total Year Ended June 30, 2008	Total Year Ended June 30, 2007	
	Dominican Expense	Mexico Expense	Haiti Expense	Tanzania Expense	Thailand Expense	Other Countries	Constituency Education	Total Program Activities	General and Administrative	Fund Raising			Total Supporting Activities
Allocations to International Programs	\$ 316,817	238,000	374,119	164,494	29,680	28,006	62,313	1,213,429	-	-	-	1,213,429	845,603
International Training & Consultants	22,424	9,416	33,834	19,723	21,939	16,733	33	124,102	-	-	-	124,102	-
Salary, Wages, Taxes and Benefits	32,360	25,838	39,991	18,936	6,275	4,390	157,042	284,832	96,610	77,655	174,265	459,097	68,563
Conferences, Trainings, Meetings, etc.	925	550	430	421	386	133	9,736	12,581	1,520	1,514	3,034	15,615	1,640
Professional/Consultant Fees	-	-	-	-	-	-	77,520	77,520	5,700	21,969	27,669	105,189	69,541
Development, Public Relations, & Events	-	-	-	-	38	-	25,032	25,070	-	36,318	36,318	61,388	49,501
Financial Fees, Taxes, State Registration	168	226	121	235	135	84	1,857	2,826	1,945	14,797	16,742	19,568	10,786
Travel	8,347	3,523	3,750	5,115	1,768	-	3,168	25,671	414	-	414	26,085	354,741
Rent	2,357	1,683	2,694	1,010	673	337	11,784	20,538	7,407	5,724	13,131	33,669	25,794
Printing & Publications	-	-	-	-	-	-	19,612	19,612	173	5,357	5,530	25,142	25,425
Office & Postage	779	600	761	388	298	290	23,807	26,923	11,766	6,201	17,967	44,890	33,487
Automobile expense	-	23	-	-	-	-	1,773	1,796	41	571	612	2,408	4,933
Program Merchandise for Resale	-	1,474	-	-	-	-	-	1,474	-	6,497	6,497	7,971	-
Total year ended June 30, 2008	\$ 384,177	281,333	455,700	210,322	61,192	49,973	393,677	1,836,374	125,576	176,603	302,179	2,138,553	1,490,014
Total year ended June 30, 2007	\$ 308,622	237,828	304,546	137,754	-	30,647	247,658	1,267,055	104,330	118,629	222,959		

See Accompanying Notes to Financial Statements

FLORESTA U.S.A., INCORPORATED
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

1. Organization

Floresta U.S.A., Incorporated (the Organization) is a non-profit California corporation, which incorporated on July 1, 1984, and is organized to raise funds for and provide intentionally holistic solutions to meet the economic, environmental, and spiritual needs of poor farmers in developing countries. Working in areas where poverty is caused by deforestation, the Organization restores the environment and empowers the poor. Current work includes projects in the Dominican Republic, Haiti, Mexico, Tanzania, Thailand, and Kenya.

The Organization is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and similar California state law, and contributions to it are deductible within the limitations prescribed by the Code. The Organization has been classified as a publicly supported organization which is not a private foundation under Section 509(a) of the Code.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The significant accounting policies followed are discussed below.

Financial Reporting

The Organization's net assets and its revenues, expenses, gains, and losses are reported based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets - permanently restricted, temporarily restricted and unrestricted - be displayed in a statement of financial position and that the amounts of changes in each of those classes of net assets be displayed in a statement of activities.

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

FLORESTA U.S.A., INCORPORATED
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2008 and 2007

2. Summary of Significant Accounting Policies, Continued

The Organization reports gifts of land, building, and equipment as unrestricted unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all financial instruments with original maturities of three months or less to be cash equivalents.

Property and Equipment

Furniture and equipment are recorded at cost. Depreciation is computed principally by the straight-line method based on the estimated useful lives of related assets.

Investments

The Organization accounts for investments pursuant to Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," under which marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Fair value is determined based on quoted prices on a national exchange. Unrealized gains and losses are included in the statement of activities as a change in net assets.

Investment in Los Arbolitos

The investment in Los Arbolitos is recorded at cost (see Note 5).

FLORESTA U.S.A., INCORPORATED
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2008 and 2007

2. Summary of Significant Accounting Policies, Continued

Donated Services

A number of unpaid volunteers have made contributions of their time to perform services on behalf of the Organization. Also, certain individuals have provided equipment for the Organization's use at no charge. The value of this contributed time and use of equipment is not reflected in the financial statements since it is not susceptible to objective measurement or valuation.

Reclassifications

The 2007 financial statements have been reclassified, where appropriate, to conform to classifications used in the 2008 financial statements.

Estimates and Assumptions

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

3. Property and Equipment

A summary of property and equipment at June 30, 2008 and 2007, is as follows:

	<u>2008</u>	<u>2007</u>
Furniture and equipment	\$ 42,973	39,807
Less accumulated depreciation	<u>(18,524)</u>	<u>(17,854)</u>
	<u>\$ 24,449</u>	<u>21,953</u>

FLORESTA U.S.A., INCORPORATED
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2008 and 2007

4. Investments

The Organization had \$175,000 invested in auction preferred stock of several funds at June 30, 2008 and 2007. This stock has recurring seven day liquidity except under extraordinary circumstances and a variable dividend rate determined by a weekly auction, currently an average of 3.95% at June 30, 2008. This investment is reported at fair market value (see Note 2).

5. Investment in Los Arbolitos

Los Arbolitos is a for-profit Dominican Republic corporation, jointly owned by the Organization, Floresta D.R., Inc., and private investors. At June 30, 2008 and 2007 the Organization held, as an investment, outstanding stock of Los Arbolitos with a cost basis of \$28,307, which fairly approximates fair market value.

6. Long-Term Debt

Long-term debt at June 30, 2008 consists of a note payable to an unrelated party. The note payable carries an interest rate of 1%, due in interest only annual installments, and matures on November 28, 2010. The note principal plus any unpaid interest is payable upon maturity.

7. Lease Commitment

The Organization has a lease agreement for its office premises which expires on December 31, 2009. Rent was \$33,669 and \$25,794 for the years ended June 30, 2008 and 2007, respectively.

Future minimum lease payments under the agreements are as follows:

2009	38,502
2010	<u>19,602</u>
	\$ <u><u>58,104</u></u>

FLORESTA U.S.A., INCORPORATED
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2008 and 2007

8. Simple IRA Plan

The Organization has a Simple IRA plan covering all employees who received at least \$5,000 in compensation during any 2 preceding calendar years and who will receive at least \$5,000 in compensation during the current year and each preceding year. The Organization matches the employee's contribution up to 3%. Organization contributions were approximately \$9,465 and \$8,658 for the years ended June 30, 2008 and 2007, respectively.

9. Concentration of Risk

Donor Concentration

The Organization's revenue activity is derived from individual, corporate and foundation contributions. During the fiscal years ended June 30, 2008 and 2007, donations received by the Organization from the ten largest donors represented 69% and 61% of total donations, respectively, representing a concentration of risk.

10. Temporarily Restricted Net Assets

Restricted Net Assets

Temporarily restricted net assets are donor-restricted for use as follows:

	<u>2008</u>	<u>2007</u>
Grant Writer	\$ 27,740	67,031
Reforestation	-	34,751
Public Relations	25,210	49,210
Dominican Republic	15,367	5,367
Tanzania	80	-
Thailand	13,295	-
Other Countries	<u>4,858</u>	<u>-</u>
	<u>\$ 86,550</u>	<u>156,359</u>

FLORESTA U.S.A., INCORPORATED
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2008 and 2007

10. Temporarily Restricted Net Assets, Continued

Net Assets Released From Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2008 and 2007, by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2008	2007
Grant Writer	\$ 39,291	48,339
Reforestation	39,010	29,625
Public Relations	24,000	22,790
Dominican Republic	186,842	211,580
Haiti	235,889	191,075
Mexico	160,079	101,738
Tanzania	95,988	53,685
Thailand	34,145	-
Other Countries	15,142	-
	\$ 830,386	658,832

11. Prior Year Comparative Financial Statements

The comparative information shown for the previous year is included to provide a basis for comparison and presents summarized totals only. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with Floresta's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

12. Restatement of Prior Year Financial Statements

The beginning net assets have been restated to reflect revenue that was recorded as deferred instead of temporarily restricted for the year ended June 30, 2007. The amount of revenue that should have been recorded as temporarily restricted was \$89,208. The effect of this correction was an increase in beginning net assets of \$89,208.