



Sonnenberg & Company, CPAs

A Professional Corporation

5190 Governor Drive, Suite 201, San Diego, California 92122

Phone: (858) 457-5252 • (800) 464-4HOA • Fax: (858) 457-2211 • (800) 303-4FAX



Leonard C. Sonnenberg, CPA

FLORESTA U.S.A., INCORPORATED AUDITED FINANCIAL STATEMENTS

Year Ended June 30, 2007

CONTENTS

Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-9
SUPPLEMENTARY INFORMATION	
Schedule of Functional Expenses – By Program	10



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Floresta U.S.A., Incorporated

We have audited the accompanying statement of financial position of Floresta U.S.A., Incorporated (Floresta) as of June 30, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Floresta's June 30, 2006 financial statements, which were audited by other auditors whose report dated December 19, 2006 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Floresta as of June 30, 2007, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on page 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

March 7, 2008

Sonnenberg & Company, CPAs

FLORESTA USA, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2007
(With Comparative Totals for 2006)

	2007	2006
ASSETS:		
Cash and cash equivalents	\$ 184,995	\$ 116,037
Contributions receivable	1,667	-
Investments	175,000	175,000
Investment in Los Arbolitos	28,307	28,307
Prepaid expenses	18,161	-
Rent deposit	1,850	1,850
Furniture and equipment	33,942	28,494
Less accumulated depreciation	(17,267)	(12,142)
Net furniture and equipment	16,675	16,352
Intangible assets	5,865	-
Less accumulated amortization	(587)	-
Net intangible assets	5,278	-
Total Assets	\$ 431,933	\$ 337,546
 LIABILITIES:		
Accounts payable and accrued expenses	\$ 21,338	\$ 3,495
Sales tax payable	377	-
Deferred revenue	89,208	-
Total Liabilities	110,923	3,495
 NET ASSETS:		
Unrestricted	244,097	218,681
Temporarily restricted	76,913	115,370
Total Net Assets	321,010	334,051
Total Liabilities and Net Assets	\$ 431,933	\$ 337,546

See accompanying notes to financial statements

FLORESTA USA, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007
(With Comparative Totals for 2006)

	2007			2006
	Unrestricted	Temporarily Restricted	Totals	Totals
REVENUES AND SUPPORT:				
Contributions	\$ 1,463,656	\$	\$ 1,463,656	\$ 1,239,900
Interest and dividend income	13,317		13,317	10,131
Net assets released from restrictions	38,457	(38,457)	-	-
TOTAL REVENUES	1,515,430	(38,457)	1,476,973	1,250,031
EXPENSES:				
Program Activities				
Floresta R.D., Inc., general support	308,622		308,622	247,088
Floresta Mexico	237,828		237,828	198,655
Floresta Haiti	304,546		304,546	231,339
Floresta Tanzania	137,754		137,754	122,905
Other countries	30,647		30,647	43,671
Constituency, communication and education	247,657		247,657	144,867
Total Program Activities	1,267,054	-	1,267,054	988,525
Supporting Activities:				
General and administrative	104,330		104,330	77,594
Fund raising	118,630		118,630	85,589
Total Supporting Activities	222,960		222,960	163,183
TOTAL EXPENSES	1,490,014	-	1,490,014	1,151,708
CHANGE IN NET ASSETS	25,416	(38,457)	(13,041)	98,323
Net Assets, Beginning of Year (Restated)	218,681	115,370	334,051	235,728
Net Assets, End of Year	\$ 244,097	\$ 76,913	\$ 321,010	\$ 334,051

See accompanying notes to financial statements

FLORESTA USA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2007
(With Comparative Totals for 2006)

	2007			2006	
	Program Services	Supporting Services		Total All Funds	Total All Funds
		Management & General	Fund Raising		
FUNCTIONAL EXPENSES:					
Allocations to International Program	\$ 830,218	\$ -	\$ -	\$ 830,218	\$ 668,859
International Training & Consultants	68,563	-	-	68,563	-
Salary, Wages, Taxes & Benefits	225,513	73,788	55,440	354,741	284,529
Travel	14,885	-	500	15,385	44,135
Professional/Consultant Fees	51,595	10,002	7,944	69,541	19,701
Printing and Publications	21,928	1,222	2,275	25,425	9,461
Rent	14,704	8,253	2,837	25,794	24,002
Development & Public Relations	21,774	-	27,727	49,501	58,451
Postage/Shipping	1,687	1,207	1,110	4,004	3,638
Office Expense	6,465	8,182	3,053	17,700	9,675
Telephone	1,566	796	124	2,486	2,231
Memberships, Seminars, Meetings	4,324	220	389	4,933	9,677
Commission & Bank Fees	2,004	119	8,663	10,786	10,066
Automobile Expense	931	541	168	1,640	1,684
Other	897	-	8,400	9,297	5,599
Total	<u>\$ 1,267,054</u>	<u>\$ 104,330</u>	<u>\$ 118,630</u>	<u>\$ 1,490,014</u>	<u>\$ 1,151,708</u>

See accompanying notes to financial statements

FLORESTA USA, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007
(With Comparative Totals for 2006)

	<u>2007</u>	<u>2006</u>
	<u>Totals</u>	<u>Totals</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (13,041)	\$ 98,323
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	5,125	2,873
Amortization	587	-
(Increase)/Decrease in:		
Contributions receivable	(1,667)	35,000
Prepaid expenses	(18,161)	-
Increase/(Decrease) in:		
Accounts payable and accrued expenses	17,843	(5,738)
Sales tax payable	377	-
Deferred revenue	89,208	-
Net Cash Provided by Operating Activities	<u>80,271</u>	<u>130,458</u>
Cash Flows from Investing Activities:		
Purchase of Intangible Assets	(5,865)	
Purchase of Investments	-	(25,000)
Purchase of fixed assets	(5,448)	(8,112)
Net Cash Provided (Used) by Investing Activities	<u>(11,313)</u>	<u>(33,112)</u>
Cash Flows from Financing Activities:		
Net Financing Activities	<u>-</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	68,958	97,346
Beginning Cash and Cash Equivalents	<u>116,037</u>	<u>18,691</u>
Ending Cash and Cash Equivalents	<u>\$ 184,995</u>	<u>\$ 116,037</u>

See accompanying notes to financial statements

FLORESTA U.S.A., INCORPORATED
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2007

Note 1: Organization

Floresta U.S.A., Incorporated (Floresta) is a non-profit California corporation, which incorporated on July 1, 1984, and is organized to raise funds for and provide technical assistance for agroforestry in the developing world. Floresta provides support to farmer, encourages the production of trees for domestic use, and promotes reforestation and land preservation. Current work includes projects in the Dominican Republic, Haiti, Mexico, Tanzania, and other countries. Floresta maintains its principal offices in San Diego, California.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of Floresta have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP) whereby all revenue is recognized when earned rather than received and expenses are recognized when incurred rather than paid.

Income Taxes

Floresta is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and similar California state law, Section 23701(d). No provision has been made in the financial statements for income taxes. Floresta has been classified as a publicly supported organization which is not a private foundation under Section 509(a) of the Code. Contributions to it are deductible within the limitations prescribed by the Code.

Financial Statement Presentation

Floresta reports information regarding its financial position and activities under Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations, under which has identified three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions.

Contributions

Floresta reports contributions received according to SFAS No. 116, Accounting for Contributions Received and Contributions Made. Accordingly, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions are recognized when the donor makes gifts of cash, unconditional promises to give, and other assets to Floresta.

FLORESTA U.S A., INCORPORATED
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2007

Note 2: Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

Per the provisions of FASB Statement No. 95, Statement of Cash Flows, cash equivalents consist primarily of money market funds, certificate of deposit (CD) accounts, and other short-term investments with original maturities of 90 days or less.

Investments

Floresta accounts for investments pursuant to SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organization, 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).

Property and Equipment

Property and equipment acquisitions are recorded at cost when purchased. If they are donated, they are recorded at fair value on the date of donation. Floresta's capitalization policy is \$500. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. All contributions of property and equipment are considered to be available for unrestricted use unless specifically restricted by the donor.

Donated Services

Floresta received a significant amount of donated services from unpaid volunteers who assist in fundraising and programs. Also, certain individuals have provided equipment for Floresta's use at no charge. The value of these volunteer services and use of equipment has not been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer effort have not been satisfied.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

FLORESTA U.S.A., INCORPORATED
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2007

Note 2: Summary of Significant Accounting Policies, Continued

Expense Allocations

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses, and the detailed Schedule of Functional Expenses by Program. Accordingly, certain costs have been allocated on an estimated basis between programs, fund raising, and administrative supporting activities.

Note 3: Cash and Cash Equivalents

Floresta maintains cash accounts with balances for operating as follows:

Petty cash		\$ 468
Checking	City National Bank	179,601
Money Fund	UBS Financial Services	<u>4,926</u>
Total		<u>\$ 184,995</u>

The amount of held in City National Bank at year end June 30, 2007 is in excess of the federally insured limit of \$100,000. Management believes that institution to be a high-credit, quality financial institution and does not believe that it is exposed to any significant credit risk on uninsured amounts.

Note 4: Investments

As of June 30, 2007, Floresta had \$175,000 invested in auction preferred stock of several funds. 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 5.11% at June 30, 2007. This investment is reported at fair market value (see Note 2).

Note 5: Investment in Los Arbolitos

Los Arbolitos is a for-profit Dominican Republic corporation, jointly owned by Floresta, Floresta R.D., Inc., and private investors. At June 30, 2007 Floresta held as an investment, outstanding stock of Los Arbolitos with a cost basis of \$28,307. During the year ended June 30, 2005, Los Arbolitos sold land which comprised a significant portion of Los Arbolitos' net worth. The proceeds were reinvested in a retail nursery outlet focusing on citrus and ornamental trees.

Note 6: Functional Allocation of Expenses

The costs of providing the various programs and supporting activities of Floresta have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting activities. For the year ended June 30, 2007, a total of \$1,491,331 has been allocated among program, fund raising, and general and administrative expense.

FLORESTA U.S.A., INCORPORATED
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2007

Note 7: Lease of Facilities

Floresta has lease agreements for its office premises, which would expire on July 31, 2007. Rent expense was \$25,794 for the year ended June 30, 2007.

Floresta has obtained the new lease agreement at the same location, from the period of August 1, 2007 to July 31, 2009.

Future minimum lease payments under the agreement are as follows:

2008	\$ 25,822
2009	27,005
2010	<u>2,257</u>
Total	\$ <u>55,084</u>

Note 8: Pension Plan

Floresta maintains a SIMPLE IRA retirement plan for its employees. Employees become eligible for enrollment in the pension plan on the first day of their third calendar year with Floresta as long as they earned at least \$5,000 in each of the preceding years. Floresta will match up to 3% of the employee's gross salary in contributions to the plan. In the year ending June 30, 2007, Floresta contributed \$8,658.

Note 9: 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, 2006, from which the summarized information was derived. Some items may have been reclassified for purposes of overall comparability and consistency of presentation.

Note 10: Restatement of Prior Year Financial Statements

Floresta had accommodated an organization in Tanzania, going by the name of Floresta Tanzania, which, due to governmental regulations in that country, was unable to incorporate its own non-profit legal status. However, Floresta provides support, and does not manage or control the entity. Floresta Tanzania has provided a copy of its audit report, similar to any other grantee. Accordingly, the cash balance of \$38,876 and corresponding fund balance have been removed from the financial statements as of June 30, 2006.

FLORESTA USA, INC.
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNCTIONAL EXPENSES - BY PROGRAM
 For the Year Ended June 30, 2007
 (With Comparative Totals for 2006)

	Dominican Expenses	Program Services			Other Countries	Constituency Comm & Educ	Total Program Services	Supporting Services		Total All Funds
		Mexico Expenses	Haiti Expenses	Tanzania Expenses				Management & General	Fund Raising	
Allocations to International Program	\$ 251,824	\$ 208,425	\$ 252,840	\$ 108,207	\$ 8,922	\$ -	\$ 830,218	\$ -	\$ -	\$ 830,218
International Training & Consultants	19,803	3,496	20,661	10,399	14,204	-	68,563	-	-	68,563
Salary, Wages, Taxes & Benefits	28,839	23,221	26,497	15,400	6,604	124,952	225,513	73,788	55,440	354,741
Travel	5,441	355	2,463	2,015	210	4,401	14,885	-	500	15,385
Professional/Consultant Fees	-	-	-	-	-	51,595	51,595	10,002	7,944	69,541
Printing and Publications	-	-	-	-	-	21,928	21,928	1,222	2,275	25,425
Rent	1,548	1,290	1,290	774	258	9,544	14,704	8,253	2,837	25,794
Development & Public Relations	-	-	-	-	-	21,774	21,774	-	27,727	49,501
Postage/Shipping	84	31	-	88	-	1,484	1,687	1,207	1,110	4,004
Office Expense	279	252	253	198	97	5,386	6,465	8,182	3,053	17,700
Telephone	149	124	124	75	25	1,069	1,566	796	124	2,486
Memberships, Seminars, Meetings	82	82	82	82	82	3,914	4,324	220	389	4,933
Commission & Bank Fees	463	466	256	467	232	120	2,004	119	8,663	10,786
Automobile Expense	110	86	80	49	13	593	931	541	168	1,640
Other	-	-	-	-	-	897	897	-	8,400	9,297
Totals, Year End June 30, 2007	\$ 308,622	\$ 237,828	\$ 304,546	\$ 137,754	\$ 30,647	\$ 247,657	\$ 1,267,054	\$ 104,330	\$ 118,629	\$ 1,490,014
Totals, Year End June 30, 2006	\$ 247,088	\$ 198,655	\$ 231,339	\$ 122,905	\$ 43,671	\$ 144,867	\$ 988,525	\$ 77,594	\$ 85,589	\$ 1,151,708

See Auditor's Report