

***National Arbor Day Foundation
d/b/a Arbor Day Foundation
Lincoln, Nebraska***

***June 30, 2020
With Comparative Totals for
June 30, 2019***

***Financial Statements
and
Independent Auditor's Report***



National Arbor Day Foundation
d/b/a Arbor Day Foundation

Year ended June 30, 2020
With Comparative Totals for the Year ended June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
National Arbor Day Foundation
d/b/a Arbor Day Foundation
Lincoln, Nebraska

Report on the Financial Statements

We have audited the accompanying financial statements of National Arbor Day Foundation d/b/a Arbor Day Foundation, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Arbor Day Foundation d/b/a Arbor Day Foundation as of June 30, 2020, 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 National Arbor Day Foundation d/b/a Arbor Day Foundation's June 30, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 23, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Emphasis of Matter

As discussed in Note B to the financial statements, in 2020, the entity adopted new accounting guidance ASU 2014-09, *Revenue from Contracts with Customers*, ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2020, on our consideration of National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of National Arbor Day Foundation d/b/a Arbor Day 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 National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control over financial reporting and compliance.



Lincoln, Nebraska
October 23, 2020

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National Arbor Day Foundation
d/b/a Arbor Day Foundation

STATEMENT OF FINANCIAL POSITION

June 30, 2020
With comparative totals as of June 30, 2019

ASSETS

	2020	2019
CURRENT ASSETS		
Cash and cash equivalents (notes A and F)	\$ 11,624,967	\$ 2,008,809
Certificates of deposit	11,114,973	-
Investments (notes A, C, F and O)	7,839,276	7,837,468
Accounts receivable, net of allowance of \$350,000 (2020) and \$0 (2019) (note A)	395,254	1,447,112
Unconditional promises to give (note A)	4,422,443	2,715,074
Grants receivable (note A)	436,813	597,771
Prepaid expense	1,315,715	519,109
Inventory (notes A and D)	5,274,737	4,129,434
Total current assets	42,424,178	19,254,777
PROPERTY AND EQUIPMENT, net (notes A and E)	29,088,873	28,736,696
OTHER ASSETS		
Restricted cash	1,187,832	1,178,106
Assets held for deferred compensation plan	34,098	17,159
Intangible asset	31,467	-
Construction in progress	21,581	822,421
Contributions receivable from charitable trusts (notes F and O)	29,916	30,139
Total assets	\$ 72,817,945	\$ 50,039,298
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 2,180,946	\$ 1,930,124
Accrued expenses (note A)	11,525,486	4,726,805
Current maturities of long-term obligations (note H)	1,021,135	672,520
Conditional contributions (note A)	4,613,169	3,181,746
Deferred revenue (note A)	79,185	-
Total current liabilities	19,419,921	10,511,195
LONG-TERM OBLIGATIONS		
Conditional contributions (note A)	-	571,429
Long-term obligations, net of current maturities (note H)	1,643,165	20,373
Total long-term obligations	1,643,165	591,802
OTHER LIABILITIES		
Annuities payable (notes F and O)	895,500	732,991
Total liabilities	21,958,586	11,835,988
NET ASSETS (notes A and I)		
Without donor restrictions		
Undesignated	40,579,722	27,704,048
Designated	9,410,362	9,431,154
With donor restrictions	869,275	1,068,108
Total net assets	50,859,359	38,203,310
Total liabilities and net assets	\$ 72,817,945	\$ 50,039,298

See accompanying notes to financial statements.

National Arbor Day Foundation
d/b/a Arbor Day Foundation

STATEMENT OF ACTIVITIES

Year ended June 30, 2020
With comparative totals for the year ended June 30, 2019

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
CHANGES IN NET ASSETS				
Revenue and support				
Membership dues	\$ 13,713,943	\$ -	\$ 13,713,943	\$ 14,001,349
Contributions	52,690,027	169,315	52,859,342	25,126,373
Trees for America	4,539,579	-	4,539,579	4,763,456
Program grant income (note J)	2,581,167	-	2,581,167	1,927,723
Arbor Day Farm income	7,327,700	-	7,327,700	9,426,800
Rain Forest Rescue income	1,976,806	-	1,976,806	3,210,969
Other income (note K)	1,915,074	(235,397)	1,679,677	1,676,257
Net assets released from restrictions (note A)	132,751	(132,751)	-	-
Total revenue and support	84,877,047	(198,833)	84,678,214	60,132,927
Expenses				
Program services				
Tree City USA	1,357,791	-	1,357,791	1,159,578
Arbor Day/Youth Education	1,484,684	-	1,484,684	2,965,839
Rain Forest Rescue	3,847,044	-	3,847,044	4,789,764
Trees for America	37,882,482	-	37,882,482	22,989,138
Arbor Day Farm	11,161,641	-	11,161,641	11,825,022
Conference programs	820,720	-	820,720	632,759
Supporting activities				
General and administrative	6,478,094	-	6,478,094	6,367,102
Membership development	5,374,721	-	5,374,721	4,906,077
Fundraising	3,560,540	-	3,560,540	3,483,591
Total expenses	71,967,717	-	71,967,717	59,118,870
INCREASE (DECREASE) IN NET ASSETS	12,909,330	(198,833)	12,710,497	1,014,057
Net assets, beginning of year	37,135,202	1,068,108	38,203,310	37,189,253
Cumulative effect of adoption of ASC 606 (note B)	(54,448)	-	(54,448)	-
Net assets, beginning of year as restated	37,080,754	1,068,108	38,148,862	37,189,253
Net assets, end of year	\$ 49,990,084	\$ 869,275	\$ 50,859,359	\$ 38,203,310

See accompanying notes to financial statements.

National Arbor Day Foundation
d/b/a Arbor Day Foundation

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2020
With comparative totals for the year ended June 30, 2019

	Program Services				
	Tree City USA	Arbor Day/ Youth Education	Rain Forest Rescue	Trees for America	Arbor Day Farm
Salaries, payroll taxes and employee benefits (note M)	\$ 551,846	\$ 193,371	\$ 422,997	\$ 3,364,079	\$ 5,053,919
Contract labor	1,000	111,379	-	100,246	175,563
Advertising and promotion (note A)	31,850	10,400	15,148	203,535	306,245
Printing, publications, mailing, and photography	199,802	572,690	1,451,092	3,081,895	168,800
Travel and mileage	18,469	50,850	24,661	146,230	59,184
Professional services	66,890	119,191	8,690	1,221,213	143,657
Recognition material	1,199	100	259	1,558	7,108
Professional development	544	92	216	3,935	7,836
Taxes	1,264	1,262	564	5,373	274,575
Repairs and maintenance	4,371	23,310	4,473	9,174	372,617
Tree purchases and shipping expenses	58,799	32,729	38,917	5,983,363	-
Reforestation expenses	-	-	-	14,246,897	203
Rain forest preservation	-	-	18,934	-	-
Inventory purchases	239,676	101,252	1,143,726	-	1,209,243
Computer services	47,512	683	80	295,045	78,861
Bank charges	182	252	573	837,357	155,148
Insurance	1,320	1,320	6,237	1,907	207,208
Telephone and utilities	6,843	5,543	4,715	72,430	591,655
Postage	99,120	219,729	328,632	1,051,000	123,724
Office supplies	1,477	491	561	8,042	12,606
Operating supplies	1,381	1,889	8,363	8,490	493,701
Dues and subscriptions	2,020	7,424	3,582	58,803	15,061
Interest expense	-	-	-	-	10,809
Bad debts	-	-	351,157	2,224	571
Rental expense (note L)	23	-	-	5,214	53,883
Depreciation (note E)	17,453	17,453	8,865	48,649	1,573,084
Subsidies for community tree planting initiatives	-	11,356	-	1,242,336	-
Reforestation carbon credits	-	-	-	5,878,083	-
Miscellaneous	4,750	1,918	4,602	5,404	66,380
TOTAL EXPENSES	\$ 1,357,791	\$ 1,484,684	\$ 3,847,044	\$ 37,882,482	\$ 11,161,641
TOTAL EXPENSES June 30, 2019	\$ 1,159,578	\$ 2,965,839	\$ 4,789,764	\$ 22,989,138	\$ 11,825,022

See accompanying notes to financial statements.

Supporting Activities

Conference Programs	Total Program Services	General and Administrative	Membership Development	Fund Raising	2020 Totals	2019 Totals
\$ 128,780	\$ 9,714,992	\$ 3,960,440	\$ 886,685	\$ 1,070,689	\$ 15,632,806	\$ 15,886,866
-	388,188	19,707	-	-	407,895	200,852
181	567,359	168,559	348	6,762	743,028	1,425,371
251	5,474,530	100,116	1,660,206	1,209,165	8,444,017	8,525,554
22,518	321,912	107,362	10,883	140,561	580,718	789,955
83,389	1,643,030	283,708	86,793	46,218	2,059,749	1,689,664
-	10,224	12,126	-	814	23,164	21,505
22	12,645	31,805	-	6,298	50,748	54,394
88	283,126	40,796	6,897	10,113	340,932	356,468
-	413,945	108,339	136,001	26,712	684,997	615,723
-	6,113,808	-	1,571	110	6,115,489	5,743,243
-	14,247,100	-	-	-	14,247,100	4,211,903
-	18,934	-	-	-	18,934	17,756
-	2,693,897	13,709	-	199,868	2,907,474	4,136,618
-	422,181	549,166	992	23,403	995,742	762,742
2,882	996,394	32,522	-	543	1,029,459	508,041
425	218,417	71,851	8,202	8,066	306,536	303,191
454	681,640	21,550	30,646	38,874	772,710	767,336
968	1,823,173	17,004	2,399,220	636,197	4,875,594	4,700,159
1,283	24,460	32,752	2,659	3,126	62,997	69,602
382,255	896,079	50,201	3,685	6,883	956,848	892,671
760	87,650	21,519	4,396	18,038	131,603	98,374
-	10,809	5,646	-	-	16,455	39,442
-	353,952	7,333	-	-	361,285	16,765
60,846	119,966	43,741	-	-	163,707	150,413
-	1,665,504	604,808	108,459	106,658	2,485,429	2,326,862
-	1,253,692	-	-	-	1,253,692	2,356,392
-	5,878,083	-	-	-	5,878,083	2,193,576
135,618	218,672	173,334	27,078	1,442	420,526	257,432
<u>\$ 820,720</u>	<u>\$ 56,554,362</u>	<u>\$ 6,478,094</u>	<u>\$ 5,374,721</u>	<u>\$ 3,560,540</u>	<u>\$ 71,967,717</u>	
<u>\$ 632,759</u>	<u>\$ 44,362,100</u>	<u>\$ 6,367,102</u>	<u>\$ 4,906,077</u>	<u>\$ 3,483,591</u>		<u>\$ 59,118,870</u>

National Arbor Day Foundation
d/b/a Arbor Day Foundation

STATEMENT OF CASH FLOWS

Year ended June 30, 2020
With comparative totals for the year ended June 30, 2019

	2020	2019
Cash flows from operating activities		
Cash received from revenue and support	\$ 84,651,895	\$ 57,685,838
Cash paid to employees and suppliers	(63,801,268)	(58,314,864)
Interest received	211,736	153,068
Interest paid	(16,455)	(40,635)
Net cash provided (used) by operating activities	21,045,908	(516,593)
Cash flows from investing activities		
Purchase of certificates of deposit	(11,096,841)	-
Purchase of investments	(193,180)	(105,811)
Proceeds from the sale of investments	155,662	137,113
Purchase of property and equipment	(2,136,687)	(2,756,954)
Net cash used by investing activities	(13,271,046)	(2,725,652)
Cash flows from financing activities		
Proceeds from long-term obligations	2,664,300	-
Principal payments on long-term obligations	(692,893)	(647,594)
Payments on annuities	(120,385)	(137,113)
Net cash provided (used) by financing activities	1,851,022	(784,707)
Net increase (decrease) in cash, cash equivalents, and restricted cash	9,625,884	(4,026,952)
Cash, cash equivalents, and restricted cash, beginning of year	3,186,915	7,213,867
Cash, cash equivalents, and restricted cash, end of year	\$ 12,812,799	\$ 3,186,915
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Increase in net assets	\$ 12,710,497	\$ 1,014,057
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation	2,485,429	2,326,862
Reinvested interest	(18,132)	-
Bad debt write off	361,285	-
Investment loss	191,595	324,922
Actuarial loss on annuities	72,689	83,033
Decrease in contributions for annuity liabilities	54,543	23,889
Donated property and equipment	-	(29,101)
(Increase) decrease in assets		
Accounts receivable	690,573	67,568
Unconditional promises to give	(1,707,369)	(1,452,937)
Grants receivable	160,958	(57,415)
Prepaid expense	(796,606)	(172,343)
Inventory	(1,145,303)	(1,767,937)
Assets held for deferred compensation plan	(16,939)	(17,159)
Increase (decrease) in liabilities		
Accounts payable	319,276	(65,367)
Accrued expenses	6,798,681	442,156
Conditional contributions	859,994	(665,392)
Deferred revenue	24,737	(571,429)
Total adjustments to increase in net assets	8,335,411	(1,530,650)
Net cash provided (used) by operating activities	\$ 21,045,908	\$ (516,593)
Supplemental disclosure of noncash information:		
Noncash investing activities		
Accounts payable assumed for property and equipment purchases	\$ 161,844	\$ 230,298
In-kind donations of property and equipment	\$ -	\$ 29,101
Cash, cash equivalents, and restricted cash reported within the statements of financial position that sum to the total of the same such amounts shown above include:		
Cash and cash equivalents	\$ 11,624,967	\$ 2,008,809
Restricted cash	1,187,832	1,178,106
Cash, cash equivalents, and restricted cash	\$ 12,812,799	\$ 3,186,915

See accompanying notes to financial statements.

National Arbor Day Foundation
d/b/a Arbor Day Foundation

NOTES TO FINANCIAL STATEMENTS

The National Arbor Day Foundation d/b/a Arbor Day Foundation (the Foundation) was incorporated under the Nebraska Nonprofit Corporation Act on September 3, 1971. The purpose of the Foundation is to engage in educational and charitable activities including officially promoting the annual observance of Arbor Day; inspiring people to plant, nurture, and celebrate trees; stimulating a world-wide program of tree and horticultural planting and care; advancing nature education and environmental education; and maintaining Arbor Day Farm, the estate of J. Sterling Morton, founder of the Arbor Day holiday.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting. The accompanying financial statements have been prepared on the accrual basis of accounting.

Net Asset Classification. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without donor restrictions. Net assets available for use in general operations and not subject to donor or grantor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

With donor restrictions. Net assets subject to donor- or grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both, and are reported in the statements of activities as net assets released from restrictions.

Contributions restricted by donors received in the same period when the associated stipulated time or purpose restriction is accomplished are reported as increases in net assets without donor restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions.

Cash and Cash Equivalents. For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments. Investments in 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. Unrealized gains and losses are included in the statement of activities. Donated securities are recorded as contributions equal to the fair market value of the securities at the date of gift.

Accounts Receivable. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

National Arbor Day Foundation
d/b/a Arbor Day Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts receivable due from customers are uncollateralized customer obligations due under normal trade terms either due upon receipt or requiring payment within 30 days from the invoice date. Accounts receivable are stated at the amount billed to the customer. The Foundation does not charge interest on overdue customer account balances. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

Grants Receivable. Grants receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history of grantors having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Revenue Recognition. The following is a description of the Foundation's principal sources of revenue:

Government and Other Grants.

The Foundation is the recipient of federal, state, and local grants to fund its primary programs. Grants consist primarily of conditional grants, that is, those with a measurable performance or other barrier, and a right of return. Grants are not recognized until the conditions on which they depend have been substantially met. The federal, state and local grants are conditioned upon the incurrence of allowable qualifying expenses. Grants are recorded as revenue when the related approved expenditures are made. Unearned grant revenue represents advances of grant funds received prior to the incurrence of related costs by the Foundation.

Contributions.

Contributions are recognized when a donor makes a promise to give that is, in substance, unconditional. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Conditional contributions received prior to the satisfaction of significant conditions are recognized as liabilities on the statement of financial position.

Sales of Goods or Services.

Fees charged to program users are recognized at a point in time as the Foundation satisfies its performance obligations by transferring program goods or services to users. The Foundation's primary fees relate to conference revenue, tree sales, Arbor Day Farm revenues (food, beverage, merchandise, activity and hotel/conference center rentals), and Rain Forest Rescue revenues, in which program users simultaneously consume and receive benefits. Any program fees prepaid by users are accounted for as deferred revenue until the Foundation satisfies its obligations to provide the related program goods or services.

The Foundation records the freight billed to customers as sales revenue and the related freight costs as cost of goods sold.

The Foundation collects sales tax from all nonexempt customers at the rate in effect in the state where the delivery occurs if the Foundation has nexus in the state. The Foundation's accounting policy is to exclude the tax collected from revenue and remit the balance to the appropriate state.

Membership Dues.

Dues are charged to members based on the length of time an individual has been a member and the length of the memberships. Some members, based upon the level of membership, receive trees as a part of their membership, thus membership dues are split with a portion recognized when received as a contribution and the remaining balance deferred until the trees are shipped to the member.

National Arbor Day Foundation
d/b/a Arbor Day Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventory. Inventory is stated at the lower of cost or net realizable value determined by the first-in, first-out method.

Property and Equipment and Depreciation. Property and equipment are carried at cost, if purchased, and at fair market value at the date of contribution, if received by donation, less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives computed primarily on the straight-line method. It is the Foundation's policy to capitalize property and equipment with a cost of \$5,000 or more and an estimated useful life of greater than one year. The cost of routine maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. The estimated lives by asset class follow:

Buildings	5-50 years
Leasehold improvements	20 years
Farm improvements	5-32 years
Orchards	5-20 years
Computer hardware	5-10 years
Lied Lodge and Conference Center equipment and improvements	3-30 years
Furniture and equipment	5-30 years
Computer software	5-10 years

Accrued Vacation. The Foundation's vacation pay policy allows full-time employees 80 hours of vacation time for the first year of full-time employment, increasing each year of employment up to a maximum of 160 hours per year after 10 years of employment. Vacation time is also available on a pro-rata basis for regular part-time employees. Up to 160 hours of accrued vacation time may be carried into a new calendar year but no more than 160 hours may be accumulated and unused at anytime. All accumulated vacation time is paid out upon termination. Accrued vacation for the years ended June 30, 2020 and 2019 was \$590,457 and \$512,610, respectively.

Contract Balances. Contracts assets represent the Foundation's right to consideration in exchange for services that have been transferred to the customer before payment is due. Contract liabilities include consideration due or paid by a customer prior to when the Foundation transfers services and represent the Foundation's obligation to the customer. The Foundation refers to contract assets and contract liabilities as accounts receivable and deferred revenue on the statement of financial position.

Leases. Assets which are acquired by lease-purchase agreements and meet the criteria of a capital lease are recorded as assets and obligations at the lesser of the following:

- (1) An amount equal to the present value, at the beginning of the lease term, of minimum lease payments during the lease term, excluding that portion of the payments representing executory costs to be paid by the lessor, together with any profit thereon.
- (2) Fair value of the leased property at the inception of the lease.

Rental payments under agreements which meet the criteria of an operating lease are expensed when paid.

National Arbor Day Foundation
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NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Advertising. The Foundation expenses advertising as incurred. Advertising expense for the years ended June 30, 2020 and 2019 was \$743,028 and \$1,425,371, respectively.

Functionalized Expenses. The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy, depreciation and property insurance, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance and other, which are allocated on the basis of estimates of time and effort.

Fair Value Measurements. The Financial Accounting Standards Board has issued guidance defining fair value, establishing a framework for measuring fair value and expanding disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation utilizes a fair value hierarchy to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none">• quoted prices for similar assets or liabilities in active markets;• quoted prices for identical or similar assets or liabilities in inactive markets;• inputs other than quoted prices that are observable for the asset or liability;• inputs that are derived principally from or corroborated by observable market data by correlation or other means. |

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- | | |
|---------|---|
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |
|---------|---|

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

National Arbor Day Foundation
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NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes. The Foundation is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. As such, income earned in the performance of its exempt purpose is not subject to income tax. Any income earned through activities not related to its exempt purpose is subject to income tax at normal corporate rates.

Use of Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Financial 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 generally accepted accounting principles in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

NOTE B - NEW ACCOUNTING STANDARDS

Contributions

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. For nonexchange transactions, the contribution guidance in ASC 958 is typically applied, whereas for exchange transactions, an entity should apply ASC 606 or other appropriate guidance. The Foundation has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU removed some disclosures; modified others, and added some new disclosure requirements. The ASU is effective for all entities for fiscal years beginning after December 15, 2019; however, the Foundation early adopted the standard, effective for the year ended December 31, 2019, as permitted by the standard. See Note O for disclosure of the Foundation's assets and liabilities measured at fair value.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 provides a single model for entities to use in accounting for revenue arising from contracts with customers. The new standard also requires expanded disclosures regarding the qualitative and quantitative information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has subsequently issued additional, clarifying standards to address issues arising from implementation of the new revenue recognition standard. ASU 2014-09 and all subsequently issued amendments, collectively "ASC 606," is effective for annual reporting periods beginning after December 15, 2019, but early adoption is permitted. The standard permits the use of either a full retrospective or a modified retrospective approach.

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NOTES TO FINANCIAL STATEMENTS

NOTE B - NEW ACCOUNTING STANDARDS - CONTINUED

Revenue Recognition - Continued.

The most significant impact of the standard relates to the accounting for membership dues.

The Foundation adopted ASC 606 on July 1, 2019 using the modified retrospective method, through a cumulative-effect adjustment to net assets as of the effective date. The revenue recognition policies disclosed in Note A reflect the impact of the adoption of the standard. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The impact of the adoption of ASC 606 on the statement of financial position as of June 30, 2020 was as follows:

	As Reported	Adjustments	Balances without adoption of ASC 606
Deferred revenue	\$ 79,185	\$ (54,448)	\$ 24,737
Total liabilities	\$ 21,958,586	\$ (54,448)	\$ 21,904,138
Total net assets	\$ 50,859,359	\$ 54,448	\$ 50,913,807

The impact of the adoption of ASC 606 on the statement of activities for the year ended June 30, 2020 was as follows:

	As Reported	Adjustments	Balances without adoption of ASC 606
Membership dues	\$ 13,713,943	\$ 54,448	\$ 13,768,391
Total revenue and support	\$ 84,678,214	\$ 54,448	\$ 84,732,662
Net increase in net assets	\$ 12,710,497	\$ 54,448	\$ 12,764,945

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NOTES TO FINANCIAL STATEMENTS

NOTE C - INVESTMENTS

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Investments consist of:				
Mutual funds	\$ 7,025,452	\$ 7,683,035	\$ 7,357,956	\$ 7,682,317
Agency bonds	75,480	77,527	75,722	76,587
Exchange traded funds	61,379	78,714	62,099	78,564
	<u>\$ 7,162,311</u>	<u>\$ 7,839,276</u>	<u>\$ 7,495,777</u>	<u>\$ 7,837,468</u>
Unrealized gains		<u>\$ 676,965</u>		<u>\$ 341,691</u>

Other income - investment income (loss) consists of:

	2020	2019
Interest and dividend income	\$ 150,575	\$ 213,451
Realized gains	50,004	66,577
Unrealized losses	(362,088)	(84,246)
Investment management fees	(30,086)	(31,613)
	<u>\$ (191,595)</u>	<u>\$ 164,169</u>

NOTE D - INVENTORY

Inventory consists of:

	2020	2019
Food and beverage inventory	\$ 219,348	\$ 260,116
Merchandise inventory	81,375	121,638
Coffee inventory	339,153	298,985
Catalog inventory	251,166	201,154
Other print inventory	23,344	72,456
Greenhouse inventory	110,586	77,651
Carbon inventory	4,230,829	3,043,904
Miscellaneous inventory	18,936	53,530
	<u>\$ 5,274,737</u>	<u>\$ 4,129,434</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consists of:

	2020	2019
Land	\$ 4,496,809	\$ 4,496,807
Buildings	38,313,390	37,241,476
Leasehold improvements	125,082	125,082
Farm improvements	2,776,092	1,563,981
Orchards	78,210	78,210
Computer hardware	2,757,390	2,673,714
Lied Lodge and Conference Center equipment and improvements	4,504,573	4,504,563
Furniture and equipment	4,586,659	4,350,675
Computer software	4,349,068	4,115,692
	61,987,273	59,150,200
Less accumulated depreciation	(32,898,400)	(30,413,504)
	\$ 29,088,873	\$ 28,736,696

Depreciation expense for the years ended June 30, 2020 and 2019 was \$2,485,429 and \$2,326,862, respectively.

NOTE F - SPLIT-INTEREST AGREEMENTS

The Foundation has entered into charitable gift annuity contracts which provide for periodic distributions to the donor over a specified period of time, usually the life of the donor. Any amounts remaining, after all distributions have been made, are left to the Foundation.

When a gift annuity is created, the value of the annuity contract (payments due the annuitant) is treated as a liability of the Foundation. The discount rate used in calculating the annuity obligation is the prime rate at measurement date and the actuarial assumptions used in calculating the annuity obligation are those provided in actuarial tables. The difference between this liability and the total amount deposited by the annuitant is treated as a current contribution for that portion which ultimately accrues to the Foundation.

For the agreements where the Foundation is not the trustee, the Foundation has recorded an asset included in the caption "contributions receivable from charitable trusts" which represents its beneficial interest in the agreements.

For the years ended June 30, 2020 and 2019, contributions include gift annuity contracts valued at \$150,271 and \$47,374, respectively, after recognizing the liabilities relating to the annuity contracts.

The Foundation complies with requirements of various states' laws, including mandated annuity reserves and limitations on the manner in which net assets are invested.

Assets of the Foundation, as derived from split-interest agreements, are as follows:

Cash and cash equivalents	\$ 18,223	\$ 36,687
Contributions receivable from charitable trusts	29,916	30,139
Investments	1,458,733	1,436,225
	\$ 1,506,872	\$ 1,503,051

National Arbor Day Foundation
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NOTES TO FINANCIAL STATEMENTS

NOTE G - REVOLVING CREDIT NOTE PAYABLE AND LETTER OF CREDIT

The Foundation has secured a revolving credit note agreement with a financial institution, which provides it may borrow up to \$3,000,000 at the bank's variable interest rate. The note is secured by substantially all of the assets of the Foundation. No amounts had been borrowed on the revolving credit note as of June 30, 2020 and 2019. The revolving credit note expires January 31, 2021.

In addition, the Foundation has established an irrevocable letter of credit of \$1,027,788 for both years ended June 30, 2020 and 2019, for securing payment drawn in favor of a USDA Forest Service agreement. The letter of credit matures on January 31, 2021 and may be renewed at that time. The fee for the letter of credit is waived. There was no outstanding balance under the letter of credit as of June 30, 2020 and 2019.

NOTE H - LONG-TERM OBLIGATIONS

Long-term obligations consist of:

	2020	2019
Note payable to Union Bank & Trust Co., Lincoln, Nebraska, with 3.75% interest. Secured by substantially all assets of the Foundation. Payable in monthly installments of \$54,989. This note was paid off on February 29, 2020.	\$ -	\$ 646,254
Note payable to Union Bank & Trust Co., Lincoln, Nebraska, with 3.95% interest. Secured by real estate in Lincoln, Nebraska and Otoe County, Nebraska. Payable in monthly installments of \$2,302. This note was paid off on February 29, 2020.	-	46,639
Note payable to Union Bank & Trust Co., Lincoln, Nebraska, dated April 10, 2020 was granted to the Foundation pursuant to the Paycheck Protection Program (the "PPP"). The note matures on April 10, 2022 and bears an interest rate of 1% per annum, payable in monthly installments of \$149,966 commencing on November 10, 2020. The note may be eligible for partial or complete forgiveness when used on qualifying expenses. In July, Union Bank & Trust Co. notified the Foundation of an extended deferral of payments to 10-months after the end of the Foundation's forgiveness covered period if a loan forgiveness application is not submitted. The Foundation now has until July 24, 2021 to submit for forgiveness or begin repayments. The Foundation intends to apply for forgiveness. Maturities are outlined based on the original note because a revised payment schedule with the lender will not be established until it is necessary.	2,664,300	-
Less current maturities	2,664,300 (1,021,135)	692,893 (672,520)
	\$ 1,643,165	\$ 20,373

National Arbor Day Foundation
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NOTES TO FINANCIAL STATEMENTS

NOTE H - LONG-TERM OBLIGATIONS - CONTINUED

Aggregate annual maturities of long-term obligations for the years following June 30, 2020, are as follows:

<u>Year ending June 30,</u>	
2021	\$ 1,021,135
2022	<u>1,643,165</u>
	<u>\$ 2,664,300</u>

NOTE I - NET ASSETS

Net assets without donor restrictions have been designated by the governing board as follows:

	2020	2019
Board designated:		
Board designated reserve fund (cash and investments)	\$ 6,105,746	\$ 6,134,723
Board designated reserve fund (property)	3,075,257	3,075,257
Quasi-endowment fund	<u>229,359</u>	<u>221,174</u>
	<u>\$ 9,410,362</u>	<u>\$ 9,431,154</u>
Net assets with donor restrictions comprise the following:		
Subject to purpose restrictions:		
Exhibition center	\$ 109,000	\$ 209,000
Earnings on permanently restricted endowment funds	24,053	22,737
Hazelnut project	-	32,751
Subject to time restrictions:		
Split-interest agreements	695,779	763,177
Subject to perpetual restrictions:		
Permanent endowments	<u>40,443</u>	<u>40,443</u>
	<u>\$ 869,275</u>	<u>\$ 1,068,108</u>

National Arbor Day Foundation
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NOTES TO FINANCIAL STATEMENTS

NOTE J - PROGRAM GRANTS

During the years ended June 30, 2020 and 2019, grant income consisted of:

Grant Source	Grant Purpose	2020	2019
Government:			
U.S. Department of Agriculture	Tree City USA	\$ 197,000	\$ 237,091
	Public Service Ads	140,000	-
	Partners Conference Support	4,008	4,885
	Urban Community Forestry Program	64,048	386,738
	NIFA Specialty Crop Research Initiative	68,406	99,444
	Sustainable Urban Forests Coalition	141,869	168,772
	Trees and Health	59,908	-
	Economic Impact of Urban Forestry	44,870	-
	Biofuel Infrastructure	26,954	-
	Orchard Ozone Project	27,200	43,400
		<u>774,263</u>	<u>940,330</u>
State of Nebraska	Environmental Trust/Pollution	60,000	-
	Tourism Marketing	13,163	-
		<u>73,163</u>	<u>-</u>
State of Vermont	Cooperative Forestry Assistance	-	25,300
		<u>847,426</u>	<u>965,630</u>
Government grant income			
Private:			
PriceWaterhouseCoopers		650,000	-
CSX		14,000	54,000
Peed Foundation		300,000	-
TD Green Streets		-	250,000
Kropp/Nelson		10,000	20,000
Earthshare		289	3,562
Sunderland		-	575,000
TD Tree Days		237,267	42,000
Fogg Charitable Trust		40,000	-
Daugherty Foundation		100,000	-
Hubbard Foundation		50,000	-
Iowa West Foundation		56,250	-
Peter Kiewit Foundation		100,000	-
UPS Foundation		153,935	-
Others		22,000	17,531
		<u>1,733,741</u>	<u>962,093</u>
	Private grant income	<u>1,733,741</u>	<u>962,093</u>
	Total grant income	<u>\$ 2,581,167</u>	<u>\$ 1,927,723</u>

National Arbor Day Foundation
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NOTES TO FINANCIAL STATEMENTS

NOTE K - OTHER INCOME

Other income consists of:

	2020	2019
List rental income	\$ 489,965	\$ 507,411
Education material sales	212,367	88,796
Tree City USA material sales	36,167	46,004
Conference and training	762,152	567,166
Rental income	102,049	135,268
Royalty income	35,000	14,375
Investment income (loss)	(191,595)	164,169
Interest income	229,868	153,068
Other income	3,704	-
	\$ 1,679,677	\$ 1,676,257

NOTE L - LEASES

As Lessee

The Foundation has an agreement to lease Steinhart Lodge from the City of Nebraska City for a term of 99 years commencing June 1, 1985 for the sum of \$1. The Foundation has the option to extend the agreement for an additional term of 99 years for the total sum of \$1. Since the lease term extends beyond the economic life of the asset, the Steinhart Lodge lease has been shown as a capital addition at a value of \$297,750. Steinhart Lodge is part of Arbor Day Farm.

The Foundation leases real property under two operating lease agreements. Under the first agreement, lease payments are \$42,000 plus inflation adjustments annually through December 31, 2098. The Foundation subleased the first operating lease to another party under the same terms as the Foundation's. Under the second agreement, lease payments are \$26,400 annually through December 31, 2046.

The Foundation leases building space under an operating lease agreement. The term of the lease is from August 1, 2009 through December 31, 2018. Under the agreement, lease payments were \$23,140 annually through December 31, 2013 and \$25,396 annually from January 1, 2014 through December 31, 2018. On January 1, 2019 the lease was renewed through December 31, 2021 at the same annual rate.

The Foundation leases office equipment under an operating lease agreement. The term of the lease is from June 9, 2020 through June 8, 2025. Under the agreement, lease payments are \$764 per month.

Rent expense for the years ended June 30, 2020 and 2019 was \$163,707 and \$150,413, respectively.

National Arbor Day Foundation
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NOTES TO FINANCIAL STATEMENTS

NOTE L - LEASES - CONTINUED

Future minimum lease payments for the years following June 30, 2020 are as follows:

<u>Year ending June 30,</u>	
2021	\$ 60,962
2022	48,264
2023	35,566
2024	35,566
2025	26,400
2026 and thereafter	<u>567,600</u>
	<u>\$ 774,358</u>

As Lessor

The Foundation leases building space to a bakery-café restaurant under an operating lease agreement. The term of the lease was from August 1, 2009 through December 31, 2018. Under the agreement, base lease payments were \$97,156 annually until December 31, 2018. The tenant is also responsible for its proportionate share of common area maintenance charges. This lease was extended three years and lease payments are \$97,156 annually until December 31, 2021. Thereafter, the lessee has two renewal options, the first for three years at \$106,608 annually and the second for five years at \$113,112.

Rent income for the years ended June 30, 2020 and 2019 was \$102,049 and \$135,268, respectively.

Future minimum lease revenue for the years following June 30, 2020 is as follows:

<u>Year ending June 30,</u>	
2021	\$ 97,156
2022	<u>48,578</u>
	<u>\$ 145,734</u>

NOTE M - RETIREMENT PLAN

The Foundation has established a defined contribution retirement plan qualified under Section 401(k) of the Internal Revenue Code. The plan covers employees age twenty-one and over with one year and at least 1,000 hours of service. Employees may, upon hire, make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Foundation provides a matching contribution on the first three percent of contributions made by eligible employees up to a maximum of \$3,000 annually. Matching contributions were \$334,386 and \$337,389 for the years ended June 30, 2020 and 2019, respectively. Employees become vested in the matching contributions over a five year period, 20% each year.

The Foundation also established a salary deferral plan for eligible employees under IRC Section 457(b). Executive team members, as designated by the Foundation, are eligible to participate in the plan. As of June 30, 2020 and 2019, \$76,104 and \$74,153 has been deferred on behalf of the participants, respectively.

National Arbor Day Foundation
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NOTES TO FINANCIAL STATEMENTS

NOTE N - ALLOCATION OF JOINT COSTS

The Foundation conducted activities which incurred joint costs for educational information and distribution of direct mail fundraising appeals, and for corporate marketing activities. These costs were allocated as follows:

	<u>2020</u>	<u>2019</u>
Total joint costs allocated to program services	\$ 3,260,874	\$ 3,460,822
Total joint costs allocated to fundraising	<u>1,463,190</u>	<u>1,401,578</u>
	<u>\$ 4,724,064</u>	<u>\$ 4,862,400</u>

NOTE O - FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in methodologies used during the years ended June 30, 2020 and 2019.

Mutual funds: Valued at the observable net asset value (NAV) of shares held by the Foundation at year-end.

Agency bonds: Valued using independent pricing models.

Exchange traded funds: Valued at the observable net asset value (NAV) of shares held by the Foundation at year-end.

Contributions receivable from charitable trusts: Valued at an amount equal to the estimated present value of the life interest. The estimated value of the life interest of the trust is based on the trust's current market value, a discount rate of 1.2 percent (2020) and 2.8 percent (2019) as provided in Internal Revenue Service (IRS) guidelines, and the estimate remaining life of the donor as provided in actuarial tables.

Annuities payable: Valued using the estimated present value of the annuity obligation. The Foundation has elected the fair value option for measuring annuity obligations. The discount rate of 5.00 percent (2020) and 5.50 percent (2019) used in calculating the annuity obligation is the prime rate and the actuarial assumptions used in calculating the annuity obligation are those provided in actuarial tables. Both the discount rate and the actuarial assumptions are updated each period the obligations are valued.

Lied Lodge and Conference Center equipment and improvements: Valued using quoted prices for similar assets as provided by the vendors of such assets.

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NOTES TO FINANCIAL STATEMENTS

NOTE O - FAIR VALUE MEASUREMENTS - CONTINUED

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2020 and 2019.

	2020			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mutual funds				
Large cap	\$ 1,985,239	\$ 1,985,239	\$ -	\$ -
Mid cap	76,212	76,212	-	-
Small cap	839,754	839,754	-	-
International	1,536,174	1,536,174	-	-
High yield bond	31,544	31,544	-	-
Intermediate-term bond	718,624	718,624	-	-
Short-term bond	1,808,200	1,808,200	-	-
World bond	216,100	216,100	-	-
Inflation-protected bond	299,398	299,398	-	-
Commodities	171,790	171,790	-	-
Agency bonds				
AA+/Aaa	77,527	-	77,527	-
Exchange traded funds				
Large blend	61,070	61,070	-	-
Foreign large blend	17,644	17,644	-	-
	<u>\$ 7,839,276</u>	<u>\$ 7,761,749</u>	<u>\$ 77,527</u>	<u>\$ -</u>
Contributions receivable from charitable trusts	<u>\$ 29,916</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,916</u>
Annuities payable	<u>\$ 895,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 895,500</u>

National Arbor Day Foundation
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NOTES TO FINANCIAL STATEMENTS

NOTE O - FAIR VALUE MEASUREMENTS - CONTINUED

	2019			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:				
Mutual funds				
Large cap	\$ 2,042,605	\$ 2,042,605	\$ -	\$ -
Mid cap	48,949	48,949	-	-
Small cap	760,561	760,561	-	-
International	1,477,731	1,477,731	-	-
High yield bond	29,320	29,320	-	-
Intermediate-term bond	735,867	735,867	-	-
Short-term bond	1,883,172	1,883,172	-	-
World bond	216,836	216,836	-	-
Inflation-protected bond	308,312	308,312	-	-
Commodities	178,964	178,964	-	-
Agency bonds				
AA+/Aaa	76,587	-	76,587	-
Exchange traded funds				
Domestic equity	59,597	59,597	-	-
Global equity	18,967	18,967	-	-
	<u>\$ 7,837,468</u>	<u>\$ 7,760,881</u>	<u>\$ 76,587</u>	<u>\$ -</u>
Contributions receivable from charitable trusts	<u>\$ 30,139</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,139</u>
Annuities payable	<u>\$ 732,991</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 732,991</u>

The following table sets forth a summary of changes in the fair value of the Foundation's level 3 assets and liabilities for the years ended June 30, 2020 and 2019.

	Contributions Receivable from Charitable Trusts	Annuities Payable
Balance at June 30, 2018	\$ 27,372	\$ 763,182
Annuity liabilities added	-	57,626
Annuity liabilities released	-	(33,737)
Actuarial change in split-interest agreements	2,767	(54,080)
Balance at June 30, 2019	30,139	732,991
Annuity liabilities added	-	155,661
Annuity liabilities released	-	(54,543)
Actuarial change in split-interest agreements	(223)	61,391
Balance at June 30, 2020	<u>\$ 29,916</u>	<u>\$ 895,500</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE O - FAIR VALUE MEASUREMENTS - CONTINUED

The following table sets forth the balances of assets and liabilities measured at fair value on a nonrecurring basis as of June 30, 2019.

	2019			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Property and equipment: Lied Lodge and Conference Center equipment and improvements	\$ 29,101	\$ 29,101	\$ -	\$ -

NOTE P - INCOME TAXES

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Foundation has hotel and conference center income, which is subject to tax on unrelated business income. For the years ended June 30, 2020 and 2019, the Foundation had no tax liability on unrelated business activity. The Foundation has Federal and Nebraska net operating loss carryforwards that may be offset against future taxable income. If not used, the Federal carryforward will expire between now and June 30, 2039 and the Nebraska carryforward will expire between now and June 30, 2024. The loss carryforwards at June 30, 2020 total \$16,975,273 (Federal) and \$3,186,226 (Nebraska). No net operating loss is anticipated to be used prior to expiration; therefore, no deferred tax asset has been established. The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Foundation's federal Returns of Organization Exempt from Income Tax (Form 990) and Exempt Organization Business Income Tax Returns (Form 990T) for June 30, 2020, 2019, and 2018 are subject to examination by the IRS, generally for three years after they were filed.

NOTE Q - COMMITMENTS

The Foundation had open commitments to purchase reforestation carbon credits in the amount of \$5,417,858 and to purchase trees in the amount of \$2,671,852 as of June 30, 2020. All are expected to be paid during the year ending June 30, 2021.

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d/b/a Arbor Day Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE R - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of Short Term Federal Investment Trust (STFIT) accounts at a financial institution. The STFIT accounts are not federally insured. At June 30, 2020 and 2019, the STFIT account balances totaled \$2,042,714 and \$3,114,239 respectively. The Foundation has mitigated this risk by collateralizing these balances with federal agency bonds.

NOTE S - LIQUIDITY AND AVAILABILITY

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

	2020	2019
Cash and cash equivalents	\$ 11,624,967	\$ 2,008,809
Certificates of deposit	11,114,973	-
Investments	7,839,276	7,837,468
Accounts receivable	395,254	1,447,112
Unconditional promises to give	4,422,443	2,715,074
Grants receivable	436,813	597,771
Inventory	5,274,737	4,129,434
Total financial assets	41,108,463	18,735,668
Donor imposed restrictions:		
Subject to expenditure for specified purpose or time	(869,275)	(1,068,108)
Net financial assets after donor-imposed restrictions	40,239,188	17,667,560
Less:		
Board-designated cash and investment funds	(6,335,105)	(6,355,897)
Financial assets available to meet cash needs for general expenditures within one year	\$ 33,904,083	\$ 11,311,663

As part of the liquidity management plan, cash in excess of daily requirements is invested in short-term investments, CDs, and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was \$6,183,193 as of year-end date. The operating reserve is a board-designated fund with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated short-term liquidity need, the organization also could draw upon a \$3,000,000 available line of credit.

As of June 30, 2020, a significant portion of the financial assets available to meet cash needs for general expenditures within one year will be used to satisfy current liabilities, which in large part are made up of obligations to plant trees.

National Arbor Day Foundation
d/b/a Arbor Day Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE T - RISKS AND UNCERTAINTIES

The COVID-19 (coronavirus) outbreak continues to prompt global health concerns. Consequently, it is possible the Foundation could be impacted by the resulting volatility in the economy beyond the financial statement date. Specifically, the Foundation could experience decreases in donor giving, membership renewals, patronage at Arbor Day Farm, grant funding, and declines in investment markets.

NOTE U - DISAGGREGATION OF REVENUE

The following table shows the Foundation's revenues from contracts with customers disaggregated according to the timing of transfer of control of goods or services:

	<u>2020</u>
Revenue recognized at a point in time	
Program fees	
Membership dues	\$ 2,060,064
Trees for America	4,539,579
Arbor Day Farm income	7,327,700
Rain Forest Rescue income	1,976,806
Other income	<u>1,539,355</u>
Total revenue recognized at a point in time	<u>\$ 17,443,504</u>

NOTE V - RECLASSIFICATIONS

Certain amounts in the year ended June 30, 2019 financial statements have been reclassified to conform with current year presentation. These reclassifications had no effect on the 2019 increase in net assets.

NOTE W - SUBSEQUENT EVENTS

Subsequent events have been evaluated through the audit report date, the date the financial statements were available to be issued.

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HIBE

SUPPLEMENTAL INFORMATION

HIBE

National Arbor Day Foundation
d/b/a Arbor Day Foundation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2020

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA Number	Grant Identifying Number	Federal Expenditures
U.S. Department of Agriculture, Commodity Credit Corporation Market Facilitation Program	10.123		\$ 26,954
U.S. Department of Agriculture, Forest Service Urban Community Forestry Program	10.675	17-DG-11132544-003	141,869
		17-DG-11132544-006	64,048
		18-DG-11020000-037	59,908
		19-DG-11132544-039	44,870
		19-DG-11132425-297	140,000
		20-DG-11021600-004	197,000
		20-DG-11083150-005	4,008
			<u>651,703</u>
U.S. Department of Agriculture, Agricultural Marketing Service/ Nebraska Department of Agriculture Specialty Crop Block Grant Program - Farm Bill	10.170	AM170100XXXXG035	27,200
U.S. Department of Agriculture, National Institute of Food and Agriculture/ Oregon State University Specialty Crop Research Initiative	10.309	2016-51181-25412	68,406
			<u>\$ 774,263</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation. The accompanying schedule of federal awards includes the federal grant activity of National Arbor Day Foundation d/b/a Arbor Day Foundation (the Foundation) and is presented on the accrual basis of accounting. Grant awards are considered expended when the expense transactions associated with the grant occur or when expense transactions become approved for grant funding. The schedule includes \$183,183 for CFDA #10.675, which represents amounts expended in prior periods that became approved for grant funding during the current year. The schedule also includes noncash assistance totaling \$54,075 for CFDA #10.675, grant identifying number 17-DG-11132544-003, which represents the value of volunteer time provided by members of the grant's leadership coalition.

The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the financial statements.

Subrecipients. The Foundation provided no federal awards to subrecipients.

Indirect Costs. The Foundation elected to use the ten percent de minimis indirect cost rate allowed in the Uniform Guidance, 2 CFR 200.414.

HIDE

SINGLE AUDIT SECTION

HIDE

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INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees
National Arbor Day Foundation
d/b/a Arbor Day Foundation
Lincoln, Nebraska

We have audited, 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, the financial statements of National Arbor Day Foundation d/b/a Arbor Day Foundation, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether National Arbor Day Foundation d/b/a Arbor Day Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



ABE LLP

Lincoln, Nebraska
October 23, 2020



CPAs & Consultants | Wealth Management

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

The Board of Trustees
National Arbor Day Foundation
d/b/a Arbor Day Foundation
Lincoln, Nebraska

Report on Compliance for Each Major Federal Program

We have audited National Arbor Day Foundation d/b/a Arbor Day Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on National Arbor Day Foundation d/b/a Arbor Day Foundation's major federal program for the year ended June 30, 2020. National Arbor Day Foundation d/b/a Arbor Day Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of National Arbor Day Foundation d/b/a Arbor Day Foundation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about National Arbor Day Foundation d/b/a Arbor Day Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of National Arbor Day Foundation d/b/a Arbor Day Foundation's compliance.

Opinion on Each Major Federal Program

In our opinion, National Arbor Day Foundation d/b/a Arbor Day Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of National Arbor Day Foundation d/b/a Arbor Day Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Lincoln, Nebraska
October 23, 2020

National Arbor Day Foundation
d/b/a Arbor Day Foundation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2020

Summary of Auditor's Results

- a. An unmodified audit report was issued on the financial statements of National Arbor Day Foundation d/b/a Arbor Day Foundation.
- b. No control deficiencies in internal control were disclosed by the audit of the financial statements.
- c. The audit did not disclose any noncompliance which would be material to the financial statements.
- d. No control deficiencies in internal control over its major federal award program were disclosed by the audit.
- e. An unmodified audit report was issued on compliance for National Arbor Day Foundation d/b/a Arbor Day Foundation's major federal award program.
- f. The audit disclosed no findings which were required to be reported relative to the major federal award program.
- g. The program tested as a major program was the U.S. Department of Agriculture, Forest Service Urban and Community Forestry Program – CFDA No. 10.675.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- i. National Arbor Day Foundation d/b/a Arbor Day Foundation qualified as a low-risk auditee as defined by the Uniform Guidance.

Findings - Financial Statements Audit

None.

Findings and Questioned Costs - Major Federal Awards Program Audit

None.