

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

*June 30, 2016  
With Comparative Totals for June 30, 2015*

*Financial Statements  
and  
Reports of Independent Certified Public Accountants*

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

Year ended June 30, 2016  
With Comparative Totals for the Year ended June 30, 2015

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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The Board of Directors  
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, 2016, 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, 2016, 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, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## Other Matters

### *Other Information*

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.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2016, 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 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 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.

*HBE Becker Meyer Howe LLP*

October 27, 2016

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

STATEMENT OF FINANCIAL POSITION

June 30, 2016  
With comparative totals as of June 30, 2015

ASSETS

	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (notes A and E)	\$ 4,142,376	\$ 4,759,867
Investments (notes A, B, E, and N)	1,488,345	1,651,993
Accounts receivable (note A)	1,567,097	1,636,040
Grants receivable (note A)	880,435	755,400
Prepaid expense	290,301	323,916
Inventory (notes A and C)	1,513,140	1,243,368
Land held for sale	750,000	-
	<u>10,631,694</u>	<u>10,370,584</u>
Total current assets	10,631,694	10,370,584
PROPERTY AND EQUIPMENT, net (notes A and D)	28,445,935	30,001,810
<b>OTHER ASSETS</b>		
Restricted cash	2,001,981	-
Construction in progress	16,161	-
Contributions receivable from charitable trusts (notes E and N)	27,099	27,927
	<u>2,045,241</u>	<u>27,927</u>
Total assets	<u>\$ 41,122,870</u>	<u>\$ 40,400,321</u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,245,012	\$ 1,447,991
Accrued expenses (note A)	3,353,718	3,740,982
Current maturities of long-term obligations (note G)	668,254	802,142
Current maturities of obligations under capital lease (notes A and O)	60,327	55,300
Deferred revenue (note A)	353,000	973,800
	<u>5,680,311</u>	<u>7,020,215</u>
Total current liabilities	5,680,311	7,020,215
<b>LONG-TERM OBLIGATIONS</b>		
Deferred revenue (note A)	2,000,000	-
Long-term obligations, net of current maturities (note G)	1,977,865	2,529,292
Obligations under capital lease, net of current maturities (notes A and O)	37,204	98,080
	<u>4,015,069</u>	<u>2,627,372</u>
Total long-term obligations	4,015,069	2,627,372
<b>OTHER LIABILITIES</b>		
Annuities payable (notes E and N)	823,816	859,786
	<u>823,816</u>	<u>859,786</u>
Total liabilities	10,519,196	10,507,373
<b>NET ASSETS (notes A and H)</b>		
Unrestricted		
Undesignated	25,099,673	24,356,295
Designated	4,700,819	4,625,797
Temporarily restricted	762,739	870,413
Permanently restricted	40,443	40,443
	<u>30,603,674</u>	<u>29,892,948</u>
Total net assets	30,603,674	29,892,948
Total liabilities and net assets	<u>\$ 41,122,870</u>	<u>\$ 40,400,321</u>

See accompanying notes to financial statements.

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

STATEMENT OF ACTIVITIES

Year ended June 30, 2016  
With comparative totals for the year ended June 30, 2015

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>CHANGES IN NET ASSETS</b>					
Revenue and support					
Membership dues	\$ 12,319,827	\$ -	\$ -	\$ 12,319,827	\$ 13,856,064
Contributions	11,013,668	16,130	-	11,029,798	13,696,187
Trees for America	4,601,368	-	-	4,601,368	4,467,959
Program grant income (note I)	2,880,752	-	-	2,880,752	2,153,534
Arbor Day Farm income	8,884,812	-	-	8,884,812	7,573,271
Rain Forest Rescue income	4,155,351	-	-	4,155,351	2,432,790
Other income (loss) (note J)	1,113,205	(123,804)	-	989,401	(124,615)
<b>Total revenue and support</b>	<b>44,968,983</b>	<b>(107,674)</b>	<b>-</b>	<b>44,861,309</b>	<b>44,055,190</b>
Expenses					
Program services					
Tree City USA	1,798,005	-	-	1,798,005	1,714,704
Arbor Day/Youth Education	3,203,645	-	-	3,203,645	2,912,557
Conservation Trees	-	-	-	-	21,228
Rain Forest Rescue	5,589,482	-	-	5,589,482	3,726,494
Trees for America	15,063,561	-	-	15,063,561	16,728,498
Arbor Day Farm	12,898,111	-	-	12,898,111	12,614,533
Conference programs	739,764	-	-	739,764	695,133
Supporting activities					
General and administrative	1,205,672	-	-	1,205,672	1,205,589
Membership development	2,428,061	-	-	2,428,061	2,432,742
Fundraising	1,224,282	-	-	1,224,282	994,930
<b>Total expenses</b>	<b>44,150,583</b>	<b>-</b>	<b>-</b>	<b>44,150,583</b>	<b>43,046,408</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>818,400</b>	<b>(107,674)</b>	<b>-</b>	<b>710,726</b>	<b>1,008,782</b>
Net assets, beginning of year	28,982,092	870,413	40,443	29,892,948	28,884,166
Net assets, end of year	\$ 29,800,492	\$ 762,739	\$ 40,443	\$ 30,603,674	\$ 29,892,948

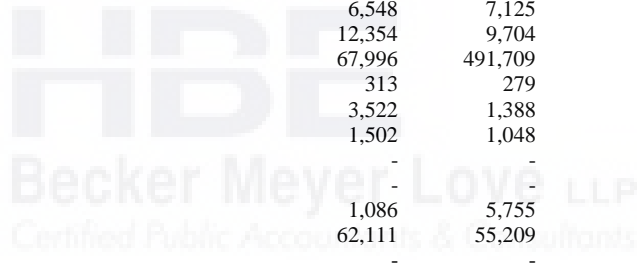
See accompanying notes to financial statements.

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

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2016  
With comparative totals for the year ended June 30, 2015

	Program Services				
	Tree City USA	Arbor Day/ Youth Education	Conservation Trees	Rain Forest Rescue	Trees for America
Salaries, payroll taxes and employee benefits (note L)	\$ 931,993	\$ 619,024	\$ -	\$ 634,125	\$ 2,748,878
Contract labor	-	650	-	-	71,635
Advertising and promotion (note A)	75,351	836	-	14,313	337,761
Printing, publications, mailing and photography	78,867	569,513	-	921,632	2,560,724
Travel and mileage	37,890	92,172	-	45,249	80,542
Professional services	162,446	1,114,925	-	74,229	779,385
Recognition material	110	1,977	-	64	269
Professional development	8,079	5,289	-	5,140	15,303
Taxes	426	2	-	306	681
Repairs and maintenance	8,950	9,306	-	2,997	85,847
Tree purchases and shipping expenses	34,516	78,104	-	79,293	5,090,758
Rain forest preservation	-	-	-	59,249	-
Inventory purchases	271,822	44,390	-	2,946,103	-
Computer services	11,910	36,549	-	25,980	413,616
Bank charges	-	-	-	257	249,085
Insurance	6,548	7,125	-	1,871	62,671
Telephone and utilities	12,354	9,704	-	3,869	98,691
Postage	67,996	491,709	-	602,028	1,896,237
Office supplies	313	279	-	313	997
Operating supplies	3,522	1,388	-	16,557	15,714
Dues and subscriptions	1,502	1,048	-	1,216	828
Interest expense	-	-	-	-	(1,692)
Bad debts	-	-	-	2,253	9
Rental expense (note K)	1,086	5,755	-	1,086	43,654
Depreciation (note D)	62,111	55,209	-	62,111	272,918
Delivery expense	-	-	-	-	-
Miscellaneous	20,213	58,691	-	89,241	239,050
<b>TOTAL EXPENSES</b>	<b>\$ 1,798,005</b>	<b>\$ 3,203,645</b>	<b>\$ -</b>	<b>\$ 5,589,482</b>	<b>\$ 15,063,561</b>
<b>TOTAL EXPENSES June 30, 2015</b>	<b>\$ 1,714,704</b>	<b>\$ 2,912,557</b>	<b>\$ 21,228</b>	<b>\$ 3,726,494</b>	<b>\$ 16,728,498</b>



See accompanying notes to financial statements.



								Supporting Activities		
Arbor Day Farm	Conference Programs	Total Program Services	General and Administrative	Membership Development	Fund Raising	2016 Totals	2015 Totals			
\$ 6,255,758	\$ 352,829	\$ 11,542,607	\$ 737,001	\$ 365,033	\$ 904,211	\$ 13,548,852	\$ 12,148,323			
79,447	-	151,732	-	-	-	151,732	58,896			
256,064	500	684,825	38,763	915	2,899	727,402	692,511			
241,347	24,638	4,396,721	54,498	1,037,583	75,513	5,564,315	6,533,831			
157,426	33,415	446,694	36,478	1,922	21,401	506,495	543,444			
174,092	53,967	2,359,044	71,121	47,100	41,017	2,518,282	2,442,657			
11,670	-	14,090	6,349	-	170	20,609	18,292			
12,905	4,091	50,807	4,796	2,798	4,843	63,244	42,605			
253,581	2	254,998	53,555	-	3,338	311,891	333,074			
287,016	1,279	395,395	6,393	6,393	6,393	414,574	1,445,014			
358	-	5,283,029	-	65,488	28,598	5,377,115	5,090,881			
-	-	59,249	-	-	-	59,249	61,506			
1,578,218	-	4,840,533	(60)	-	739	4,841,212	3,342,690			
54,585	10,896	553,536	10,887	7,258	5,084	576,765	505,593			
170,348	129	419,819	257	-	25	420,101	403,168			
191,715	935	270,865	4,677	6,044	4,677	286,263	265,445			
591,785	1,966	718,369	5,478	5,478	8,318	737,643	790,704			
131,285	1,841	3,191,096	3,628	812,691	63,270	4,070,685	4,896,238			
15,418	209	17,529	418	244	230	18,421	14,813			
498,350	156,434	691,965	65,261	740	602	758,568	678,957			
17,505	217	22,316	10,548	-	501	33,365	24,989			
109,477	-	107,785	(89)	13,561	-	121,257	37,076			
307	-	2,569	-	-	-	2,569	6,731			
62,293	40,613	154,487	1,629	1,005	543	157,664	151,276			
1,671,193	41,407	2,164,949	82,814	48,308	41,407	2,337,478	2,125,857			
-	-	-	-	-	-	-	(62)			
75,968	14,396	497,559	11,270	5,500	10,503	524,832	391,899			
<u>\$ 12,898,111</u>	<u>\$ 739,764</u>	<u>\$ 39,292,568</u>	<u>\$ 1,205,672</u>	<u>\$ 2,428,061</u>	<u>\$ 1,224,282</u>	<u>\$ 44,150,583</u>				
<u>\$ 12,614,533</u>	<u>\$ 695,133</u>	<u>\$ 38,413,147</u>	<u>\$ 1,205,589</u>	<u>\$ 2,432,742</u>	<u>\$ 994,930</u>		<u>\$ 43,046,408</u>			

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

STATEMENT OF CASH FLOWS

Year ended June 30, 2016  
With comparative totals for the year ended June 30, 2015

	2016	2015
Cash flows from operating activities		
Cash received from revenue and support	\$ 44,320,078	\$ 41,064,180
Cash paid to employees and suppliers	(42,606,114)	(40,355,950)
Interest received	7,401	2,358
Interest paid	(123,340)	(33,416)
Net cash provided by operating activities	1,598,025	677,172
Cash flows from investing activities		
Purchase of investments	(30,000)	(50,000)
Proceeds from the sale of investments	118,856	253,390
Proceeds from sale of property and equipment	-	59,358
Purchase of property and equipment	(1,444,350)	(4,745,716)
Net cash used by investing activities	(1,355,494)	(4,482,968)
Cash flows from financing activities		
Proceeds from long-term obligations	125,000	3,000,000
Principal payments on long-term obligations	(810,317)	(342,959)
Principal payments on capital lease	(55,849)	(18,187)
Payments on annuities	(118,856)	(130,629)
Net cash provided (used) by financing activities	(860,022)	2,508,225
Net decrease in cash	(617,491)	(1,297,571)
Cash and cash equivalents, beginning of year	4,759,867	6,057,438
Cash and cash equivalents, end of year	\$ 4,142,376	\$ 4,759,867
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Increase in net assets	\$ 710,726	\$ 1,008,782
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	2,337,478	2,125,857
Investment gain	75,620	(10,396)
Actuarial loss on annuities	68,970	88,493
Decrease in contributions for annuity liabilities	13,916	26,252
Loss on disposal of property and equipment	-	1,084,489
Donated property and equipment	(13,463)	(3,901,447)
(Increase) decrease in assets		
Accounts receivable	68,943	(213,637)
Grants receivable	(125,035)	(69,586)
Prepaid expense	33,615	(16,728)
Inventory	(269,772)	(98,271)
Restricted cash	(2,001,981)	-
Increase (decrease) in liabilities		
Accounts payable	(292,928)	290,582
Accrued expenses	(387,264)	355,602
Deferred revenue	1,379,200	7,180
Total adjustments to increase in net assets	887,299	(331,610)
Net cash provided by operating activities	\$ 1,598,025	\$ 677,172
Supplemental disclosure of noncash information:		
Noncash investing activities		
Accounts payable assumed for property and equipment purchases	\$ 142,967	\$ 53,018
In-kind donations of property and equipment	\$ 13,463	\$ 3,901,447
Noncash financing activities		
Equipment acquired under capital lease	\$ -	\$ 171,567

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 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 Arbor Day's founder J. Sterling Morton.

**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.** The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Unrestricted net assets.** Net assets that are not subject to outside restrictions.

**Temporarily restricted net assets.** Net assets on which grantors or donors have placed restrictions regarding the use of the funds or the time period in which the funds can be used. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions." Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

**Permanently restricted net assets.** Net assets whose funds must be held indefinitely.

**Cash and Cash Equivalents.** For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with a 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 reported at the amount management expects to collect on balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

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 Company 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.

NOTES TO FINANCIAL STATEMENTS

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Inventory.** Inventory is stated at the lower of cost or market determined by the first-in, first-out method.

**Promises to Give.** Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Unconditional promises to give that are expected to be collected or paid in more than one year are recognized at the present value of estimated future cash flows. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

**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 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
Traveling exhibit	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 11 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, 2016 and 2015 was \$432,227 and \$425,470, respectively.

**Deferred Revenue.** The Foundation records program support in the period in which the costs of providing the corresponding program services are incurred. Deferred revenue consists of unearned program support for future costs of providing specific program services.

**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.

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, 2016 and 2015 was \$727,402 and \$692,511, respectively.

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

**Sales Tax.** 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.

**Functional Allocation of 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.

**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:
- 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 priority level of any input that is significant to the fair value measurement. Transfers between levels shall occur at the actual date of the event or change in circumstances that caused the transfer. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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 U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

**NOTE B - INVESTMENTS**

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Investments consist of:				
Mutual funds	\$ 1,039,969	\$ 1,379,446	\$ 1,388,712	\$ 1,534,933
Agency bonds	40,330	55,572	57,158	53,519
Exchange traded funds	-	53,327	36,468	63,541
	\$ 1,080,299	\$ 1,488,345	\$ 1,482,338	\$ 1,651,993
Unrealized gains		\$ 408,046		\$ 169,655

**NOTE C - INVENTORY**

	2016	2015
Inventory consists of:		
Food and beverage inventory	\$ 300,658	\$ 313,272
Merchandise inventory	93,710	89,911
Coffee inventory	752,084	449,410
Catalog inventory	197,138	209,174
Other print inventory	72,860	78,708
Greenhouse inventory	90,607	91,443
Miscellaneous inventory	6,083	11,450
	\$ 1,513,140	\$ 1,243,368

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

NOTES TO FINANCIAL STATEMENTS

**NOTE D - PROPERTY AND EQUIPMENT**

	2016	2015
Property and equipment consists of:		
Land	\$ 1,419,917	\$ 2,169,917
Buildings	34,523,905	33,449,401
Leasehold improvements	125,082	125,082
Farm improvements	1,546,800	1,525,445
Orchards	65,956	60,625
Computer hardware	2,236,907	2,078,552
Lied Lodge and Conference Center equipment and improvements	4,504,563	4,491,101
Furniture and equipment	3,743,539	3,620,713
Computer software	3,648,944	3,513,177
Traveling exhibit	844,724	844,724
	52,660,337	51,878,737
Less accumulated depreciation	(24,214,402)	(21,876,927)
	<b>\$ 28,445,935</b>	<b>\$ 30,001,810</b>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$2,337,478 and \$2,125,857, respectively.

**NOTE E - 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.

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

NOTES TO FINANCIAL STATEMENTS

**NOTE E - SPLIT-INTEREST AGREEMENTS - CONTINUED**

For the years ended June 30, 2016 and 2015, contributions include gift annuity contracts valued at \$13,646 and \$21,139, 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:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 59,599	\$ 12,424
Investments	<u>1,278,269</u>	<u>1,432,811</u>
	<u>\$ 1,337,868</u>	<u>\$ 1,445,235</u>

**NOTE F - 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 \$2,000,000 at the bank's variable interest rate. The revolving credit note is supported by an agreement which provides for certain restrictive covenants which includes limitations on disposal of certain property and assets. 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, 2016 and 2015. The revolving credit note expires January 31, 2017.

In addition, the Foundation has established an irrevocable letter of credit of \$892,051 and \$890,000 as of June 30, 2016 and 2015, respectively, for securing payment drawn in favor of a USDA Forest Service agreement. The letter of credit automatically renews annually on December 31. The fee for the letter of credit is waived. There was no outstanding balance under the letter of credit as of June 30, 2016 and 2015.



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

NOTES TO FINANCIAL STATEMENTS

**NOTE G - LONG-TERM OBLIGATIONS**

	2016	2015
Long-term obligations consist of:		
Note payable to Union Bank & Trust Co., Lincoln, Nebraska, with 3.75% interest. Secured by substantially all of the assets of the Foundation. Payable in monthly installments of \$54,989, maturing June 17, 2020.	\$ 2,444,779	\$ 3,000,000
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, maturing on March 24, 2021.	119,336	-
Note payable to Farmers Bank, Nebraska City, Nebraska, with 7.25% interest. Secured by real estate in Nebraska City, Nebraska. Payable in monthly installments of \$2,406, maturing November 6, 2017.	36,509	63,740
Non-interest bearing note payable to the City of Lincoln, Nebraska for \$60,000 with a discounted value of \$44,000 at an imputed interest rate of 6.50%. Secured by real estate in Lincoln, Nebraska. Payable in monthly installments of \$500, maturing November 30, 2017.	8,098	13,382
Note payable to Union Bank & Trust Co., Lincoln, Nebraska, with 4.50% interest. Secured by substantially all of the assets of the Foundation. Payable in monthly installments of \$18,671, maturing August 1, 2016.	37,397	254,312
Less current maturities	2,646,119 (668,254)	3,331,434 (802,142)
	\$ 1,977,865	\$ 2,529,292

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

NOTES TO FINANCIAL STATEMENTS

**NOTE G - LONG-TERM OBLIGATIONS - CONTINUED**

Aggregate annual maturities of long-term obligations for the years following June 30, 2016, are as follows:

Year ending June 30,

2017	\$	668,254
2018		635,517
2019		647,627
2020		672,599
2021		<u>22,122</u>
		<u>\$ 2,646,119</u>

**NOTE H - NET ASSETS**

Unrestricted, designated net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Board designated reserve fund (cash)	\$ 3,769,079	\$ 3,687,293
Board designated reserve fund (property)	750,000	750,000
Quasi-endowment fund	<u>181,740</u>	<u>188,504</u>
	<u>\$ 4,700,819</u>	<u>\$ 4,625,797</u>

Temporarily restricted net assets are available for the following purposes or periods:

Split-interest agreements	\$	506,123	\$	612,642
Exhibition center		209,000		209,000
Earnings on permanently restricted endowment funds		14,865		16,020
Hazelnut project		<u>32,751</u>		<u>32,751</u>
		<u>\$ 762,739</u>		<u>\$ 870,413</u>

Permanently restricted net assets are to be maintained in perpetuity as an endowment fund.

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

NOTES TO FINANCIAL STATEMENTS

**NOTE I - PROGRAM GRANTS**

During the years ended June 30, 2016 and 2015, grant income consisted of:

Grant Source	Grant Purpose	2016	2015	
<b>Government:</b>				
U.S. Department of Agriculture	Biomass Chiller	\$ 351,000	\$ -	
	Alliance for Community Trees	107,759	-	
	Tree City USA	245,541	204,798	
	Public Service Ads	140,000	140,000	
	Faces of Urban Forestry	54,444	58,976	
	Energy Saving Trees	135,000	89,653	
	Nature Explore Classrooms	144,161	135,000	
	Partners Conference	18,495	20,664	
	U.S. Department of Housing and Urban Development	Block Grant	-	220,400
	Nebraska State Forest Service	Biomass Chiller	350,000	-
Government grant income		<u>1,546,400</u>	<u>869,491</u>	
<b>Private:</b>				
Toyota Foundation		763,000	758,620	
PricewaterhouseCoopers		200,000	195,000	
UPS Foundation		350,000	300,000	
Others		21,352	30,423	
Private grant income		<u>1,334,352</u>	<u>1,284,043</u>	
Total grant income		<u>\$ 2,880,752</u>	<u>\$ 2,153,534</u>	

**NOTE J - OTHER INCOME**

Other income consists of:

List rental income	\$ 548,226	\$ 510,758
Education material sales	75,812	58,852
Tree City USA material sales	47,972	40,330
Conference and training	202,919	234,667
Rental income	143,248	132,563
Loss on investments	(87,650)	(64,843)
Interest income	7,401	2,358
Loss on sale or disposal of property and equipment	-	(1,084,489)
Other	51,473	45,189
	<u>\$ 989,401</u>	<u>\$ (124,615)</u>

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

NOTES TO FINANCIAL STATEMENTS

**NOTE K - 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, 2047.

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.

The Foundation leases office equipment under operating leases which expire over varying terms. The last lease is set to expire in June 2020.

The Foundation leases residential space under an operating lease agreement. The term of the lease is from August 1, 2015 through July 31, 2016. Under the agreement, lease payments are \$9,480 annually.

Rent expense for the years ended June 30, 2016 and 2015 was \$157,664 and \$151,276, respectively.

Future minimum lease payments for the years following June 30, 2016 are as follows:

<u>Year ending June 30,</u>	
2017	\$ 61,526
2018	60,736
2019	48,038
2020	35,340
2021	26,400
2022 and thereafter	<u>699,600</u>
	<u>\$ 931,640</u>

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

NOTES TO FINANCIAL STATEMENTS

**NOTE K - LEASES - CONTINUED**

As Lessor

The Foundation leases building space to a bakery-café restaurant under an operating lease agreement. The term of the lease is from August 1, 2009 through December 31, 2018. Under the agreement, lease payments are \$97,156 annually until December 31, 2018. The tenant may extend the lease term for an additional fifteen years. The tenant is also responsible for its proportionate share of common area maintenance charges.

Rent income for the years ended June 30, 2016 and 2015 was \$143,248 and \$132,563, respectively.

Future minimum lease revenue for the years following June 30, 2016 is as follows:

Year ending June 30,

2017	\$	97,156
2018		97,156
2019		<u>48,578</u>
	\$	<u>242,890</u>

**NOTE L - 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 \$157,117 and \$177,155 for the years ended June 30, 2016 and 2015, respectively. Employees become vested in the matching contributions over a five year period, 20% each year.

**NOTE M - 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>2016</u>	<u>2015</u>
Total joint costs allocated to program services	\$ 2,222,530	\$ 2,307,820
Total joint costs allocated to fundraising	<u>730,628</u>	<u>576,915</u>
	<u>\$ 2,953,158</u>	<u>\$ 2,884,735</u>

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

NOTES TO FINANCIAL STATEMENTS

**NOTE N - 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, 2016 and 2015.

*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 1.80 percent (2016) and 2.00 percent (2015) 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 3.50 percent (2016) and 3.25 percent (2015) 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.

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.

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

NOTES TO FINANCIAL STATEMENTS

**NOTE N - FAIR VALUE MEASUREMENTS - CONTINUED**

The following table sets forth the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and 2015.

	2016			
	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	\$ 543,650	\$ 543,650	\$ -	\$ -
Mid cap	43,444	43,444	-	-
Small cap	64,903	64,903	-	-
International	212,004	212,004	-	-
High yield bond	25,776	25,776	-	-
Intermediate-term bond	233,463	233,463	-	-
Short-term bond	178,973	178,973	-	-
World bond	25,704	25,704	-	-
Inflation-protected bond	51,529	51,529	-	-
Agency bonds				
AA+/Aaa	55,572	-	55,572	-
Exchange traded funds				
Domestic equity	40,183	40,183	-	-
Global equity	13,144	13,144	-	-
	<u>\$ 1,488,345</u>	<u>\$ 1,432,773</u>	<u>\$ 55,572</u>	<u>\$ -</u>
Contributions receivable from charitable trusts	<u>\$ 27,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,099</u>
Annuities payable	<u>\$ 823,816</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 823,816</u>

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

NOTES TO FINANCIAL STATEMENTS

**NOTE N - FAIR VALUE MEASUREMENTS - CONTINUED**

	2015			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments:</b>				
<b>Mutual funds</b>				
Large cap	\$ 655,716	\$ 655,716	\$ -	\$ -
Mid cap	47,202	47,202	-	-
Small cap	23,352	23,352	-	-
International	209,869	209,869	-	-
High yield bond	29,813	29,813	-	-
Intermediate-term bond	222,505	222,505	-	-
Short-term bond	222,370	222,370	-	-
World bond	59,058	59,058	-	-
Inflation-protected bond	59,402	59,402	-	-
Commodity	5,646	5,646	-	-
<b>Agency bonds</b>				
AA+/Aaa	53,519	-	53,519	-
<b>Exchange traded funds</b>				
Large blend	33,237	33,237	-	-
Foreign large blend	14,864	14,864	-	-
Mid cap value	15,440	15,440	-	-
	<u>\$ 1,651,993</u>	<u>\$ 1,598,474</u>	<u>\$ 53,519</u>	<u>\$ -</u>
Contributions receivable from charitable trusts	<u>\$ 27,927</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,927</u>
Annuities payable	<u>\$ 859,786</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 859,786</u>



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

NOTES TO FINANCIAL STATEMENTS

**NOTE N - 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, 2016 and 2015.

	2016			
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	\$ 13,463	\$ 13,463	\$ -	\$ -

	2015			
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	\$ 3,901,447	\$ 3,901,447	\$ -	\$ -

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, 2016 and 2015.

	Contributions Receivable from Charitable Trusts	Annuities Payable
Balance at June 30, 2014	\$ 28,394	\$ 875,670
Annuity liabilities added	-	34,118
Annuity liabilities released	-	(7,866)
Payments on annuities	-	(130,629)
Actuarial change in split-interest agreements	(467)	88,493
Balance at June 30, 2015	27,927	859,786
Annuity liabilities added	-	16,354
Annuity liabilities released	-	(2,438)
Payments on annuities	-	(118,856)
Actuarial change in split-interest agreements	(828)	68,970
Balance at June 30, 2016	\$ 27,099	\$ 823,816

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

NOTES TO FINANCIAL STATEMENTS

**NOTE O - CAPITAL LEASE OBLIGATION**

The Foundation leases equipment under a long-term capital lease. The capital lease has a three year term. Lease amortization is included in depreciation expense.

Future minimum lease payments under capitalized leases are as follows:

<u>Year ending June 30,</u>	
2017	\$ 60,327
2018	<u>45,245</u>
Total minimum lease payments	105,572
Less amounts representing interest	<u>(8,041)</u>
	<u><u>\$ 97,531</u></u>

The capital lease obligation is included in the statement of financial position as follows:

	<u>2016</u>	<u>2015</u>
Total capital lease obligation	\$ 97,531	\$ 153,380
Less current maturities of capital lease obligation	<u>(60,327)</u>	<u>(55,300)</u>
Long-term capital lease obligation	<u>\$ 37,204</u>	<u>\$ 98,080</u>

Leased equipment is included in the statement of financial position as follows:

Equipment	\$ 171,567	\$ 171,567
Less accumulated depreciation	<u>(25,423)</u>	<u>(8,396)</u>
	<u>\$ 146,144</u>	<u>\$ 163,171</u>

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

NOTES TO FINANCIAL STATEMENTS

**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, 2016 and 2015, 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, 2036 and the Nebraska carryforward will expire between now and June 30, 2021. The loss carryforwards at June 30, 2016 total \$15,415,905 Federal and \$3,438,560 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, 2016, 2015, and 2014 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 coffee in the amount of \$570,870 as of June 30, 2016. All are expected to be paid during the year ending June 30, 2017.

**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, 2016 and 2015, the STFIT account balances totaled \$195,040 and \$4,439,047, respectively. The Foundation has mitigated this risk by collateralizing these balances with federal agency bonds.

**NOTE S - 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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**HM**  
**Becker Meyer Love LLP**  
Certified Public Accountants & Consultants

**SUPPLEMENTAL INFORMATION**

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA Number	Grant Identifying Number	Federal Expenditures
U.S. Department of Agriculture, Forest Service Cooperative Forestry Assistance	10.664	14-DG-11132540-079	\$ <u>144,161</u>
Wood Utilization Assistance	10.674	14-DG-11132540-079	<u>351,000</u>
Urban Community Forestry Program	10.675	12-DG-11132540-323	135,000
		15-DG-11020000-032	48,541
		16-DG-11020000-016	197,000
		13-CS-11132425-191	140,000
		11-DG-11132540-267	54,444
		13-DG-11132544-464	18,495
		15-CA-111132544-023	95,000
Pass-Through Program from Alliance for Community Trees Urban Community Forestry Program		13-DG-11132544-479	<u>12,759</u>
			<u>701,239</u>
			<u>\$ 1,196,400</u>

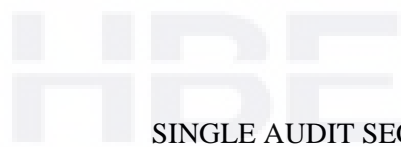
**Basis of Presentation.** The accompanying schedule of federal awards includes the federal grant activity of National Arbor Day Foundation d/b/a Arbor Day Foundation and is presented on the accrual basis of accounting. Grant awards are considered expended when the expense transactions associated with the grant occur. 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 Organization provided no federal awards to subrecipients.

**Indirect Costs.** The Organization did not elect to use the ten percent de minimis indirect cost rate allowed in the Uniform Guidance, 2 CFR 200.414.

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SINGLE AUDIT SECTION

Becker Meyer Love LLP  
Certified Public Accountants & Consultants

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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*

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The Board of Directors  
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, 2016, 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 27, 2016.

### **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 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 the internal control over financial reporting 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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*HBE Becker Meyer Love LLP*

October 27, 2016



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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The Board of Directors  
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, 2016. 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 National Arbor Day Foundation d/b/a Arbor Day Foundation's major federal program 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 the 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, 2016.

### **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.

*HBE Becker Meyer Howe LLP*

October 27, 2016

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

**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 did not qualify 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.