

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

*June 30, 2017  
With Comparative Totals for June 30, 2016*

*Financial Statements  
and  
Reports of Independent Certified Public Accountants*



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

Year ended June 30, 2017  
With Comparative Totals for the Year ended June 30, 2016

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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, 2017, 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, 2017, 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2017, 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.

*ABE LLP*

October 24, 2017

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

STATEMENT OF FINANCIAL POSITION

June 30, 2017

With comparative totals as of June 30, 2016

ASSETS

	2017	2016
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (notes A and E)	\$ 1,511,983	\$ 4,142,376
Investments (notes A, B, E and N)	6,574,079	1,488,345
Accounts receivable (note A)	2,199,149	1,567,097
Grants receivable (note A)	535,372	880,435
Prepaid expense	351,644	290,301
Inventory (notes A and C)	2,340,292	1,513,140
Land held for sale	-	750,000
Total current assets	13,512,519	10,631,694
<b>PROPERTY AND EQUIPMENT, net (notes A and D)</b>	29,663,933	28,445,935
<b>OTHER ASSETS</b>		
Restricted cash	2,007,181	2,001,981
Construction in progress	86,057	16,161
Contributions receivable from charitable trusts (notes E and N)	28,962	27,099
Total assets	\$ 45,298,652	\$ 41,122,870

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,203,567	\$ 1,245,012
Accrued expenses (note A)	3,424,279	3,353,718
Current maturities of long-term obligations (note G)	637,638	668,254
Current maturities of obligations under capital lease (notes A and O)	39,695	60,327
Deferred revenue (note A)	1,269,019	353,000
Total current liabilities	6,574,198	5,680,311
<b>LONG-TERM OBLIGATIONS</b>		
Deferred revenue (note A)	1,714,286	2,000,000
Long-term obligations, net of current maturities (note G)	1,339,897	1,977,865
Obligations under capital lease, net of current maturities (notes A and O)	-	37,204
Total long-term obligations	3,054,183	4,015,069
<b>OTHER LIABILITIES</b>		
Annuities payable (notes E and N)	741,109	823,816
Total liabilities	10,369,490	10,519,196
<b>NET ASSETS (notes A and H)</b>		
Unrestricted		
Undesignated	24,425,617	25,099,673
Designated	9,445,078	4,700,819
Temporarily restricted	1,018,024	762,739
Permanently restricted	40,443	40,443
Total net assets	34,929,162	30,603,674
Total liabilities and net assets	\$ 45,298,652	\$ 41,122,870

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, 2017  
With comparative totals for the year ended June 30, 2016

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>CHANGES IN NET ASSETS</b>					
Revenue and support					
Membership dues	\$ 12,923,100	\$ -	\$ -	\$ 12,923,100	\$ 12,319,827
Contributions	14,482,529	84,094	-	14,566,623	11,029,798
Trees for America	4,566,142	-	-	4,566,142	4,601,368
Program grant income (note I)	1,483,824	-	-	1,483,824	2,880,752
Arbor Day Farm income	9,268,716	-	-	9,268,716	8,884,812
Rain Forest Rescue income	4,637,736	-	-	4,637,736	4,155,351
Other income (note J)	3,068,557	171,191	-	3,239,748	989,401
<b>Total revenue and support</b>	<b>50,430,604</b>	<b>255,285</b>	<b>-</b>	<b>50,685,889</b>	<b>44,861,309</b>
Expenses					
Program services					
Tree City USA	1,721,021	-	-	1,721,021	1,798,005
Arbor Day/Youth Education	2,921,157	-	-	2,921,157	3,203,645
Rain Forest Rescue	5,868,467	-	-	5,868,467	5,589,482
Trees for America	16,702,371	-	-	16,702,371	15,063,561
Arbor Day Farm	13,004,276	-	-	13,004,276	12,898,111
Conference programs	879,446	-	-	879,446	739,764
Supporting activities					
General and administrative	1,428,581	-	-	1,428,581	1,205,672
Membership development	2,385,348	-	-	2,385,348	2,428,061
Fundraising	1,449,734	-	-	1,449,734	1,224,282
<b>Total expenses</b>	<b>46,360,401</b>	<b>-</b>	<b>-</b>	<b>46,360,401</b>	<b>44,150,583</b>
<b>INCREASE IN NET ASSETS</b>	<b>4,070,203</b>	<b>255,285</b>	<b>-</b>	<b>4,325,488</b>	<b>710,726</b>
Net assets, beginning of year	29,800,492	762,739	40,443	30,603,674	29,892,948
Net assets, end of year	<u>\$ 33,870,695</u>	<u>\$ 1,018,024</u>	<u>\$ 40,443</u>	<u>\$ 34,929,162</u>	<u>\$ 30,603,674</u>

See accompanying notes to financial statements.

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

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2017  
With comparative totals for the year ended June 30, 2016

	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 L)	\$ 917,594	\$ 630,803	\$ 750,629	\$ 2,709,347	\$ 6,285,736
Contract labor	-	1,800	-	60,226	80,387
Advertising and promotion (note A)	805	10,352	16,657	450,551	270,218
Printing, publications, mailing and photography	167,615	590,536	1,153,513	2,682,553	305,972
Travel and mileage	25,074	41,606	76,040	83,877	105,804
Professional services	103,987	882,241	63,053	714,971	174,401
Recognition material	120	3,000	-	337	10,447
Professional development	5,478	3,594	6,711	13,203	19,358
Taxes	40	6	414	972	294,812
Repairs and maintenance	26,995	26,995	7,713	258,644	269,257
Tree purchases and shipping expenses	16,824	19,396	6,379	7,457,025	54,328
Rain forest preservation	-	-	26,298	-	-
Inventory purchases	251,120	227,114	3,312,482	-	1,482,914
Computer services	10,400	37,281	25,475	350,285	50,311
Bank charges	-	242	322	266,738	188,117
Insurance	6,955	7,058	1,987	66,565	208,633
Telephone and utilities	11,118	8,946	4,664	90,027	643,949
Postage	90,042	191,808	307,502	973,621	98,045
Office supplies	491	338	382	1,560	13,238
Operating supplies	1,621	16,009	4,116	13,692	526,935
Dues and subscriptions	318	1,152	724	192	16,906
Interest expense	-	-	-	9,812	89,788
Bad debts	6	6	1,814	102	8
Rental expense (note K)	828	2,843	1,578	33,590	49,339
Depreciation (note D)	65,440	58,169	65,440	289,101	1,695,551
Delivery expense	29	-	-	-	-
Miscellaneous	18,121	159,862	34,574	175,380	69,822
<b>TOTAL EXPENSES</b>	<b>\$ 1,721,021</b>	<b>\$ 2,921,157</b>	<b>\$ 5,868,467</b>	<b>\$ 16,702,371</b>	<b>\$ 13,004,276</b>
<b>TOTAL EXPENSES June 30, 2016</b>	<b>\$ 1,798,005</b>	<b>\$ 3,203,645</b>	<b>\$ 5,589,482</b>	<b>\$ 15,063,561</b>	<b>\$ 12,898,111</b>

See accompanying notes to financial statements.

		Supporting Activities					
Conference Programs	Total Program Services	General and Administrative	Membership Development	Fund Raising	2017 Totals	2016 Totals	
\$ 425,792	\$ 11,719,901	\$ 786,996	\$ 394,282	\$ 1,062,111	\$ 13,963,290	\$ 13,548,852	
-	142,413	-	-	6	142,419	151,732	
679	749,262	151,663	8,727	2,146	911,798	727,402	
46,119	4,946,308	97,185	1,241,836	101,666	6,386,995	5,564,315	
34,460	366,861	30,429	1,602	49,908	448,800	506,495	
42,822	1,981,475	62,161	42,646	58,013	2,144,295	2,518,282	
-	13,904	9,340	-	170	23,414	20,609	
1,576	49,920	3,070	1,791	8,008	62,789	63,244	
-	296,244	60,774	-	3,722	360,740	311,891	
3,856	593,460	19,282	19,282	19,282	651,306	414,574	
-	7,553,952	-	219,212	22,880	7,796,044	5,377,115	
-	26,298	-	-	-	26,298	59,249	
-	5,273,630	-	-	8,777	5,282,407	4,841,212	
10,911	484,663	10,911	7,274	5,744	508,592	576,765	
161	455,580	322	-	-	455,902	420,101	
994	292,192	4,968	10,228	4,968	312,356	286,263	
1,719	760,423	5,175	5,175	9,698	780,471	737,643	
16,519	1,677,537	31,719	374,886	40,639	2,124,781	4,070,685	
254	16,263	507	296	290	17,356	18,421	
195,981	758,354	35,546	9	2,477	796,386	758,568	
163	19,455	18,143	-	1,072	38,670	33,365	
-	99,600	516	-	-	100,116	121,257	
6	1,942	4	4	2	1,952	2,569	
34,160	122,338	1,242	614	414	124,608	157,664	
43,627	2,217,328	87,254	50,898	43,627	2,399,107	2,337,478	
-	29	-	-	-	29	-	
19,647	477,406	11,374	6,586	4,114	499,480	524,832	
<u>\$ 879,446</u>	<u>\$ 41,096,738</u>	<u>\$ 1,428,581</u>	<u>\$ 2,385,348</u>	<u>\$ 1,449,734</u>	<u>\$ 46,360,401</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>	

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

STATEMENT OF CASH FLOWS

Year ended June 30, 2017  
With comparative totals for the year ended June 30, 2016

	2017	2016
Cash flows from operating activities		
Cash received from revenue and support	\$ 46,163,522	\$ 44,320,078
Cash paid to employees and suppliers	(44,673,321)	(42,606,114)
Interest received	13,454	7,401
Interest paid	(102,308)	(123,340)
Net cash provided by operating activities	1,401,347	1,598,025
Cash flows from investing activities		
Purchase of investments	(4,893,433)	(30,000)
Proceeds from the sale of investments	100,597	118,856
Proceeds from sale of property and equipment	2,324,769	-
Purchase of property and equipment	(715,147)	(1,444,350)
Net cash used by investing activities	(3,183,214)	(1,355,494)
Cash flows from financing activities		
Proceeds from long-term obligations	-	125,000
Principal payments on long-term obligations	(668,584)	(810,317)
Principal payments on capital lease	(57,836)	(55,849)
Payments on annuities	(122,106)	(118,856)
Net cash used by financing activities	(848,526)	(860,022)
Net decrease in cash	(2,630,393)	(617,491)
Cash and cash equivalents, beginning of year	4,142,376	4,759,867
Cash and cash equivalents, end of year	\$ 1,511,983	\$ 4,142,376
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Increase in net assets	\$ 4,325,488	\$ 710,726
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	2,399,107	2,337,478
Investment (gain) loss	(294,763)	75,620
Actuarial (gain) loss on annuities	(14,614)	68,970
Decrease in contributions for annuity liabilities	54,013	13,916
Gain on disposal of property and equipment	(1,491,689)	-
Donated property and equipment	(3,099,976)	(13,463)
(Increase) decrease in assets		
Accounts receivable	(632,052)	68,943
Grants receivable	345,063	(125,035)
Prepaid expense	(61,343)	33,615
Inventory	(827,152)	(269,772)
Restricted cash	(5,200)	(2,001,981)
Increase (decrease) in liabilities		
Accounts payable	3,599	(292,928)
Accrued expenses	70,561	(387,264)
Deferred revenue	630,305	1,379,200
Total adjustments to increase in net assets	(2,924,141)	887,299
Net cash provided by operating activities	\$ 1,401,347	\$ 1,598,025
Supplemental disclosure of noncash information:		
Noncash investing activities		
Accounts payable assumed for property and equipment purchases	\$ 97,923	\$ 142,967
In-kind donations of property and equipment	\$ 3,099,976	\$ 13,463

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 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.

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 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 a cost of \$1,000 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
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, 2017 and 2016 was \$475,179 and \$432,227, 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, 2017 and 2016 was \$911,798 and \$727,402, 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, 2016, from which the summarized information was derived.

**NOTE B - INVESTMENTS**

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Investments consist of:				
Mutual funds	\$ 6,258,350	\$ 6,360,347	\$ 1,039,969	\$ 1,379,446
Agency bonds	120,283	119,936	40,330	55,572
Exchange traded funds	83,825	93,796	53,029	53,327
	<u>\$ 6,462,458</u>	<u>\$ 6,574,079</u>	<u>\$ 1,133,328</u>	<u>\$ 1,488,345</u>
Unrealized gains		<u>\$ 111,621</u>		<u>\$ 355,017</u>

**NOTE C - INVENTORY**

Inventory consists of:

	2017	2016
Food and beverage inventory	\$ 266,180	\$ 300,658
Merchandise inventory	106,760	93,710
Coffee inventory	1,577,329	752,084
Catalog inventory	212,907	197,138
Other print inventory	74,393	72,860
Greenhouse inventory	77,554	90,607
Miscellaneous inventory	25,169	6,083
	<u>\$ 2,340,292</u>	<u>\$ 1,513,140</u>

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

NOTES TO FINANCIAL STATEMENTS

**NOTE D - PROPERTY AND EQUIPMENT**

Property and equipment consists of:

	2017	2016
Land	\$ 4,495,174	\$ 1,419,917
Buildings	34,722,767	34,523,905
Leasehold improvements	125,082	125,082
Farm improvements	1,556,562	1,546,800
Orchards	74,244	65,956
Computer hardware	2,415,638	2,236,907
Lied Lodge and Conference Center equipment and improvements	4,504,563	4,504,563
Furniture and equipment	3,873,070	3,743,539
Computer software	3,674,123	3,648,944
Traveling exhibit	-	844,724
	55,441,223	52,660,337
Less accumulated depreciation	(25,777,290)	(24,214,402)
	\$ 29,663,933	\$ 28,445,935

Depreciation expense for the years ended June 30, 2017 and 2016 was \$2,399,107 and \$2,337,478, 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, 2017 and 2016, contributions include gift annuity contracts valued at \$60,826 and \$13,646, 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>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 52,166	\$ 59,599
Investments	<u>1,419,586</u>	<u>1,278,269</u>
	<u>\$ 1,471,752</u>	<u>\$ 1,337,868</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 \$3,000,000 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, 2017 and 2016. The revolving credit note expires January 31, 2018.

In addition, the Foundation has established an irrevocable letter of credit of \$447,743 and \$892,051 as of June 30, 2017 and 2016, 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, 2017 and 2016.

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

NOTES TO FINANCIAL STATEMENTS

**NOTE G - LONG-TERM OBLIGATIONS**

Long-term obligations consist of:

	2017	2016
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.	\$ 1,867,277	\$ 2,444,779
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.	96,087	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.	11,711	36,509
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 6.5%. Secured by real estate in Lincoln, Nebraska. Payable in monthly installments of \$500, maturing November 30, 2017.	2,460	8,098
Note payable to Union Bank & Trust Co., Lincoln, Nebraska, with 4.5% interest. Secured by substantially all of the assets of the Foundation. Paid in full during 2017.	-	37,397
Less current maturities	1,977,535 (637,638)	2,646,119 (668,254)
	\$ 1,339,897	\$ 1,977,865

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, 2017, are as follows:

<u>Year ending June 30,</u>	
2018	\$ 637,638
2019	647,627
2020	671,971
2021	<u>20,299</u>
	<u>\$ 1,977,535</u>

**NOTE H - NET ASSETS**

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

	<u>2017</u>	<u>2016</u>
Board designated reserve fund (cash and investments)	\$ 6,180,180	\$ 3,769,079
Board designated reserve fund (property)	3,075,257	750,000
Quasi-endowment fund	<u>189,641</u>	<u>181,740</u>
	<u>\$ 9,445,078</u>	<u>\$ 4,700,819</u>

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

Split-interest agreements	\$ 759,604	\$ 506,123
Exhibition center	209,000	209,000
Earnings on permanently restricted endowment funds	16,669	14,865
Hazelnut project	<u>32,751</u>	<u>32,751</u>
	<u>\$ 1,018,024</u>	<u>\$ 762,739</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, 2017 and 2016, grant income consisted of:

Grant Source	Grant Purpose	2017	2016
<b>Government:</b>			
U.S. Department of Agriculture	Biomass Chiller	\$ -	\$ 351,000
	Alliance for Community Trees	-	107,759
	Tree City USA	268,459	245,541
	Public Service Ads	140,000	140,000
	Faces of Urban Forestry	-	54,444
	Energy Saving Trees	-	135,000
	Nature Explore Classrooms	299,862	144,161
	Partners Conference	-	18,495
	Urban Community Forestry Urban Network	15,589	-
	NIFA Specialty Crop Research Initiative	78,192	-
Nebraska State Forest Service	Biomass Chiller	-	350,000
	<b>Government grant income</b>	<u>802,102</u>	<u>1,546,400</u>
<b>Private:</b>			
Welson Foundation		8,000	-
Earthshare		9,599	-
Burlington Capital		25,000	-
Fogg Charitable Trust		126,250	-
Toyota Foundation		-	763,000
PricewaterhouseCoopers		250,000	200,000
UPS Foundation		250,000	350,000
Others		12,873	21,352
	<b>Private grant income</b>	<u>681,722</u>	<u>1,334,352</u>
	<b>Total grant income</b>	<u>\$ 1,483,824</u>	<u>\$ 2,880,752</u>

**NOTE J - OTHER INCOME**

Other income consists of:

List rental income	\$ 551,326	\$ 548,226
Education material sales	85,166	75,812
Tree City USA material sales	42,699	47,972
Conference and training	247,359	202,919
Rental income	133,223	143,248
Gain (loss) on investments	285,058	(87,650)
Interest income	13,454	7,401
Gain on sale or disposal of property and equipment	1,491,689	-
Other	389,774	51,473
	<u>\$ 3,239,748</u>	<u>\$ 989,401</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.

Rent expense for the years ended June 30, 2017 and 2016 was \$124,608 and \$157,664, respectively.

Future minimum lease payments for the years following June 30, 2017 are as follows:

<u>Year ending June 30,</u>	
2018	\$ 66,352
2019	48,779
2020	36,081
2021	26,400
2022	26,400
2023 and thereafter	<u>673,200</u>
	<u>\$ 877,212</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, 2017 and 2016 was \$133,223 and \$143,248, respectively.

Future minimum lease revenue for the years following June 30, 2017 is as follows:

Year ending June 30,

2018	\$ 97,156
2019	<u>48,578</u>
	<u>\$ 145,734</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 \$214,414 and \$157,117 for the years ended June 30, 2017 and 2016, 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:

	2017	2016
Total joint costs allocated to program services	\$ 2,245,721	\$ 2,222,530
Total joint costs allocated to fundraising	<u>922,259</u>	<u>730,628</u>
	<u>\$ 3,167,980</u>	<u>\$ 2,953,158</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, 2017 and 2016.

*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 2.4 percent (2017) and 1.8 percent (2016) 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 4.25 percent (2017) and 3.5 percent (2016) 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.

*Donated land:* Valued based on taxable assessed value adjusted for differences between taxable value and typical land values on the open market.

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 tables set forth the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and 2016.

	2017			
	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	\$ 1,272,390	\$ 1,272,390	\$ -	\$ -
Mid cap	44,500	44,500	-	-
Small cap	668,779	668,779	-	-
Large growth	501,430	501,430	-	-
International	943,740	943,740	-	-
High yield bond	26,241	26,241	-	-
Intermediate-term bond	633,470	633,470	-	-
Short-term bond	1,187,899	1,187,899	-	-
World bond	26,022	26,022	-	-
Inflation-protected bond	552,302	552,302	-	-
Work REITs	150,054	150,054	-	-
Emerging market stocks	201,510	201,510	-	-
Commodities	152,010	152,010	-	-
Agency bonds				
AA+/Aaa	89,838	-	89,838	-
Taxable	30,098	-	30,098	-
Exchange traded funds				
Domestic equity	69,846	69,846	-	-
Global equity	23,950	23,950	-	-
	<u>\$ 6,574,079</u>	<u>\$ 6,454,143</u>	<u>\$ 119,936</u>	<u>\$ -</u>
Contributions receivable from charitable trusts	<u>\$ 28,962</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,962</u>
Annuities payable	<u>\$ 741,109</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 741,109</u>

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

NOTES TO FINANCIAL STATEMENTS

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

	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 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>	
2018	\$ 45,245
Total minimum lease payments	45,245
Less amounts representing interest	<u>(5,550)</u>
	<u>\$ 39,695</u>

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

	<u>2017</u>	<u>2016</u>
Total capital lease obligation	\$ 39,695	\$ 97,531
Less current maturities of capital lease obligation	<u>(39,695)</u>	<u>(60,327)</u>
Long-term capital lease obligation	<u>\$ -</u>	<u>\$ 37,204</u>

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

Equipment	\$ 171,567	\$ 171,567
Less accumulated depreciation	<u>(42,449)</u>	<u>(25,423)</u>
	<u>\$ 129,118</u>	<u>\$ 146,144</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, 2017 and 2016, 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, 2017 total \$16,068,581 (Federal) and \$4,091,236 (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, 2017, 2016, and 2015 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 \$1,035,125 and to purchase trees in the amount of \$311,396 as of June 30, 2017. All are expected to be paid during the year ending June 30, 2018.

**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, 2017 and 2016, the STFIT account balances totaled \$1,204,728 and \$195,040, 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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# HIBE

SUPPLEMENTAL INFORMATION

# HIBE

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2017

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>299,862</u>
Urban Community Forestry Program	10.675	13-CS-11132425-191 17-DG-11020000-066 15-DG-11020000-032 16-DG-11020000-016 17-DG-11132544-006	140,000 197,000 51,459 20,000 15,589 <u>424,048</u>
U.S. Department of Agriculture, National Institute of Food and Agriculture/ Oregon State University Specialty Crop Research Initiative	10.309	2016-51181-25412	<u>78,192</u>
			<u>\$ 802,102</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. 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 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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# HIBE

SINGLE AUDIT SECTION

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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, 2017, 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 24, 2017.

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

HBE LLP

October 24, 2017

HBE  
HBE



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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, 2017. 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, 2017.

## 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.

Handwritten signature in black ink that reads "HBE LLP". The letters are stylized and connected.

October 24, 2017

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2017

**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.