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

June 30, 2024
With Comparative Totals for
June 30, 2023

Consolidated Financial Statements
and
Independent Auditor's Report

HBE

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

Year ended June 30, 2024
With Comparative Totals for the Year ended June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of National Arbor Day Foundation d/b/a Arbor Day Foundation and its subsidiary, which comprise the consolidated statement of financial position as of June 30, 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of National Arbor Day Foundation d/b/a Arbor Day Foundation and its subsidiary as of June 30, 2024, and the change in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of National Arbor Day Foundation d/b/a Arbor Day Foundation, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note T to the consolidated financial statements, in 2024, the entity adopted new accounting guidance ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about National Arbor Day Foundation d/b/a Arbor Day Foundation's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about National Arbor Day Foundation d/b/a Arbor Day Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited National Arbor Day Foundation d/b/a Arbor Day Foundation's June 30, 2023 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 9, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated 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 November 5, 2024 on our consideration of National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control over financial reporting and compliance.

HBE LLP

Lincoln, Nebraska
November 5, 2024

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2024
With comparative totals as of June 30, 2023

ASSETS

	2024	2023
CURRENT ASSETS		
Cash and cash equivalents (notes A and E)	$ 30,270,917	$ 33,119,635
Investments (notes A, B, E and L)	10,540,054	9,463,720
Accounts receivable, net of allowance of $37,156 (2024) and $0 (2023) (note A)	5,768,125	6,706,940
Unconditional promises to give (note A)	552,834	661,008
Grants receivable (note A)	850,986	297,434
Prepaid expense	10,665,236	14,430,763
Refundable income taxes (notes A and M)	856,179	851,065
Inventory (notes A and C)	15,001,366	16,009,909
Total current assets	74,505,697	81,540,474
PROPERTY AND EQUIPMENT, net (notes A and D)	31,009,184	33,244,942
OTHER ASSETS		
Investments held for deferred compensation plan (notes B and L)	307,821	228,268
Intangible asset	5,867	12,267
Operating lease right-of-use assets (notes A and I)	1,887,674	2,101,636
Construction in progress	2,651,310	282,055
Contributions receivable from charitable trusts (notes E and L)	32,396	30,020
Total other assets	4,885,068	2,654,246
Total assets	$ 110,399,949	$ 117,439,662

LIABILITIES AND NET ASSETS

	2024	2023
CURRENT LIABILITIES		
Accounts payable	$ 2,341,514	$ 2,270,742
Accrued expenses (notes A and S)	7,967,414	8,804,860
Operating lease obligations, current portion (notes A and I)	168,843	171,988
Conditional contributions (note A)	5,659,365	6,423,097
Deferred revenue (notes A and R)	1,342,793	1,645,242
Total current liabilities	17,479,929	19,315,929
LONG-TERM OBLIGATIONS		
Operating lease obligations, net of current portion (notes A and I)	1,733,748	1,902,544
Deferred revenue, net of current portion (notes A and R)	750,000	-
Total long-term liabilities	2,483,748	1,902,544
OTHER LIABILITIES		
Annuities payable (notes E and L)	529,870	560,262
Total liabilities	20,493,547	21,778,735
NET ASSETS (notes A and G)		
Without donor restrictions		
Undesignated	75,004,708	83,634,550
Designated	12,214,221	11,130,403
With donor restrictions	2,687,473	895,974
Total net assets	89,906,402	95,660,927
Total liabilities and net assets	$ 110,399,949	$ 117,439,662

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2024
With comparative totals for the year ended June 30, 2023

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	Total
CHANGES IN NET ASSETS				
Revenue and support				
Membership dues	$ 12,533,868	$ -	$ 12,533,868	$ 15,707,066
Contributions	53,086,455	1,694,000	54,780,455	53,424,178
Forestry carbon sales	14,648,867	-	14,648,867	25,555,625
Nursery sales	5,087,350	-	5,087,350	5,359,892
Program grant income	3,021,298	-	3,021,298	707,685
Arbor Day Farm income	12,469,343	-	12,469,343	12,483,686
Rain Forest Rescue income	278,646	-	278,646	395,209
Other income (note H)	6,646,252	99,559	6,745,811	4,245,112
Net assets released from restrictions (note A)	2,060	(2,060)	-	-
Total revenue and support	107,774,139	1,791,499	109,565,638	117,878,453
Expenses				
Program services				
Tree City USA	1,785,303	-	1,785,303	1,668,324
Arbor Day/Youth Education	1,996,846	-	1,996,846	1,911,238
Rain Forest Rescue	644,715	-	644,715	2,943,369
Trees for America	62,719,915	-	62,719,915	57,629,907
Arbor Day Farm	14,968,083	-	14,968,083	14,671,622
Conference programs	1,439,958	-	1,439,958	1,048,753
Supporting activities		-		
General and administrative	14,139,267	-	14,139,267	12,909,367
Membership development	9,826,120	-	9,826,120	6,026,677
Fundraising	7,761,639	-	7,761,639	6,748,081
Total expenses	115,281,846	-	115,281,846	105,557,338
Increase (decrease) in net assets before income taxes	(7,507,707)	1,791,499	(5,716,208)	12,321,115
Income tax expense (notes A and M)				
Current	38,317	-	38,317	151,254
INCREASE (DECREASE) IN NET ASSETS	(7,546,024)	1,791,499	(5,754,525)	12,169,861
Net assets, beginning of year	94,764,953	895,974	95,660,927	83,491,066
Net assets, end of year	$ 87,218,929	$ 2,687,473	$ 89,906,402	$ 95,660,927

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2024
With comparative totals for the year ended June 30, 2023

	Program Services							Supporting Activities				
	Tree City USA	Arbor Day/ Youth Education	Rain Forest Rescue	Trees for America	Arbor Day Farm	Conference Programs	Total Program Services	General and Administrative	Membership Development	Fund Raising	2024 Totals	2023 Totals
Salaries, payroll taxes and employee benefits (note J)	$ 996,146	$ 371,567	$ 53,738	$ 6,579,867	$ 6,946,196	$ 157,403	$ 15,104,917	$ 7,235,080	$ 1,830,934	$ 2,945,638	$ 27,116,569	$ 25,141,846
Contract labor	-	20,312	-	89,293	79,304	-	188,909	23,602	-	1,805	214,316	430,504
Advertising and promotion (note A)	7,197	13,353	20,775	693,674	271,499	1,042	1,007,540	843,809	78,304	55,101	1,984,754	1,675,521
Printing, publications, mailing, and photography	112,343	717,103	114,983	2,627,827	208,137	26,701	3,807,094	-	4,459,879	1,889,761	10,156,734	10,996,936
Travel and mileage	100,744	65,628	238	295,896	85,153	119,965	667,624	318,504	15,776	381,092	1,382,996	1,466,692
Professional services	108,756	144,501	4,686	1,984,742	212,471	75,343	2,530,499	2,949,325	102,095	625,473	6,207,392	4,402,163
Recognition material	1,150	86	-	2,973	2,911	117	7,237	74,755	-	571	82,563	76,912
Professional development	9,786	29	-	7,364	8,638	3	25,820	34,579	-	1,052	61,451	51,975
Taxes	788	1,055	826	16,820	192,747	-	212,236	47,913	4,248	6,097	270,494	397,805
Repairs and maintenance	8,426	32,067	4,279	57,360	434,522	-	536,654	247,040	140,132	51,491	975,317	1,059,889
Tree purchases and shipping expenses	-	-	-	8,436,716	-	-	8,436,716	-	2,633	-	8,439,349	8,099,548
Reforestation expenses	-	-	-	10,995,181	-	1,125	10,996,306	-	-	-	10,996,306	10,424,497
Rain forest preservation	-	-	7,651	-	-	-	7,651	-	-	-	7,651	11,740
Inventory costs	248,355	95,463	228,380	-	1,848,564	-	2,420,762	38,424	-	428,239	2,887,425	3,166,019
Computer services	21,880	327	166	491,752	114,572	2	628,699	1,382,759	2,033	48,612	2,062,103	1,525,607
Bank charges	10	-	-	576,510	297,695	-	874,215	19,624	-	-	893,839	819,895
Insurance	2,317	2,317	10,950	43,322	356,064	180	415,150	165,092	14,399	14,341	608,982	432,286
Telephone and utilities	6,922	6,545	2,504	52,485	635,271	391	704,118	76,212	33,689	42,626	856,645	986,469
Postage and shipping	88,191	355,606	163,275	1,579,001	83,890	1,665	2,271,628	23,470	2,907,654	986,026	6,188,778	5,975,549
Office supplies	1,800	1,788	900	11,370	12,145	236	28,239	27,830	11,098	14,409	81,576	80,595
Operating supplies	2,899	48,292	8,226	103,623	616,058	623,808	1,402,906	35,020	9,315	17,882	1,465,123	1,343,560
Dues and subscriptions	2,363	5,790	64	93,777	64,815	213	167,022	30,873	4,020	16,789	218,704	377,016
Interest expense	-	-	-	-	-	-	-	-	-	-	-	34
Bad debts	4	4,715	5,515	63,519	6,217	5,000	84,970	37,156	-	-	122,126	19,550
Rental expense (note I)	6,356	6,355	-	79,571	74,873	239,291	406,446	132,202	-	857	539,505	379,672
Depreciation (note D)	31,083	31,083	15,787	136,991	2,304,226	-	2,519,170	308,776	193,158	189,951	3,211,055	2,858,929
Subsidies for community tree planting initiatives	-	68,639	-	6,462,272	-	-	6,530,911	150	-	-	6,531,061	5,518,114
Forestry carbon credits (note A)	-	-	-	21,212,035	-	-	21,212,035	-	-	-	21,212,035	16,955,406
Research and development	-	365	-	3,023	-	-	3,388	4,910	-	26,688	34,986	184,435
Miscellaneous	27,787	3,860	1,772	22,951	112,115	187,473	355,958	82,162	16,753	17,138	472,011	698,174
TOTAL EXPENSES	$ 1,785,303	$ 1,996,846	$ 644,715	$ 62,719,915	$ 14,968,083	$ 1,439,958	$ 83,554,820	$ 14,139,267	$ 9,826,120	$ 7,761,639	$ 115,281,846	
TOTAL EXPENSES June 30, 2023	$ 1,668,324	$ 1,911,238	$ 2,943,369	$ 57,629,907	$ 14,671,622	$ 1,048,753	$ 79,873,213	$ 12,909,367	$ 6,026,677	$ 6,748,081		$ 105,557,338

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2024
With comparative totals for the year ended June 30, 2023

	2024	2023
Cash flows from operating activities		
Cash received from revenue and support	$ 106,547,205	$ 118,518,497
Cash paid to employees and suppliers	(110,185,921)	(113,934,322)
Interest received	1,849,595	1,235,049
Interest paid	-	(34)
Net cash provided (used) by operating activities	(1,789,121)	5,819,190
Cash flows from investing activities		
Purchase of investments	(1,097,306)	(7,184,139)
Proceeds from the sale of investments	1,256,912	7,399,883
Purchase of property and equipment	(3,284,715)	(4,118,652)
Proceeds from disposal of assets	2,159,531	-
Net cash used by investing activities	(965,578)	(3,902,908)
Cash flows from financing activities		
Payments on annuities	(94,019)	(98,744)
Net increase (decrease) in cash and cash equivalents	(2,848,718)	1,817,538
Cash and cash equivalents, beginning of year	33,119,635	31,302,097
Cash and cash equivalents, end of year	$ 30,270,917	$ 33,119,635
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Increase (decrease) in net assets	$ (5,754,525)	$ 12,169,861
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Depreciation	3,211,055	2,858,929
Reduction in the carrying amount of right-of-use assets	213,962	126,706
Reinvested interest and dividends	(213,885)	(147,347)
Gain on disposal of assets	(1,575,360)	-
Bad debt expense	122,126	19,550
Investment gain	(1,010,083)	(821,602)
Actuarial (gain) loss on annuities	33,571	(99,124)
Retired annuity liabilities	15,708	41,871
(Increase) decrease in assets		
Accounts receivable	816,689	587,346
Unconditional promises to give	108,174	(110,208)
Grants receivable	(553,552)	98,927
Prepaid expense	3,765,527	(4,753,720)
Refundable income taxes	(5,114)	(851,065)
Inventory	1,008,543	(1,438,562)
Assets held for deferred compensation plan	(79,553)	(24,121)
Increase (decrease) in liabilities		
Accounts payable	(566,836)	(1,358,568)
Accrued expenses	(837,446)	(1,702,807)
Income tax payable	-	(891,043)
Operating lease obligations	(171,941)	(153,810)
Conditional contributions	(763,732)	1,028,746
Deferred revenue	447,551	1,239,231
Total adjustments to increase (decrease) in net assets	3,965,404	(6,350,671)
Net cash provided (used) by operating activities	$ (1,789,121)	$ 5,819,190
Supplemental disclosure of noncash information:		
Noncash investing activities		
Accounts payable assumed for property and equipment purchases	$ 777,614	$ 140,006
Right-of-use assets obtained in exchange for operating lease obligations upon ASC 842 implementation	$ -	$ (1,704,294)
Right-of-use assets obtained in exchange for operating lease obligations post ASC 842 implementation	$ -	$ (524,048)

See accompanying notes to consolidated financial statements.

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

Arbor Day Carbon, LLC (ADC, LLC) was formed on June 30, 2021 as an LLC taxed as a C-Corporation and is a wholly owned subsidiary of the Foundation. The purpose of Arbor Day Carbon, LLC is to use market mechanisms to accelerate reforestation.

The consolidated entities are collectively referred to as "the Foundation".

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation. The consolidated financial statements include the accounts of National Arbor Day Foundation d/b/a Arbor Day Foundation and Arbor Day Carbon, LLC, collectively referred to as the Foundation. All significant intercompany investments, transactions and account balances have been eliminated in consolidation.

Comparative Financial Information. The accompanying consolidated 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 accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Foundation's audited consolidated financial statements for the year ended June 30, 2023, from which the summarized information was derived.

Cash and Cash Equivalents. For purposes of the consolidated statement of cash flows, the Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are measured at amortized cost, thus, evaluated for expected credit losses. Based on management's review of historical data in addition to current conditions and forecasts, the Foundation has not recognized an expected credit loss.

Investments. Investments in marketable securities, including equity and debt securities, with readily determinable fair values are reported at their fair values in the consolidated statement of financial position. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments. Unrealized gains and losses are included in the consolidated statement of activities. Donated securities are recorded as contributions equal to the fair market value of the securities at the date of gift.

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 measurement date. The Foundation utilizes a framework 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:

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

Accounts Receivable. Receivables represent the Foundation’s present right to consideration that is unconditional. Trade accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Accounts receivables were $5,768,125, $6,706,940, and $7,313,836 as of June 30, 2024, 2023, and 2022, respectively.

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

Allowance for credit losses is based on management’s review of historical losses based on aging receivables. This estimate is adjusted for management’s assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant. The Foundation believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Foundation’s customers have remained consistent. Based on management’s review, the Foundation has recorded a provision for expected credit loss of $37,156 as of June 30, 2024. There was no expected credit loss as of June 30, 2023.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Unconditional 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. Management provides for probable uncollectible unconditional promises receivable through a charge to net assets and a credit to a valuation allowance based on prior years' experience and management's analysis of specific promises made. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to unconditional promises receivable. Changes in the valuation allowance have not been material to the consolidated financial statements.

Inventory. Inventory is stated at the lower of cost or net realizable value determined by the first-in, first-out method. During the year ended June 30, 2024, an impairment charge of $9,471,172 was recorded due to a decline in the estimated selling price of certain carbon credits. This loss is recognized in the consolidated statement of functional expenses as forestry carbon credits expense.

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

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

Accrued Vacation. The Foundation's vacation pay policy allows full-time employees 80 hours of vacation time for the first year of full-time employment, increasing each year of employment up to a maximum of 160 hours per year after 10 years of employment. Vacation time is also available on a pro-rata basis for regular part-time employees. Up to 160 hours of accrued vacation time may be carried into a new calendar year but no more than 160 hours may be accumulated and unused at any time. All accumulated vacation time is paid out upon termination. Accrued vacation for the years ended June 30, 2024 and 2023 was $956,275 and $829,771, respectively.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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

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

Government and Other Grants.
The Foundation is the recipient of federal, state, and local grants to fund its primary programs. Grants consist primarily of conditional grants, that is, those with a measurable performance or other barrier, and a right of return. Grants are not recognized until the conditions on which they depend have been substantially met. The federal, state, and local grants are conditioned upon the incurrence of allowable qualifying expenses. Grants are recorded as revenue when the related approved expenditures are made. At June 30, 2024 and 2023, conditional grants of $57,339,214 and $737,565, respectively, were awarded to the Foundation, for which the Foundation has not yet incurred related expenditures.

Contributions.
Contributions are recognized when a donor makes a promise to give that is, in substance, unconditional. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. At June 30, 2024 and 2023, the Foundation had $12,513,289 and $6,423,097 of conditional contributions in which the barriers for recognition had not been met, respectively. Conditional contributions received prior to the satisfaction of significant conditions are recognized as liabilities on the consolidated statement of financial position.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue Recognition – Continued.

The Foundation records the freight billed to customers as sales revenue and the related freight costs as tree purchases and shipping expenses.

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

Membership Dues.
Dues recognition generally follows contribution recognition. However, some members, based upon the level of membership, receive trees as a part of their membership, thus membership dues are split with a portion recognized when received as a contribution and the remaining balance deferred until the trees are shipped to the member.

In-Kind Donations. In-kind donations are recorded as contributions at their estimated fair values at the date of donation. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would have otherwise been purchased by the Foundation. It is the Foundation's policy to sell all contributed assets immediately upon receipt at auction or for salvage unless the asset is restricted for use in a specific program by the donor.

Leases. At inception, the Foundation determines if a contract is or includes a lease arrangement. The Foundation's lease commitments include farm land, office space, and equipment. The following describes the Foundation's accounting policies related to its leasing arrangements:

<u>As lessee</u>

Leased assets represent the right to control the use of an identified asset for the lease term and lease obligations represent the obligation to make lease payments arising from the lease. The Foundation recognizes a right-of-use asset and related obligation at the commencement date, generally based on the present value of lease payments over the lease term using the Foundation's risk free rate. Leases with an initial term of 12 months or less, including month to month leases, are not recorded on the balance sheet and are expensed on a straight-line basis.

Operating Leases

Operating lease assets and liabilities are recognized separately on the Foundation's consolidated statement of financial position. The Foundation recognizes a single lease expense on a straight-line basis over the lease term. Nonlease components are expensed as incurred.

<u>As lessor</u>

Operating Leases

Under operating lease arrangements, the Foundation continues to recognize the underlying asset on its consolidated statement of financial position and recognizes income and initial direct costs expense generally on a straight-line basis over the lease term.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Advertising. The Foundation expenses advertising as incurred. Advertising expense for the years ended June 30, 2024 and 2023 was $1,984,754 and $1,675,521, respectively.

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

Income Taxes. The National Arbor Day Foundation d/b/a Arbor Day 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.

Arbor Day Carbon, LLC accounts for income taxes using the “balance sheet method” of accounting for income taxes. Accordingly, deferred assets and liabilities are determined based on the difference between the consolidated financial statement and income tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

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

NOTE B - INVESTMENTS

	2024		2023	
	Cost	Fair Value	Cost	Fair Value
Investments consist of:				
Mutual funds	$ 7,839,102	$ 9,561,648	$ 7,510,792	$ 8,294,520
Exchange traded funds	1,267,803	1,286,227	1,397,888	1,397,468
	$ 9,106,905	$ 10,847,875	$ 8,908,680	$ 9,691,988
Unrealized gains		$ 1,740,970		$ 783,308

Other income - investment income consists of:

	2024	2023
Interest and dividend income	$ 213,885	$ 147,347
Realized gains	111,428	337,250
Unrealized gain	957,662	521,782
Investment management fees	(59,007)	(37,430)
	$ 1,223,968	$ 968,949

NOTE C - INVENTORY

Inventory consists of:

	2024	2023
Food and beverage inventory	$ 218,092	$ 176,946
Merchandise inventory	91,350	284,215
Coffee inventory	19,736	48,517
Catalog inventory	425,215	655,862
Other print inventory	16,829	17,501
Greenhouse inventory	75,786	33,684
Carbon inventory	14,090,525	14,720,866
Miscellaneous inventory	63,833	72,318
	$ 15,001,366	$ 16,009,909

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consists of:

Land	$ 4,725,162	$ 4,725,162
Buildings	46,128,457	45,892,580
Leasehold improvements	149,557	271,697
Farm improvements	2,991,724	2,874,873
Orchards	76,356	76,356
Computer hardware	3,242,060	3,120,047
Lied Lodge equipment and improvements	7,043,132	6,963,663
Furniture and equipment	5,745,918	5,443,771
Computer software	4,667,081	4,515,864
	74,769,447	73,884,013
Less accumulated depreciation	(43,760,263)	(40,639,071)
	$ 31,009,184	$ 33,244,942

Depreciation expense for the years ended June 30, 2024 and 2023 was $3,211,055 and $2,858,929, 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.

NOTE E - SPLIT-INTEREST AGREEMENTS – CONTINUED

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

For the years ended June 30, 2024 and 2023, contributions include gift annuity contracts valued at $10,652 and $3,970, 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:

	2024	2023
Cash and cash equivalents	$ 66,689	$ 33,190
Contributions receivable from charitable trusts	32,396	30,020
Investments	1,341,373	1,344,615
	$ 1,440,458	$ 1,407,825

NOTE F - REVOLVING CREDIT NOTES PAYABLE

National Arbor Day Foundation d/b/a Arbor Day Foundation has secured a revolving credit note agreement with a financial institution, which provides it may borrow up to $3,000,000 at the bank's variable interest rate. The note is secured by substantially all of the assets of the National Arbor Day Foundation d/b/a Arbor Day Foundation. No amounts had been borrowed on the revolving credit note as of June 30, 2024 and 2023. The revolving credit note expires January 31, 2026.

Arbor Day Carbon, LLC has secured a revolving credit note agreement with a financial institution, which provides it may borrow up to $4,000,000 at the bank's variable interest rate. The note is secured by substantially all of the assets of Arbor Day Carbon, LLC. No amounts had been borrowed on the revolving credit note as of June 30, 2024 and 2023. The revolving credit note expires December 31, 2024.

NOTE G - NET ASSETS

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

	2024	2023
Board designated:		
Board designated reserve fund (cash and investments)	$ 8,849,188	$ 7,774,965
Board designated reserve fund (property)	3,075,257	3,075,257
Quasi-endowment fund	289,776	280,181
	$ 12,214,221	$ 11,130,403

Net assets with donor restrictions comprise the following:

Subject to purpose restrictions:		
Capital improvements	$ 1,650,000	$ -
Earnings on permanently restricted endowment funds	40,048	36,708
Other	10,945	-
Subject to time restrictions:		
Split-interest agreements	910,588	814,374
Subject to perpetual restrictions:		
Permanent endowments	75,892	44,892
	$ 2,687,473	$ 895,974

NOTE H - OTHER INCOME

Other income consists of:

List rental income	$ 546,179	$ 595,869
Education material sales	131,958	212,856
Tree City USA material sales	41,907	57,677
Conference and training	1,298,185	1,056,800
Rental income	488	302
Investment income	1,223,968	968,949
Interest income	1,849,595	1,235,049
Gain on disposal of property and equipment	1,575,360	-
Other income	78,171	117,610
	$ 6,745,811	$ 4,245,112

NOTE I - LEASES

As Lessee

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. Under the second agreement, lease payments are $28,000 plus inflation adjustments annually through December 31, 2046.

NOTE I – LEASES – CONTINUED

The Foundation leases building space under an operating lease agreement. The term of the lease is from August 1, 2022 through October 31, 2027. Under the agreement, monthly rent payments at the beginning of the lease were $4,423 and will gradually increase to $9,574 by the end of the term.

Operating lease right-of-use assets and lease obligations as of June 30, 2024 and 2023 were as follows:

	2024	2023
Right-of-use assets	$ 1,887,674	$ 2,101,636
Lease obligations		
Current	$ 168,843	$ 171,988
Noncurrent	1,733,748	1,902,544
	$ 1,902,591	$ 2,074,532

Lease expenses for the year ended June 30, 2024 and 2023 are as follows:

Operating lease expense	$ 192,404	$ 126,707
Short-term lease expense	347,101	252,965
	$ 539,505	$ 379,672

Average operating lease terms and discount rate at June 30, 2024 and 2023 were as follows:

Weighted average remaining lease term (years):	48.56	49.56
Weighted average discount rate:	3.30%	3.30%

The aggregate future lease payments below summarize the remaining future undiscounted cash flows for operating leases as of June 30, 2024, and a reconciliation to operating lease obligations reported on the consolidated statement of financial position:

Year ending June 30,	
2025	$ 180,613
2026	182,808
2027	185,046
2028	109,204
2029	70,908
Thereafter	3,489,252
Total minimum lease payments	4,217,831
Less: present value discount	(2,315,240)
Operating lease obligations	$ 1,902,591

NOTE I – LEASES – CONTINUED

As Lessor

The Foundation has entered into a sublease agreement for real property. The sublease is under the same terms as the Foundation's; lease payments are $42,000 plus inflation adjustments annually through December 31, 2098.

The consolidated financial statements include rent income of $42,000 for each of the years ended June 30, 2024 and 2023.

Future minimum lease revenues for the years following June 30, 2024 are:

Year ending June 30,	
2025	$ 42,000
2026	42,000
2027	42,000
2028	42,000
2029	42,000
Thereafter	2,940,000
	$ 3,150,000

NOTE J - RETIREMENT PLAN

The Foundation has established a defined contribution retirement plan qualified under Section 401(k) of the Internal Revenue Code. Employees may, upon hire, make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. Employee contributions are matched dollar for dollar up to 3% and then are matched 50 cents on the dollar up to 4%. Matching contributions were $849,444 and $721,532 for the years ended June 30, 2024 and 2023, respectively. Employees become vested in the matching contributions over a five year period, 20% each year.

The Foundation also established salary deferral plans for eligible employees under IRC Section 457(b) and 457(f). Executive team members and vice presidents, as designated by the Foundation, are eligible to participate in the plan. As of June 30, 2024 and 2023, $430,341 and $429,387 has been deferred on behalf of the participants, respectively.

NOTE K - 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:

	2024	2023
Total joint costs allocated to program services	$ 4,459,724	$ 5,140,096
Total joint costs allocated to fundraising	3,595,993	2,223,112
	$ 8,055,717	$ 7,363,208

NOTE L - 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, 2024 and 2023.

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

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 5.6% (2024) and 4.2% (2023) 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 8.50% (2024) and 8.25% (2023) 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.

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

The following tables set forth the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2024 and 2023.

NOTE L - FAIR VALUE MEASUREMENTS - CONTINUED

	2024			
	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	$ 567,130	$ 567,130	$ -	$ -
Mid cap	111,579	111,579	-	-
Small cap	104,271	104,271	-	-
International	3,403,198	3,403,198	-	-
High yield bond	30,379	30,379	-	-
Intermediate-term bond	226,535	226,535	-	-
Short-term bond	4,443,979	4,443,979	-	-
World bond	305,708	305,708	-	-
Inflation-protected bond	61,048	61,048	-	-
Exchange traded funds				
Large blend	1,274,716	1,274,716	-	-
Foreign large blend	11,511	11,511	-	-
Investments held for deferred comp plan:				
Mutual funds				
Large cap	23,848	23,848	-	-
Mid cap	9,876	9,876	-	-
Small cap	12,684	12,684	-	-
International	17,315	17,315	-	-
Short-term bond	3,018	3,018	-	-
Target date funds	241,080	241,080	-	-
	$ 10,847,875	$ 10,847,875	$ -	$ -
Contributions receivable from charitable trusts	$ 32,396	$ -	$ -	$ 32,396
Annuities payable	$ 529,870	$ -	$ -	$ 529,870

NOTE L - FAIR VALUE MEASUREMENTS - CONTINUED

	2023			
	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	$ 564,740	$ 564,740	$ -	$ -
Mid cap	77,873	77,873	-	-
Small cap	131,563	131,563	-	-
International	2,933,780	2,933,780	-	-
High yield bond	31,452	31,452	-	-
Intermediate-term bond	188,736	188,736	-	-
Short-term bond	3,822,869	3,822,869	-	-
World bond	253,496	253,496	-	-
Inflation-protected bond	61,743	61,743	-	-
Exchange traded funds				
Large blend	1,380,496	1,380,496	-	-
Foreign large blend	16,972	16,972	-	-
Investments held for deferred comp plan:				
Mutual funds				
Large cap	20,532	20,532	-	-
Mid cap	14,775	14,775	-	-
Small cap	5,651	5,651	-	-
International	7,635	7,635	-	-
Intermediate-term bond	8,383	8,383	-	-
Short-term bond	1,474	1,474	-	-
Target date funds	169,818	169,818	-	-
	$ 9,691,988	$ 9,691,988	$ -	$ -
Contributions receivable from charitable trusts	$ 30,020	$ -	$ -	$ 30,020
Annuities payable	$ 560,262	$ -	$ -	$ 560,262

NOTE L - FAIR VALUE MEASUREMENTS - CONTINUED

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, 2024 and 2023.

	2024	2023
	Contributions Receivable from Charitable Trusts	Annuities Payable
Balance at June 30, 2022	$ 30,343	$ 710,229
Annuity liabilities added	-	6,030
Annuity liabilities released	-	(140,614)
Actuarial change in split-interest agreements	(323)	(15,383)
Balance at June 30, 2023	30,020	560,262
Annuity liabilities added	-	14,348
Annuity liabilities released	-	(109,727)
Actuarial change in split-interest agreements	2,376	64,987
Balance at June 30, 2024	$ 32,396	$ 529,870

NOTE M - INCOME TAXES

The National Arbor Day Foundation d/b/a Arbor Day 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 National Arbor Day Foundation d/b/a Arbor Day Foundation has hotel and conference center income, which is subject to tax on unrelated business income. For the years ended June 30, 2024 and 2023, 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 carryforwards totaling $11,802,551 expire between now and June 30, 2038 for net operating losses arising before fiscal year 2019. Net operating losses totaling $5,109,306 arising during and after fiscal year 2019, do not expire. State carryforwards totaling $7,538,769 will expire between now and June 30, 2044. 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 consolidated financial statements.

The National Arbor Day Foundation d/b/a Arbor Day Foundation's federal Returns of Foundation Exempt from Income Tax (Form 990) and Exempt Foundation Business Income Tax Returns (Form 990T) for June 30, 2024, 2023, and 2022 are subject to examination by the IRS, generally for three years after they were filed.

The National Arbor Day Foundation d/b/a Arbor Day Foundation is a not-for-profit organization that is exempt from income taxes under the Internal Revenue Service Code. As such, the income tax items shown on the consolidated financial statements relate only to the Foundation's taxable subsidiary.

NOTE M - INCOME TAXES - CONTINUED

The Subsidiary has Federal and state net operating loss carryforwards that may be offset against future taxable income. The Federal carryforwards are indefinite while the state carryforwards expire based on each state's regulations. The loss carryforwards at June 30, 2024 total $14,043,844 (Federal) and $13,210,236 (various states). No net operating loss is anticipated to be used; therefore, no deferred tax asset has been established. The Subsidiary 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 consolidated financial statements. The Subsidiary files income tax returns in the U.S. federal jurisdiction and several state jurisdictions. The Subsidiary's income tax returns are subject to examination by the IRS, generally for three years after they were filed.

NOTE N – COMMITMENTS AND CONTINGENCIES

The Foundation had open commitments to purchase trees in the amount of $5,067,745 as of June 30, 2024. All are expected to be paid during the year ending June 30, 2025.

The Foundation is currently in progress on the repairs of several buildings. As of June 30, 2024, approximately $411,238 is still expected to be incurred. The repairs are expected to be completed by October 2024. The Foundation has a contingent receivable associated with the repairs of $258,676 that is to be paid by insurance when the repairs are complete.

NOTE O - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist primarily of checking accounts, money market accounts, and Short-Term Federal Investment Trust (STFIT) accounts at financial institutions. Checking and money market accounts at each institution are insured by the FDIC up to $250,000. At June 30, 2024 and 2023, the bank accounts exceeded federal insured limits by $251,658 and $1,495,223, respectively. Additionally, a STFIT account at a financial institution is not FDIC-insured. At June 30, 2024 and 2023, the STFIT account balance totaled $7,225,506 and $12,070,787 respectively. The STFIT account is collateralized by federal agency bonds.

NOTE P - LIQUIDITY AND AVAILABILITY

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

	2024	2023
Cash and cash equivalents	$ 30,270,917	$ 33,119,635
Investments	10,540,054	9,463,720
Accounts receivable	5,768,125	6,706,940
Unconditional promises to give	552,834	661,008
Grants receivable	850,986	297,434
Refundable income taxes	856,179	851,065
Inventory	15,001,366	16,009,909
Total financial assets	63,840,461	67,109,711
Donor imposed restrictions:		
Perpetual in nature	(75,892)	(44,892)
Subject to expenditure for specified purpose or time	(2,611,581)	(851,082)
Net financial assets after donor-imposed restrictions	61,152,988	66,213,737
Less:		
Board-designated cash and investment funds	(9,138,964)	(8,055,146)
Financial assets available to meet cash needs for general expenditures within one year	$ 52,014,024	$ 58,158,591

As part of the liquidity management plan, cash in excess of daily requirements is invested in short-term investments, mutual funds, CDs, and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was $9,138,964 as of year-end date.

The operating reserve is a board-designated fund with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated short-term liquidity need, the Foundation also could draw upon the $7,000,000 available on its revolving credit notes payable. See Note F.

As of June 30, 2024, $17.5 million of the financial assets available to meet cash needs for general expenditures within one year will be used to satisfy current liabilities, which in large part are made up of obligations to plant trees.

NOTE Q - DISAGGREGATION OF REVENUE

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

	2024	2023
Revenue recognized at a point in time		
Membership dues	$ 5,736,659	$ 4,028,236
Forestry carbon sales	14,648,867	25,555,625
Nursery sales	5,087,350	5,359,892
Arbor Day Farm income	12,469,343	12,483,686
Rain Forest Rescue income	278,646	395,209
Other income	2,096,400	2,040,812
Total revenue recognized at a point in time	$ 40,317,265	$ 49,863,460

NOTE R – CONTRACT BALANCES

The following table provides information about the changes in the contract liabilities for the years ended June 30, 2024 and 2023.

Contract liabilities, beginning of year	$ 1,645,242	$ 406,011
Recognition of revenue included in beginning balance	(1,627,242)	(406,011)
Collection of customer prepayments	2,074,793	1,645,242
Contract liabilities, end of year	$ 2,092,793	$ 1,645,242

NOTE S – SELF-INSURANCE PLAN

The Foundation provides health insurance to its employees through a plan which is funded by both participant and employer contributions. The Foundation has pledged to make payments to the plan as needed to pay benefits and expense related to the plan. A stop loss policy limits the Foundation's payments to $70,000 per individual and $2,727,342 aggregate. The Foundation has accrued $250,216 and $241,090 as of June 30, 2024 and 2023, respectively, for estimated costs incurred under the plan, but not yet paid. This accrual is included in accrued expenses on the consolidated statement of financial position.

NOTE T – NEW ACCOUNTING STANDARD

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. ASU 2016-13 significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the consolidated financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. The FASB has subsequently issued additional, clarifying standards to address issues arising from implementation of the new current expected credit loss standard. ASU 2016-13 and all subsequently issued amendments, collectively "ASC 326," is effective for annual reporting periods beginning after December 15, 2022. Financial assets held by the Foundation that are subject to the guidance in FASB ASC 326 were cash and cash equivalents and accounts receivable.

NOTE T – NEW ACCOUNTING STANDARD - CONTINUED

On July 1, 2023, the Foundation adopted ASC 326. The impact of the adoption was not considered material to the consolidated financial statements and primarily resulted in enhanced disclosures only. The Foundation's accounting policies in Note A have been updated to reflect the impact of the standard.

NOTE U - SUBSEQUENT EVENTS

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

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SUPPLEMENTAL INFORMATION

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

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30,

ASSETS

	2024			
	ADF	ADC, LLC	Eliminations	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	$ 29,899,317	$ 371,600	$ -	$ 30,270,917
Investments	10,540,054	-	-	10,540,054
Accounts receivable, net	5,393,125	375,000	-	5,768,125
Unconditional promises to give	552,834	-	-	552,834
Grants receivable	850,986	-	-	850,986
Receivables from ADC, LLC	26,999,428	-	(26,999,428)	-
Prepaid expense	9,539,574	1,125,662	-	10,665,236
Refundable income taxes	-	856,179	-	856,179
Inventory	910,841	14,090,525	-	15,001,366
Total current assets	84,686,159	16,818,966	(26,999,428)	74,505,697
PROPERTY AND EQUIPMENT, net	31,009,184	-	-	31,009,184
OTHER ASSETS				
Investments held for deferred compensation plan	307,821	-	-	307,821
Intangible asset	5,867	-	-	5,867
Operating lease right-of-use assets	1,887,674	-	-	1,887,674
Construction in progress	2,651,310	-	-	2,651,310
Contributions receivable from charitable trusts	32,396	-	-	32,396
Total other assets	4,885,068	-	-	4,885,068
Total assets	$ 120,580,411	$ 16,818,966	$ (26,999,428)	$ 110,399,949

LIABILITIES AND NET ASSETS

	ADF	ADC, LLC	Eliminations	Consolidated
CURRENT LIABILITIES				
Accounts payable	$ 2,335,711	$ 5,803	$ -	$ 2,341,514
Accrued expenses	7,913,711	53,703	-	7,967,414
Operating lease obligations, current portion	168,843	-	-	168,843
Payable to NADF	-	26,999,428	(26,999,428)	-
Conditional contributions	5,659,365	-	-	5,659,365
Deferred revenue	1,342,793	-	-	1,342,793
Total current liabilities	17,420,423	27,058,934	(26,999,428)	17,479,929
LONG-TERM OBLIGATIONS				
Operating lease obligations, net of current portion	1,733,748	-	-	1,733,748
Deferred revenue, net of current portion	-	750,000	-	750,000
Total long-term obligations	1,733,748	750,000	-	2,483,748
OTHER LIABILITIES				
Annuities payable	529,870	-	-	529,870
Total liabilities	19,684,041	27,808,934	(26,999,428)	20,493,547
NET ASSETS				
Without donor restrictions				
Undesignated	85,994,676	(10,989,968)	-	75,004,708
Designated	12,214,221	-	-	12,214,221
With donor restrictions	2,687,473	-	-	2,687,473
Total net assets	100,896,370	(10,989,968)	-	89,906,402
Total liabilities and net assets	$ 120,580,411	$ 16,818,966	$ (26,999,428)	$ 110,399,949

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

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended June 30,

	2024					
	ADF Without Donor Restrictions	ADC, LLC	Eliminations	Total W/Out Donor Restrictions	ADF With Donor Restrictions	Total
CHANGES IN NET ASSETS						
Revenue and support						
Membership dues	$ 12,533,868	$ -	$ -	$ 12,533,868	$ -	$ 12,533,868
Contributions	53,086,455	-	-	53,086,455	1,694,000	54,780,455
Forestry carbon sales	-	14,648,867	-	14,648,867	-	14,648,867
Nursery sales	5,087,350	-	-	5,087,350	-	5,087,350
Program grant income	3,021,298	-	-	3,021,298	-	3,021,298
Arbor Day Farm income	12,469,343	-	-	12,469,343	-	12,469,343
Rain Forest Rescue income	278,646	-	-	278,646	-	278,646
Other income	12,595,525	-	(5,949,273)	6,646,252	99,559	6,745,811
Net assets released from restrictions (note A)	2,060	-	-	2,060	(2,060)	-
Total revenue and support	99,074,545	14,648,867	(5,949,273)	107,774,139	1,791,499	109,565,638
Expenses						
Program services						
Tree City USA	1,785,303	-	-	1,785,303	-	1,785,303
Arbor Day/Youth Education	1,996,846	-	-	1,996,846	-	1,996,846
Rain Forest Rescue	644,715	-	-	644,715	-	644,715
Trees for America	40,009,886	28,659,302	(5,949,273)	62,719,915	-	62,719,915
Arbor Day Farm	14,968,083	-	-	14,968,083	-	14,968,083
Conference programs	1,439,958	-	-	1,439,958	-	1,439,958
Supporting activities						
General and administrative	14,139,267	-	-	14,139,267	-	14,139,267
Membership development	9,826,120	-	-	9,826,120	-	9,826,120
Fundraising	7,761,639	-	-	7,761,639	-	7,761,639
Total expenses	92,571,817	28,659,302	(5,949,273)	115,281,846	-	115,281,846
Increase in net assets before income taxes	6,502,728	(14,010,435)	-	(7,507,707)	1,791,499	(5,716,208)
Income tax expense						
Current	-	38,317	-	38,317	-	38,317
INCREASE (DECREASE) IN NET ASSETS	6,502,728	(14,048,752)	-	(7,546,024)	1,791,499	(5,754,525)
Net assets, beginning of year	91,706,169	3,058,784	-	94,764,953	895,974	95,660,927
Net assets, end of year	$ 98,208,897	$ (10,989,968)	$ -	$ 87,218,929	$ 2,687,473	$ 89,906,402

National Arbor Day Foundation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2024

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA Number	Grant Identifying Number	Provided to Subrecipients	Federal Expenditures
U.S. Department of Agriculture				
Direct Programs:				
Urban Community Forestry Program	10.675	22-DG-11132544-052 23-DG-11021600-020 23-DG-11132544-042	$ -	$ 518,473
Inflation Reduction Act Urban & Community Forestry Program	10.727	24-CA-11132544-037 24-CA-11132544-015	49,009	889,565
Total U.S. Department of Agriculture			49,009	1,408,038
U.S. Department of Treasury				
Pass-Through State of Vermont				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	None	-	63,000
Total U.S. Department of Treasury			$ 49,009	$ 1,471,038

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 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 basic consolidated financial statements.

Subrecipients. The National Arbor Day Foundation d/b/a Arbor Day Foundation provided federal awards to subrecipients as presented in the schedule.

Indirect Costs. The National Arbor Day Foundation d/b/a Arbor Day Foundation has elected to use the ten percent de minimis indirect cost rate as allowed in the Uniform Guidance, 2CFR 200.414.

SINGLE AUDIT SECTION

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

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of National Arbor Day Foundation d/b/a Arbor Day Foundation, which comprise the consolidated statement of financial position as of June 30, 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated November 5, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control.

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

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

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether National Arbor Day Foundation d/b/a Arbor Day Foundation's consolidated 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 consolidated financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HBE LLP

Lincoln, Nebraska
November 5, 2024

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

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

Report on Compliance for Each Major Federal Program

Opinion on 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 identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of National Arbor Day Foundation d/b/a Arbor Day Foundation's major federal programs for the year ended June 30, 2024. National Arbor Day Foundation d/b/a Arbor Day Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, National Arbor Day Foundation d/b/a Arbor Day Foundation complied, in all material respects, with the 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, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of National Arbor Day Foundation d/b/a Arbor Day Foundation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of National Arbor Day Foundation d/b/a Arbor Day Foundation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to National Arbor Day Foundation d/b/a Arbor Day Foundation's federal programs.

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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on National Arbor Day Foundation d/b/a Arbor Day Foundation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about National Arbor Day Foundation d/b/a Arbor Day Foundation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding National Arbor Day Foundation d/b/a Arbor Day Foundation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 National Arbor Day Foundation d/b/a Arbor Day Foundation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2024-001. Our opinion on each major federal program is not modified with respect to this matter. *Government Auditing Standards* requires the auditor to perform limited procedures on National Arbor Day Foundation d/b/a Arbor Day Foundation's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. National Arbor Day Foundation d/b/a Arbor Day Foundation's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2024-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. *Government Auditing Standards* requires the auditor to perform limited procedures on National Arbor Day Foundation d/b/a Arbor Day Foundation's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. National Arbor Day Foundation d/b/a Arbor Day Foundation's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 LLP

Lincoln, Nebraska
November 5, 2024

Summary of Auditors' Results

a. An unmodified audit report was issued on the consolidated financial statements of National Arbor Day Foundation d/b/a Arbor Day Foundation.

b. No deficiencies in internal control were disclosed by the audit of the consolidated financial statements.

c. The audit did not disclose any noncompliance which would be material to the consolidated financial statements.

d. One significant deficiency (2024-001) in internal control over National Arbor Day Foundation d/b/a Arbor Day Foundation's major federal award programs was 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 programs.

f. The audit disclosed one finding (2024-001) which was required to be reported relative to the major federal award programs.

g. The program tested as a major program was U.S. Department of Agriculture – Inflation Reduction Act & Urban Community Forestry Program, Assistance Listing No. 10.727.

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 – Consolidated Financial Statements Audit

None

Findings and Questioned Costs – Major Federal Awards Program Audit

2024-001 - Noncompliance and Significant Deficiency in Internal Controls over Compliance for Reporting

Identification data: U.S. Department of Agriculture – Inflation Reduction Act Urban & Community Forestry Program, Assistance Listing No. 10.727, Agreement Identifying No. 24-CA-11132544-D052 & 24-CA-11132544-015.

Criteria: Appendix A to Part 170 of Title 2 CFR, Subtitle A, Chapter 1 describes the first-tier subaward reporting requirements under the Federal Funding Accountability and Transparency Act (FFATA), which requires prime recipients to report first-tier subawards to non-Federal entities equal to or exceeding $30,000 no later than the end of the month following the month in which the obligation was made.

Findings and Questioned Costs – Major Federal Awards Program Audit – Continued

2024-001 - Noncompliance and Significant Deficiency in Internal Controls over Compliance for Reporting - Continued

Condition: The Foundation failed to report its first-tier subawards subject to FFATA requirements by the end of the month following the month in which the obligation was made for five of the seven subawards tested. Additionally, the Foundation reported the incorrect amount of funds awarded in one of the seven subawards tested above.

Cause: A breakdown in the Foundation's internal controls over reporting did not allow the Foundation to meet the reporting requirements of the program.

Effect or potential effect: The control deficiency is a significant deficiency that prevented the Foundation from complying with the reporting requirements of the program.

Identification of a Repeat Finding: New finding.

Recommendation: The Foundation should review its system of internal controls over reporting to determine improvements that can be made to ensure the Foundation actively tracks and adheres to reporting requirements outlined in its award agreements and included in the CFR.

Views of Responsible Officials: The Foundation will implement new controls to ensure compliance with the 30 day requirement.

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We inspire people to plant, nurture, and celebrate trees.

CORRECTIVE ACTION PLAN

Year ended June 30, 2024

The corrective action plan for the findings included in the schedule of findings and questioned costs is summarized as follows:

Finding 2024-001 Noncompliance and Significant Deficiency in Internal Controls over Compliance for Reporting

Issue: The Foundation failed to report its first-tier subawards subject to FFATA requirements by the end of the month following the month in which the obligation was made for five of the seven subawards tested. Additionally, the Foundation reported the incorrect amount of funds awarded in one of the seven subawards tested. Once this finding was brought to our attention, we reviewed all contracts awarded and found that while five of seven subawards tested were not reported on time, the Foundation did report 22 other subaward contracts on a timely basis and did not find any other contract where the wrong amount was reported to FFATA.

One of the main objectives of the FFATA reporting requirement is to provide transparency to the federal government and taxpayers of the identities of the subaward recipients and the amount of funding being passed through to them. The Inflation Reduction Act (IRA) grant that this finding relates to is somewhat unique in that the federal agency pre-selected the subaward recipients and knew who they were going to be and what amounts were being awarded before we did. The federal agency issued a press release listing the subaward recipients and amounts prior to the signing of our grant agreement. So, while the FFATA reporting requirement was still in place for this IRA grant, it didn't play the same important role that it plays in most grant/contract agreements.

Corrective Action Planned: A plan has been put in place that involves the Accounting Director monitoring the FFATA reporting activity monthly to ensure that the Foundation meets the reporting requirements of the program. Each month, the Accounting Director contacts the Grant Administrator to determine if any new first-tier subaward contracts have been signed during the last 30 days. If any contracts have been signed, the Accounting Director obtains a copy of the FFATA report that the Grant Administrator filed during the month to verify that it contains those subaward contracts and that they have been reported on a timely basis and in the correct amount. In addition, the Accounting Director compares information on the monthly FFATA reports to a master list of approved sub awardees to verify contract amounts and to ensure that all contracts are being reported.

Anticipated Completion Date: The new procedures have already been implemented and will be operating continuously as long as there are first-tier subawards to be reported through the FFATA system.

Responsible Parties: Management

Nicole Rasmussen, CFO

Nicole Rasmussen, CFO