

Friends of the National Arboretum, Inc.

Financial Statements
and Independent Auditors' Report

December 31, 2017 and 2016

Friends of the National Arboretum, Inc.

Financial Statements
December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Friends of the National Arboretum, Inc.

We have audited the accompanying financial statements of Friends of the National Arboretum, Inc. (FONA), which comprise the statements of financial position as of December 31, 2017 and 2016; the related statements of activities, functional expenses, and cash flows for the years 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

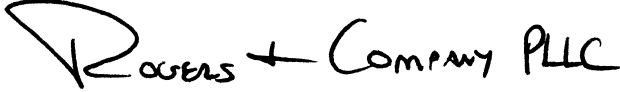
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 FONA as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The "R" is large and stylized, with a loop at the top. The rest of the text is written in a cursive, handwritten style.

Vienna, Virginia
June 28, 2018

Friends of the National Arboretum, Inc.

Statements of Financial Position December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 386,186	\$ 280,816
Investments	2,665,226	2,413,407
Contributions receivable	792	80,773
Grants receivable	27,900	59,672
Prepaid expenses	4,389	3,763
Property and equipment, net	143,428	145,954
Total assets	<u>\$ 3,227,921</u>	<u>\$ 2,984,385</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 83,142	\$ 25,180
Accrued salaries and related benefits	36,977	21,791
Deferred revenue	21,000	-
Total liabilities	<u>141,119</u>	<u>46,971</u>
Net Assets		
Unrestricted:		
Undesignated	174,951	243,376
Board-designated	300,000	300,000
Total unrestricted	474,951	543,376
Temporarily restricted	1,127,779	909,966
Permanently restricted	1,484,072	1,484,072
Total net assets	<u>3,086,802</u>	<u>2,937,414</u>
Total liabilities and net assets	<u>\$ 3,227,921</u>	<u>\$ 2,984,385</u>

See accompanying notes.

Friends of the National Arboretum, Inc.

Statement of Activities
For the Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and Support				
Contributions	\$ 306,248	\$ 309,581	\$ -	\$ 615,829
Annual events	350,564	-	-	350,564
Contributed services and materials	91,230	59,743	-	150,973
Government grants	-	221,233	-	221,233
Membership	53,975	-	-	53,975
Investment income	58,709	277,935	-	336,644
Other	19,868	-	-	19,868
Released from restrictions	650,679	(650,679)	-	-
Total revenue and support	<u>1,531,273</u>	<u>217,813</u>	<u>-</u>	<u>1,749,086</u>
Expenses				
Program services:				
Washington Youth Garden	574,890	-	-	574,890
Projects and activities	220,819	-	-	220,819
Annual events	355,535	-	-	355,535
Membership and outreach	78,496	-	-	78,496
Total program services	<u>1,229,740</u>	<u>-</u>	<u>-</u>	<u>1,229,740</u>
Supporting services:				
Management and general	331,642	-	-	331,642
Fundraising	38,316	-	-	38,316
Total supporting services	<u>369,958</u>	<u>-</u>	<u>-</u>	<u>369,958</u>
Total expenses	<u>1,599,698</u>	<u>-</u>	<u>-</u>	<u>1,599,698</u>
Change in Net Assets	(68,425)	217,813	-	149,388
Net Assets, beginning of year	<u>543,376</u>	<u>909,966</u>	<u>1,484,072</u>	<u>2,937,414</u>
Net Assets, end of year	<u>\$ 474,951</u>	<u>\$ 1,127,779</u>	<u>\$ 1,484,072</u>	<u>\$ 3,086,802</u>

See accompanying notes.

Friends of the National Arboretum, Inc.

Statement of Activities
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and Support				
Contributions	\$ 345,982	\$ 254,100	\$ -	\$ 600,082
Annual events	367,608	-	-	367,608
Contributed services and materials	82,346	58,618	-	140,964
Government grants	-	165,580	-	165,580
Membership	50,484	-	-	50,484
Investment income	27,113	43,783	-	70,896
Other	13,085	-	-	13,085
Released from restrictions	595,569	(595,569)	-	-
Total revenue and support	<u>1,482,187</u>	<u>(73,488)</u>	<u>-</u>	<u>1,408,699</u>
Expenses				
Program services:				
Washington Youth Garden	534,567	-	-	534,567
Projects and activities	142,794	-	-	142,794
Annual events	279,251	-	-	279,251
Membership and outreach	185,340	-	-	185,340
Total program services	<u>1,141,952</u>	<u>-</u>	<u>-</u>	<u>1,141,952</u>
Supporting services:				
Management and general	208,937	-	-	208,937
Fundraising	96,019	-	-	96,019
Total supporting services	<u>304,956</u>	<u>-</u>	<u>-</u>	<u>304,956</u>
Total expenses	<u>1,446,908</u>	<u>-</u>	<u>-</u>	<u>1,446,908</u>
Change in Net Assets	35,279	(73,488)	-	(38,209)
Net Assets, beginning of year	<u>508,097</u>	<u>983,454</u>	<u>1,484,072</u>	<u>2,975,623</u>
Net Assets, end of year	<u>\$ 543,376</u>	<u>\$ 909,966</u>	<u>\$ 1,484,072</u>	<u>\$ 2,937,414</u>

See accompanying notes.

Friends of the National Arboretum, Inc.

Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program Services					Supporting Services				Total
	Washington Youth Garden	Projects and Activities	Annual Events	Membership and Outreach	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries	\$ 268,531	\$ 68,069	\$ 95,942	\$ 39,840	\$ 472,382	\$ 118,921	\$ 19,576	\$ 138,497	\$ 610,879	
Benefits	35,940	73	3,429	1,258	40,700	27,184	2,548	29,732	70,432	
Payroll taxes	21,002	152	7,057	2,512	30,723	13,241	4,577	17,818	48,541	
Support to USNA	11,566	56,505	-	102	68,173	-	471	471	68,644	
Printing	900	20	5,722	13,210	19,852	6,329	1,203	7,532	27,384	
Professional fees	78,105	89,786	33,932	11,225	213,048	68,933	649	69,582	282,630	
Refreshments	8,987	5,056	70,443	361	84,847	7,044	4,281	11,325	96,172	
Training	708	-	40	-	748	3,208	538	3,746	4,494	
Telephone and website	898	-	-	386	1,284	5,388	-	5,388	6,672	
Depreciation and amortization	6,240	-	-	-	6,240	2,669	-	2,669	8,909	
Travel	1,185	-	40	113	1,338	3,812	501	4,313	5,651	
Postage and delivery	172	-	576	4,408	5,156	1,692	312	2,004	7,160	
Garden and program supplies	30,429	339	54,887	585	86,240	-	1,217	1,217	87,457	
Membership, promotion, and processing	1,316	-	6,816	35	8,167	391	-	391	8,558	
Investment and bank fees	646	-	5,413	971	7,030	2,571	807	3,378	10,408	
Rent and maintenance; equipment and office	2,699	150	-	-	2,849	2,720	-	2,720	5,569	
Office supplies	4,658	99	747	2,677	8,181	5,383	1,529	6,912	15,093	
Miscellaneous	2,159	-	113	563	2,835	1,671	107	1,778	4,613	
Other program costs	34,981	219	34,798	250	70,248	-	-	-	70,248	
Insurance	4,025	-	-	-	4,025	5,186	-	5,186	9,211	
In-kind	59,743	351	35,580	-	95,674	55,299	-	55,299	150,973	
Total Expenses	\$ 574,890	\$ 220,819	\$ 355,535	\$ 78,496	\$ 1,229,740	\$ 331,642	\$ 38,316	\$ 369,958	\$ 1,599,698	

See accompanying notes.

Friends of the National Arboretum, Inc.

Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services					Supporting Services			Total
	Washington Youth Garden	Projects and Activities	Annual Events	Membership and Outreach	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 311,926	\$ 5,717	\$ 54,000	\$ 114,452	\$ 486,095	\$ 50,605	\$ 65,537	\$ 116,142	\$ 602,237
Benefits	41,813	558	7,067	14,978	64,416	6,812	8,577	15,389	79,805
Payroll taxes	25,443	345	4,373	9,268	39,429	4,215	5,307	9,522	48,951
Support to USNA	711	114,635	-	29	115,375	432	-	432	115,807
Printing	4,069	-	5,763	9,238	19,070	5,962	6,304	12,266	31,336
Professional fees	35,103	11,727	6,392	20,250	73,472	55,714	3,750	59,464	132,936
Refreshments	3,803	3,598	52,857	2,272	62,530	7,750	215	7,965	70,495
Training	1,928	-	-	-	1,928	215	-	215	2,143
Telephone and website	500	-	-	-	500	6,782	-	6,782	7,282
Depreciation and amortization	1,968	-	-	-	1,968	2,929	-	2,929	4,897
Travel	2,153	-	174	174	2,501	1,169	258	1,427	3,928
Postage and delivery	375	-	1,039	2,976	4,390	1,293	1,591	2,884	7,274
Garden and program supplies	24,022	1,756	61,011	1,974	88,763	105	464	569	89,332
Meetings – Board/committee	-	-	-	15	15	23	-	23	38
Membership, promotion, and processing	3,936	-	1,063	1,698	6,697	1,124	-	1,124	7,821
Investment and bank fees	590	-	4,327	2,345	7,262	2,423	374	2,797	10,059
Rent and maintenance; equipment and office	1,291	-	-	-	1,291	3,639	-	3,639	4,930
Office supplies	4,571	75	1,222	5,145	11,013	7,419	683	8,102	19,115
Miscellaneous	186	101	60	391	738	2,260	2,959	5,219	5,957
Other program costs	36,719	4,282	42,668	135	83,804	305	-	305	84,109
Insurance	3,342	-	-	-	3,342	2,650	-	2,650	5,992
In-kind	30,118	-	37,235	-	67,353	45,111	-	45,111	112,464
Total Expenses	\$ 534,567	\$ 142,794	\$ 279,251	\$ 185,340	\$ 1,141,952	\$ 208,937	\$ 96,019	\$ 304,956	\$ 1,446,908

See accompanying notes.

Friends of the National Arboretum, Inc.

Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 149,388	\$ (38,209)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,909	4,897
Realized and unrealized (gain) loss on investments	(257,747)	11,755
Donated stock	(31,381)	(29,814)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	79,981	60,172
Grants receivable	31,772	(32,645)
Prepaid expenses	(626)	(257)
Increase (decrease) in:		
Accounts payable and accrued expenses	57,962	12,729
Accrued salaries and related benefits	15,186	(2,681)
Deferred revenue	21,000	(1,000)
Arboretum donations payable	-	-
	74,444	(15,053)
Net cash provided by (used in) operating activities		
Cash Flows from Investing Activities		
Purchase of property and equipment	(6,383)	(137,206)
Purchases of investments	(194,242)	(103,301)
Sales of investments	231,551	253,035
	30,926	12,528
Net cash provided by investing activities		
Net Increase (Decrease) in Cash and Cash Equivalents	105,370	(2,525)
Cash and Cash Equivalents, beginning of year	280,816	283,341
Cash and Cash Equivalents, end of year	\$ 386,186	\$ 280,816

See accompanying notes.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

1. Nature of Operations

Friends of the National Arboretum, Inc. (FONA) is a District of Columbia not-for-profit, tax-exempt organization. The purpose of FONA is to assist and to support the research, educational, recreational, and public service activities of the National Arboretum of the United States Department of Agriculture (USNA). FONA provides financial and volunteer support for Arboretum internship programs, maintenance of the gardens and collections, plant materials, and supplies. FONA's primary sources of support are contributions and fees from special programs and events.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

FONA's financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of operations. Included in unrestricted net assets at both December 31, 2017 and 2016 is \$300,000 of Board-designated net assets, which are set aside as a reserve for future contingencies.
- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of FONA or through the passage of time.
- *Permanently restricted net assets* represent funds in which the principal must be held in perpetuity, while the earnings may be available for general operations or restricted purposes imposed by the donors.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

FONA considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of 90 days or less at the time of purchase. Excluded from this definition of cash equivalents are such amounts included in investments and held for investment reserves.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are recorded at fair value based on quoted market prices. All realized and unrealized gains and losses are included as a component of investment income in the accompanying statements of activities.

Contributions Receivable

Contributions receivable represent unconditional amounts committed to FONA and are recorded at their net realizable value. All contributions receivable at December 31, 2017 and 2016 are due within one year. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience. No allowance for doubtful accounts is recorded at December 31, 2017 and 2016 as management believes that all amounts are fully collectible.

Grants Receivable

FONA's grants receivable consist of amounts to be reimbursed for expenses incurred under the agreements with the Department of Health and Office of the State Superintendent of DC for the school garden program. The entire amount of the receivable is expected to be collected within one year, and is recorded at net realizable value at December 31, 2017 and 2016. No allowance for doubtful accounts is recorded, as management believes that all amounts are fully collectible.

Property and Equipment

Property and equipment valued at greater than \$1,000 with a useful life of more than one year are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to ten years. Capital improvements are amortized on a straight-line basis over the estimated useful lives of the related assets, which range from five to ten years. Expenditures for repairs and maintenance costs are expensed when incurred.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Contributions and grants are recorded as revenue when received or promised. FONA reports gifts of cash and other assets as temporarily restricted support if they are received or promised with donor stipulations that limit the use of the donated assets to one of FONA's programs or to a future year. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Government grants are cost reimbursable in nature and are recognized as revenue as the related expenditures are incurred. Costs incurred in excess of cash received are reflected as grants receivable in the accompanying statements of financial position.

Amounts from registrations, sponsorships, and plant sales from FONA's annual events are recognized at the time the event is held, with any amounts received in advance deferred until that time.

Membership dues are billed and treated as contributions and are recognized when received.

Revenue from all other sources is recognized when earned.

Contributed Services and Materials

FONA has rent-free use of certain office space on the grounds of the National Arboretum. Given the unique nature of the location, the value of the use cannot be readily determined and, accordingly, contributions and rent expense for the space have not been recognized in the accompanying financial statements.

In addition, volunteers have donated significant amounts of their time to FONA. These donated services are not reflected in the financial statements since they do not meet the criteria for recognition under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605-25-16, *Contributed Services*. As explained in Note 10, certain donated specialized services and goods have been recorded in the financial statements.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its statements of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in 2020.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The update changes the manner by which nonprofit organizations classify net assets as well as improves information presented in financial statements and notes about nonprofit organization liquidity, financial performance, and cash flows. The guidance is effective beginning in 2018.

Subsequent Events

In preparing these financial statements, FONA has evaluated events and transactions for potential recognition or disclosure through June 28, 2018, the date the financial statements were available to be issued.

3. Concentration of Credit Risk

Financial instruments that potentially subject FONA to significant concentrations of credit risk consist of cash and cash equivalents, and investments. FONA maintains cash deposit and transaction accounts, along with investments, with various financial institutions and these values, from time to time, exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). FONA has not experienced any credit losses on its cash and cash equivalents, and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

4. Investments and Fair Value Measurements

FONA follows FASB ASC 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs. Transfers between levels are recognized at the end of the reporting period.

In general, and where applicable, FONA uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

The following table presents FONA's fair value hierarchy for those investments measured on a recurring basis as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 5,055	\$ -	\$ -	\$ 5,055
Mutual funds:				
Large cap growth	141,728	-	-	141,728
International growth	427,207	-	-	427,207
Money market	185,930	-	-	185,930
Mid cap value fund	126,233	-	-	126,233
Bond fund	1,121,719	-	-	1,121,719
Large blend	395,845	-	-	395,845
Mid cap growth	256,332	-	-	256,332
Common stock:				
Services	3,050	-	-	3,050
Basic materials	2,127	-	-	2,127
Total investments	<u>\$ 2,665,226</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,665,226</u>

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

4. Investments and Fair Value Measurements (continued)

The following table presents FONAs fair value hierarchy for those investments measured on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,089	\$ -	\$ -	\$ 2,089
Mutual funds:				
Large cap growth	201,680	-	-	201,680
International growth	328,661	-	-	328,661
Money market	184,611	-	-	184,611
Mid cap value fund	136,571	-	-	136,571
Bond fund	1,067,661	-	-	1,067,661
Large blend	265,200	-	-	265,200
Mid cap growth	221,852	-	-	221,852
Real estate investment trust	5,082	-	-	5,082
Total investments	\$ 2,413,407	\$ -	\$ -	\$ 2,413,407

Investment income consists of the following for the years ended December 31:

	2017	2016
Interest and dividends	\$ 78,897	\$ 82,651
Realized and unrealized gain (loss)	257,747	(11,755)
Total investment income	\$ 336,644	\$ 70,896

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

5. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 66,413	\$ 66,413
Capital improvements	159,407	153,024
Total property and equipment	225,820	219,437
Less: accumulated depreciation and amortization	<u>(82,392)</u>	<u>(73,483)</u>
Property and equipment, net	<u><u>\$ 143,428</u></u>	<u><u>\$ 145,954</u></u>

6. Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following at December 31:

	<u>2017</u>	<u>2016</u>
Program restricted:		
Garden projects	\$ 29,823	\$ 24,462
Education and visitor services	12,210	12,210
Research projects	3,882	3,882
USNA projects – Hickey Run	112,165	108,451
USNA projects – Flowering Tree Walk	-	79,456
Other project – Garden Council	159,143	159,143
New Initiatives Fund	40,000	40,000
Other project – Washington Youth Garden	<u>101,692</u>	<u>84,449</u>
Total program restricted	<u>458,915</u>	<u>512,053</u>
Time restricted:		
Unappropriated investment earnings on permanently restricted endowments	<u>668,864</u>	<u>397,913</u>
Total temporarily restricted net assets	<u><u>\$ 1,127,779</u></u>	<u><u>\$ 909,966</u></u>

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

6. Net Assets (continued)

Permanently Restricted Net Assets

Permanently restricted net assets were held for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Heritage Collections Fund	\$ 1,000,000	\$ 1,000,000
Meyer Kidder Fund	<u>484,072</u>	<u>484,072</u>
Total permanently restricted net assets	<u>\$ 1,484,072</u>	<u>\$ 1,484,072</u>

Heritage Collections Fund

Started as an effort to save the historic Azalea and National Boxwood collections at risk, the Heritage Collections Fund supports the long-term sustainability of all of the U.S. National Arboretum's ("the Arboretum") heritage collections. FONA works closely with the Arboretum leadership in this effort.

Meyer Kidder Fund

The Meyer Kidder Fund ("the Fund") is comprised of funds from Mrs. Dottie Kidder and Dr. Frederick Meyer, whose interests were the Asian collections and germplasm, respectively. The purpose of the Fund is to alternate in support of a full-year internship for the Asia Valley and a post-doctoral fellowship as the proceeds of the investment allows.

7. Endowment

FONA's endowment consists of two donor-restricted endowment funds. The principal or corpus amount of \$1,484,072 must be retained permanently, and the income of the funds is available to support the donor-imposed purpose. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

7. Endowment (continued)

Interpretation of Relevant Law

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation FONA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, FONA considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) the duration and preservation of the fund; (2) the purposes of FONA and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation or depreciation of investments; (6) other resources of FONA; and (7) the investment policies of FONA. FONA also takes into account the impact of accepting donor-restricted funds on the Arboretum's plans and management of its resources.

Return Objectives and Risk Parameters

FONA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. FONA expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
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7. Endowment (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

FONA has a policy of appropriating for distribution each year a target amount of earnings equivalent to 5% of the corpus of the endowment funds. However, the Board of Directors may direct that more or less of the available investment gain be released, if it determines that release is appropriate in light of the following three objectives: to preserve principal, to grow the fund balance, and to expend the investment gain to accomplish the donor's intended and mandated purposes.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, FONA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). FONA targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Composition of Endowment Funds

Endowment net asset composition by type of fund was as follows at December 31:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>2017:</u>				
Donor-restricted endowment funds	\$ -	\$ 668,864	\$ 1,484,072	\$ 2,152,936
<u>2016:</u>				
Donor-restricted endowment funds	\$ -	\$ 397,913	\$ 1,484,072	\$ 1,881,985

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

7. Endowment (continued)

Changes in Endowment Net Assets

Changes in endowment net assets for the year ended December 31, 2017 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds, beginning of year	\$ -	\$ 397,913	\$ 1,484,072	\$ 1,881,985
Interest and dividends	-	61,328	-	61,328
Net appreciation (realized and unrealized)	-	216,607	-	216,607
Investment fees	-	(6,984)	-	(6,984)
Endowment funds, end of year	\$ -	\$ 668,864	\$ 1,484,072	\$ 2,152,936

Changes in endowment net assets for the year ended December 31, 2016 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds, beginning of year	\$ -	\$ 410,737	\$ 1,484,072	\$ 1,894,809
Interest and dividends	-	63,189	-	63,189
Net depreciation (realized and unrealized)	-	(19,406)	-	(19,406)
Investment fees	-	(6,607)	-	(6,607)
Appropriation of assets for expenditure	-	(50,000)	-	(50,000)
Endowment funds, end of year	\$ -	\$ 397,913	\$ 1,484,072	\$ 1,881,985

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

7. Endowment (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America (GAAP), there were no deficiencies of this nature that are reported in unrestricted net assets as of December 31, 2017 and 2016.

8. Commitments

FONA was obligated under the terms of an operating lease for the rental of office equipment through December 2016. During 2016, FONA entered into a new operating lease for equipment, with the lease commencing in September 2016 and expiring in August 2021. Rental expense for the leases for the years ended December 31, 2017 and 2016 amounted to \$2,902 and \$3,890, respectively.

Future minimum lease payments are as follows for the years ending December 31:

2018	\$	2,902
2019		2,902
2020		2,902
2021		1,935
		<hr/>
Total future minimum lease payments	\$	<u>10,641</u>

9. Line of Credit

In September 2016, FONA opened a line of credit with a limit of \$50,000 to finance short-term working capital needs. Borrowings under this facility are payable on demand, and are secured by FONA's bank accounts held at the same institution. Interest is payable monthly at 3.5% above the bank's prime rate. There were no outstanding borrowings on this line of credit at December 31, 2017 and 2016.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
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10. Contributed Services and Materials

During the years ended December 31, 2017 and 2016, FONA was the beneficiary of donated services and materials, which allowed FONA to provide greater resources toward various programs.

The following donations have been included in revenue and expense for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Washington Youth Garden services	\$ 54,285	\$ 45,562
Materials	35,931	37,235
Legal and other specialized services	<u>60,757</u>	<u>58,167</u>
Total contributed services and materials	<u>\$ 150,973</u>	<u>\$ 140,964</u>

During the year ended December 31, 2016, \$28,500 of donations to the Washington Youth Garden were comprised of donated goods and are included as property and equipment in the accompanying statements of financial position.

The following programs have benefited from these contributed services and materials for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Washington Youth Garden	\$ 59,743	\$ 58,618
Annual events	35,931	37,235
Management and general	<u>55,299</u>	<u>45,111</u>
Total benefit to programs and supporting services	<u>\$ 150,973</u>	<u>\$ 140,964</u>

11. Washington Youth Garden

The Washington Youth Garden (WYG), a major program of FONA, conducts science, nutrition, and environmental awareness programs for children, youth, and families in the Washington area, with a particular focus on reaching underserved and under-resourced children and families residing in the District of Columbia east of the U.S. Capitol, the location of the Arboretum.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

11. Washington Youth Garden (continued)

The Arboretum's mission includes research and education, and community outreach and education is an important part of its strategic plan. The Arboretum recognizes and embraces WYG as consistent with this goal of its plan, and provides land and periodic technical advice to the WYG demonstration garden.

WYG provides educational programs at the Arboretum by operating a demonstration garden visited by thousands of visitors each year. WYG reaches almost 5,000 children, youth, families, educators, and community members through its four education and outreach programs:

SPROUT: a structured field trip program for schools, youth organizations, and other groups, at the demonstration garden, with an emphasis on pre-K through primary grades populations;

Garden Science: a 13-week classroom program for DC public schools, including schoolyard gardens, seeding projects, and field trips to the WYG demonstration garden at the Arboretum, working in seven schools, and in each school over a 4-6 year period, from inception to "graduation" of the school from the program;

Green Ambassadors program: currently a six week summer training and education program at the demonstration garden for a select group of rising high school juniors and seniors, emphasizing personal development, as well as growth in botanical knowledge and practical garden skills; to be expanded to a year-round program in 2016-2017, with a second tier added in 2017 to sustain personal growth, funded by the Logan Foundation; and

Professional Development for teachers: workshops for teachers to develop capabilities to incorporate garden science curriculum units into their teaching.

Funding for WYG comes primarily from grant awards and contracts received from foundations, corporations, government agencies, and individual schools and/or parent associations. Individual contributions are also solicited and received. All funding and contributions awarded to or received by WYG are classified by FONA as temporarily restricted funds and used only to support the WYG programs.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
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12. Support to USNA

As a charitable supporting organization for USNA, the essence of FONA's mission is to raise funds for and otherwise support USNA in the fulfillment of its mission. These efforts take several forms, including: community outreach and education programs for schools, youth, and families; advocacy for Arboretum interests at the local and federal levels of government; organizing public events for fundraising and community engagement purposes; raising funds for capital improvements to the Arboretum and for endowment; and for direct and indirect annual support of the Arboretum.

FONA's gifts to the USNA totaled the following for the years ended December 31:

	2017	2016
Internship support	\$ 57,721	\$ 58,744
Other	10,923	6,351
Care of the Arboretum's collections	-	50,000
Visitors' desk staffing	-	41,609
	<u>\$ 68,644</u>	<u>\$ 115,095</u>

In addition, the Arboretum acknowledges that FONA directly funds and manages a number of projects and public programs, such as WYG, that are central to the Arboretum's mission of education and community services, and so represent a contribution of \$737,539 and \$537,441 for the years ended December 31, 2017 and 2016, respectively. In addition, FONA also provided other services to the USNA including marketing, advocacy, volunteer legal assistance on proposed environmental projects, and administrative assistance on various USNA programs.

FONA's expenditures for projects and programs directly benefiting the USNA were for the following for the years ended December 31:

	2017	2016
Washington Youth Garden	\$ 574,890	\$ 534,567
Update to USNA Master Plan	79,556	-
USNA Director's Fund	50,000	-
Cultural Programming	29,379	2,874
Replanting Springhouse Run	3,714	-
	<u>\$ 737,539</u>	<u>\$ 537,441</u>

Friends of the National Arboretum, Inc.

Notes to Financial Statements
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13. Retirement Plan

In 2008, FONA established a SIMPLE IRA retirement plan that covers all employees who meet the eligibility requirements. Employer matching contributions equal employees' salary reduction contributions up to a limit of 4% of their compensation. Contributions to the plan during the years ended December 31, 2017 and 2016 totaled \$18,143 and \$14,664, respectively.

14. Income Taxes

FONA is exempt from federal and state income taxes other than unrelated business income under Internal Revenue Code Section 501(c)(3). At both December 31, 2017 and 2016, no tax provision was made as FONA had no material net unrelated business income.

Management has evaluated FONA's tax positions and concluded that there are no significant uncertain tax positions that qualify for either recognition or disclosure in the accompanying financial statements.