

Friends of the National Arboretum, Inc.

Financial Statements
and Independent Auditors' Report

December 31, 2018 and 2017

Friends of the National Arboretum, Inc.

Financial Statements
December 31, 2018 and 2017

Contents

| | |
|--|------|
| Independent Auditors' Report..... | 1-2 |
| <i>Financial Statement</i> | |
| Statements of Financial Position..... | 3 |
| Statements of Activities | 4-5 |
| Statements of Functional Expenses..... | 6-7 |
| Statements of Cash Flows | 8 |
| Notes to Financial Statements..... | 9-26 |

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, 2018 and 2017; 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, 2018 and 2017, 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
September 26, 2019

Friends of the National Arboretum, Inc.

Statements of Financial Position
December 31, 2018 and 2017

| | 2018 | 2017 |
|---------------------------------------|--------------|--------------|
| Assets | | |
| Cash and cash equivalents | \$ 84,756 | \$ 386,186 |
| Investments | 2,406,395 | 2,665,226 |
| Accounts receivable | 961 | - |
| Contributions receivable | 66,926 | 792 |
| Grants receivable | 8,200 | 27,900 |
| Prepaid expenses | 9,631 | 4,389 |
| Property and equipment, net | 11,275 | 143,428 |
| Total assets | \$ 2,588,144 | \$ 3,227,921 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 62,024 | \$ 83,142 |
| Accrued salaries and related benefits | 46,036 | 36,977 |
| Deferred revenue | 24,500 | 21,000 |
| Total liabilities | 132,560 | 141,119 |
| Net (Deficit) Assets | | |
| Without donor restrictions: | | |
| Undesignated | (252,640) | 174,951 |
| Board-designated | 300,000 | 300,000 |
| Total without donor restrictions | 47,360 | 474,951 |
| With donor restrictions: | | |
| Perpetual in nature | 2,014,202 | 2,152,936 |
| Purpose restricted | 394,022 | 458,915 |
| Total with donor restrictions | 2,408,224 | 2,611,851 |
| Total net assets | 2,455,584 | 3,086,802 |
| Total liabilities and net assets | \$ 2,588,144 | \$ 3,227,921 |

See accompanying notes.

Friends of the National Arboretum, Inc.

Statement of Activities
For the Year Ended December 31, 2018

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--------------------------------------|---------------------------------------|------------------------------------|---------------------|
| Revenue and Support | | | |
| Contributions | \$ 423,573 | \$ 156,675 | \$ 580,248 |
| Annual events | 479,045 | - | 479,045 |
| Contributed services and materials | 81,166 | 57,242 | 138,408 |
| Government grants | - | 217,506 | 217,506 |
| Membership | 59,728 | - | 59,728 |
| Investment loss | (12,537) | (93,734) | (106,271) |
| Other | 17,239 | - | 17,239 |
| Released from restrictions | 541,316 | (541,316) | - |
| | <u>1,589,530</u> | <u>(203,627)</u> | <u>1,385,903</u> |
| Expenses | | | |
| Program services: | | | |
| Washington Youth Garden | 821,299 | - | 821,299 |
| Projects and activities | 84,711 | - | 84,711 |
| Annual events | 485,428 | - | 485,428 |
| Membership and outreach | 44,366 | - | 44,366 |
| | <u>1,435,804</u> | <u>-</u> | <u>1,435,804</u> |
| Supporting services: | | | |
| Management and general | 448,318 | - | 448,318 |
| Fundraising | 132,999 | - | 132,999 |
| | <u>581,317</u> | <u>-</u> | <u>581,317</u> |
| Total expenses | <u>2,017,121</u> | <u>-</u> | <u>2,017,121</u> |
| Change in Net Assets | (427,591) | (203,627) | (631,218) |
| Net Assets, beginning of year | <u>474,951</u> | <u>2,611,851</u> | <u>3,086,802</u> |
| Net Assets, end of year | <u>\$ 47,360</u> | <u>\$ 2,408,224</u> | <u>\$ 2,455,584</u> |

See accompanying notes.

Friends of the National Arboretum, Inc.

Statement of Activities
For the Year Ended December 31, 2017

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</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 | 57,055 | 270,951 | 328,006 |
| Other | 19,868 | - | 19,868 |
| Released from restrictions | <u>643,695</u> | <u>(643,695)</u> | <u>-</u> |
| Total revenue and support | <u>1,522,635</u> | <u>217,813</u> | <u>1,740,448</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 | <u>78,496</u> | <u>-</u> | <u>78,496</u> |
| Total program services | <u>1,229,740</u> | <u>-</u> | <u>1,229,740</u> |
| Supporting services: | | | |
| Management and general | 323,004 | - | 323,004 |
| Fundraising | <u>38,316</u> | <u>-</u> | <u>38,316</u> |
| Total supporting services | <u>361,320</u> | <u>-</u> | <u>361,320</u> |
| Total expenses | <u>1,591,060</u> | <u>-</u> | <u>1,591,060</u> |
| Change in Net Assets | (68,425) | 217,813 | 149,388 |
| Net Assets, beginning of year | <u>543,376</u> | <u>2,394,038</u> | <u>2,937,414</u> |
| Net Assets, end of year | <u>\$ 474,951</u> | <u>\$ 2,611,851</u> | <u>\$ 3,086,802</u> |

See accompanying notes.

Friends of the National Arboretum, Inc.

Statement of Functional Expenses
For the Year Ended December 31, 2018

| | 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 | \$ 414,975 | \$ 9,567 | \$ 148,762 | \$ 14,699 | \$ 588,003 | \$ 132,780 | \$ 93,992 | \$ 226,772 | \$ 814,775 |
| Benefits | 51,021 | 1,176 | 18,290 | 1,807 | 72,294 | 16,332 | 11,560 | 27,892 | 100,186 |
| Payroll taxes | 32,947 | 760 | 11,114 | 1,034 | 45,855 | 8,502 | 7,106 | 15,608 | 61,463 |
| Support to USNA | 152,835 | 46,631 | 132 | - | 199,598 | - | - | - | 199,598 |
| Printing | - | 279 | 4,464 | 9,364 | 14,107 | 8,708 | 1,466 | 10,174 | 24,281 |
| Professional fees | 51,396 | 11,629 | 45,125 | 10,200 | 118,350 | 146,138 | 2,096 | 148,234 | 266,584 |
| Refreshments | 5,626 | 3,289 | 84,318 | 49 | 93,282 | 6,120 | 7,927 | 14,047 | 107,329 |
| Training | 580 | - | 25 | - | 605 | 555 | - | 555 | 1,160 |
| Telephone and website | 13,419 | - | 254 | 1,388 | 15,061 | 19,209 | 7,063 | 26,272 | 41,333 |
| Depreciation and amortization | 1,714 | - | - | - | 1,714 | 10,468 | - | 10,468 | 12,182 |
| Travel | 254 | - | 1,206 | - | 1,460 | 4,094 | 308 | 4,402 | 5,862 |
| Postage and delivery | - | 343 | 854 | 5,021 | 6,218 | 1,017 | 701 | 1,718 | 7,936 |
| Garden and program supplies | 8,141 | 6,582 | - | 419 | 15,142 | - | 483 | 483 | 15,625 |
| Membership, promotion, and processing | 907 | - | 21,705 | 385 | 22,997 | 874 | - | 874 | 23,871 |
| Investment and bank fees | - | - | - | - | - | 12,381 | - | 12,381 | 12,381 |
| Rent and maintenance; equipment and office | 23,136 | 2,047 | 68,734 | - | 93,917 | 11,002 | - | 11,002 | 104,919 |
| Office supplies | - | 2,297 | 8,388 | - | 10,685 | 9,375 | 297 | 9,672 | 20,357 |
| Miscellaneous | - | - | - | - | - | 5,638 | - | 5,638 | 5,638 |
| Other program costs | 1,589 | 111 | 38,393 | - | 40,093 | 21 | - | 21 | 40,114 |
| Insurance | 5,517 | - | - | - | 5,517 | 7,602 | - | 7,602 | 13,119 |
| In-kind | 57,242 | - | 33,664 | - | 90,906 | 47,502 | - | 47,502 | 138,408 |
| Total Expenses | \$ 821,299 | \$ 84,711 | \$ 485,428 | \$ 44,366 | \$ 1,435,804 | \$ 448,318 | \$ 132,999 | \$ 581,317 | \$ 2,017,121 |

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 | 60,295 | 649 | 60,944 | 273,992 |
| 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 | \$ 323,004 | \$ 38,316 | \$ 361,320 | \$ 1,591,060 |

See accompanying notes.

Friends of the National Arboretum, Inc.

Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|--------------|------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ (631,218) | \$ 149,388 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 12,182 | 8,909 |
| Pavilion donation to USNA | 123,284 | - |
| Realized and unrealized loss (gain) on investments | 201,528 | (257,747) |
| Donated stock | (84,747) | (31,381) |
| Change in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | (961) | - |
| Contributions receivable | (66,134) | 79,981 |
| Grants receivable | 19,700 | 31,772 |
| Prepaid expenses | (5,242) | (626) |
| (Decrease) increase in: | | |
| Accounts payable and accrued expenses | (21,118) | 57,962 |
| Accrued salaries and related benefits | 9,059 | 15,186 |
| Deferred revenue | 3,500 | 21,000 |
| | (440,167) | 74,444 |
| Net cash (used in) provided by operating activities | | |
| Cash Flows from Investing Activities | | |
| Purchase of property and equipment | (3,313) | (6,383) |
| Purchases of investments | (424,180) | (194,242) |
| Sales of investments | 566,230 | 231,551 |
| | 138,737 | 30,926 |
| Net cash provided by investing activities | | |
| Net (Decrease) Increase in Cash and Cash Equivalents | (301,430) | 105,370 |
| Cash and Cash Equivalents, beginning of year | 386,186 | 280,816 |
| Cash and Cash Equivalents, end of year | \$ 84,756 | \$ 386,186 |

See accompanying notes.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

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:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for an operating reserve for future contingencies. Board-designated net assets at both December 31, 2018 and 2017 totaled \$300,000.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain 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. 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.

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.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

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.

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 (loss) income in the accompanying statements of activities.

Accounts Receivable

Accounts receivable are all due within one year and recorded at net realizable value. Receivables are written off when deemed uncollectible. There was no allowance for doubtful accounts at December 31, 2018 and 2017, and management believes that all amounts are fully collectible.

Contributions Receivable

Contributions receivable represent unconditional amounts committed to FONA and are recorded at their net realizable value. All contributions receivable at December 31, 2018 and 2017 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, 2018 and 2017 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, 2018 and 2017. No allowance for doubtful accounts is recorded, as management believes that all amounts are fully collectible.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

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.

Revenue Recognition

Contributions and grants are recorded as revenue when received or promised. FONA reports gifts of cash and other assets as 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 stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions 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.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Contributed Services and Materials (continued)

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 11, certain donated specialized services and goods have been recorded in the financial statements.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs

FONA expenses advertising costs as incurred. Advertising expenses were \$16,637 and \$6,706 for the years ended December 31, 2018 and 2017, respectively.

Adopted Accounting Pronouncement

On August 18, 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. FONA has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented except for the liquidity and availability footnote, which is permitted by the ASU in the year of adoption. The implementation had no impact on previously reported net assets.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued 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.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements (continued)

In May 2014, the FASB issued ASU 2014-09 – *Revenue from Contracts with Customers* (Topic 606). The update establishes a comprehensive revenue recognition standard for virtually all industries including those that previously followed industry-specific guidance. The update requires that revenue be recognized to depict the transfer of promised goods and services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for these goods and services. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers* (Topic 606) – *Deferral of the Effective Date*, which deferred the effective date for one year. The guidance is effective beginning in 2019.

Subsequent Events

In preparing these financial statements, FONA has evaluated events and transactions for potential recognition or disclosure through September 26, 2019, the date the financial statements were available to be issued.

3. Liquidity and Availability

FONA has \$159,014 of financial assets available within one year of the statement of financial position date. FONA strives to maintain liquid financial assets on hand to meet 90 days of general expenditures. Management periodically reviews FONA's liquid asset needs and adjusts the cash and cash equivalent balances as necessary. Amounts in excess of operating liquidity assets are invested in various short-term and highly liquid securities.

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at December 31, 2018:

| | | |
|---|----|--------------------|
| Cash and cash equivalents | \$ | 84,756 |
| Short-term investments | | 2,406,395 |
| Accounts receivable | | 961 |
| Contributions receivable | | 66,926 |
| Grants receivable | | 8,200 |
| Less: restricted by donors with purpose and time restrictions | | <u>(2,408,224)</u> |
| Total available for general expenditures | \$ | <u>159,014</u> |

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

4. 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.

5. 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.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

5. Investments and Fair Value Measurements (continued)

The following table presents FONA's fair value hierarchy for those investments measured on a recurring basis as of December 31, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------|---------------------|-------------|-------------|---------------------|
| Money market funds | \$ 3,721 | \$ - | \$ - | \$ 3,721 |
| Mutual funds: | | | | |
| Large cap growth | 119,002 | - | - | 119,002 |
| International growth | 320,112 | - | - | 320,112 |
| Money market | 197,426 | - | - | 197,426 |
| Mid cap value fund | 110,010 | - | - | 110,010 |
| Bond fund | 1,102,961 | - | - | 1,102,961 |
| Large blend | 337,146 | - | - | 337,146 |
| Mid cap growth | 213,757 | - | - | 213,757 |
| Common stock: | | | | |
| Services | 2,260 | - | - | 2,260 |
| Total investments | \$ 2,406,395 | \$ - | \$ - | \$ 2,406,395 |

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 | \$ 2,665,226 | \$ - | \$ - | \$ 2,665,226 |

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

5. Investments and Fair Value Measurements (continued)

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

| | <u>2018</u> | <u>2017</u> |
|--------------------------------|---------------------|-------------------|
| Interest and dividends | \$ 104,386 | \$ 78,897 |
| Realized gain (loss) | 56,964 | (9,151) |
| Unrealized (loss) gain | (258,492) | 266,898 |
| Investment advisor fees | <u>(9,129)</u> | <u>(8,638)</u> |
| Total investment (loss) income | <u>\$ (106,271)</u> | <u>\$ 328,006</u> |

6. Property and Equipment

Property and equipment consists of the following at December 31:

| | <u>2018</u> | <u>2017</u> |
|--|------------------|-------------------|
| Equipment | \$ 69,726 | \$ 66,413 |
| Capital improvements | <u>25,524</u> | <u>159,407</u> |
| Total property and equipment | 95,250 | 225,820 |
| Less: accumulated depreciation and amortization | <u>(83,975)</u> | <u>(82,392)</u> |
| Property and equipment, net | <u>\$ 11,275</u> | <u>\$ 143,428</u> |

7. Net Assets With Donor Restrictions

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 allow.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

7. Net Assets With Donor Restrictions (continued)

Net assets with donor restrictions are available for the following at December 31:

| | 2018 | 2017 |
|--|--------------|--------------|
| Subject to expenditures for specified purposes: | | |
| Garden projects | \$ 8,666 | \$ 29,823 |
| Education and visitor services | 12,210 | 12,210 |
| Research projects | 3,882 | 3,882 |
| USNA projects – Hickey Run | 98,831 | 112,165 |
| Other project – Garden Council | 148,932 | 159,143 |
| New Initiatives Fund | 40,000 | 40,000 |
| Capital Columns Campaign | 23,813 | - |
| Venue rentals | 17,000 | - |
| Other project – Washington Youth Garden | 40,688 | 101,692 |
| | 394,022 | 458,915 |
| Total subject to expenditures for specified purposes | | |
| Endowments: | | |
| Subject to endowment spending policy – unappropriated endowment earnings | 530,130 | 668,864 |
| Heritage Collections Fund | 1,000,000 | 1,000,000 |
| Meyer Kidder Fund | 484,072 | 484,072 |
| | 2,014,202 | 2,152,936 |
| Total endowments | | |
| Total net assets with donor restrictions | \$ 2,408,224 | \$ 2,611,851 |

8. 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, 2018 and 2017

8. 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 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 restricted net assets is classified as 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
December 31, 2018 and 2017

8. 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:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|-------------------------------------|---------------------------------------|------------------------------------|---------------------|
| <u>2018:</u> | | | |
| Donor-restricted endowment funds | <u>\$ -</u> | <u>\$ 2,014,202</u> | <u>\$ 2,014,202</u> |
| <u>2017:</u> | | | |
| Donor-restricted endowment funds | <u>\$ -</u> | <u>\$ 2,152,936</u> | <u>\$ 2,152,936</u> |

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

8. Endowment (continued)

Changes in Endowment Net Assets

Changes in endowment net assets for the year ended December 31, 2018 were as follows:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|-----------------------------|
| Endowment funds, beginning of year | \$ - | \$ 2,152,936 | \$ 2,152,936 |
| Interest and dividends | - | 87,354 | 87,354 |
| Net depreciation (realized and unrealized) | - | (173,569) | (173,569) |
| Investment fees | - | (7,519) | (7,519) |
| Appropriation of assets for expenditure | - | (45,000) | (45,000) |
| | <u> </u> | <u> </u> | <u> </u> |
| Endowment funds, end of year | <u>\$ -</u> | <u>\$ 2,014,202</u> | <u>\$ 2,014,202</u> |

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

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|-----------------------------|
| Endowment funds, beginning of year | \$ - | \$ 1,881,985 | \$ 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) |
| | <u> </u> | <u> </u> | <u> </u> |
| Endowment funds, end of year | <u>\$ -</u> | <u>\$ 2,152,936</u> | <u>\$ 2,152,936</u> |

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

8. 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 funds 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, 2018 and 2017.

9. 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 both years ended December 31, 2018 and 2017 amounted to \$2,902.

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

| | | |
|-------------------------------------|----|--------------|
| 2019 | \$ | 2,902 |
| 2020 | | 2,902 |
| 2021 | | 1,935 |
| | | <hr/> |
| Total future minimum lease payments | \$ | <u>7,739</u> |

10. 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, 2018 and 2017.

11. Contributed Services and Materials

During the years ended December 31, 2018 and 2017, FONA was the beneficiary of donated services and materials, which allowed FONA to provide greater resources toward various programs.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

11. Contributed Services and Materials (continued)

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

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Supplies and equipment | \$ 18,499 | \$ - |
| Materials | 16,246 | 35,931 |
| Food and drink | 8,659 | - |
| Legal and other specialized services | 95,004 | 60,757 |
| Washington Youth Garden services | - | 54,285 |
| Total contributed services and materials | <u>\$ 138,408</u> | <u>\$ 150,973</u> |

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

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Annual events | \$ 33,664 | \$ 35,931 |
| Washington Youth Garden | 57,242 | 59,743 |
| Management and general | 47,502 | 55,299 |
| Total benefit to programs and supporting services | <u>\$ 138,408</u> | <u>\$ 150,973</u> |

12. 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.

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.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

12. Washington Youth Garden (continued)

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 five 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 based at the WYG demonstration garden for a select groups of rising high school juniors and seniors, emphasizing personal development, as well as growth in botanical knowledge and practical garden and horticultural skills. A new tier added in 2019 to engage returning participants in directly working on horticultural work on the United States Department of Agriculture’s (USDA) grounds.

Summer Institute: weeklong workshops for teachers to develop capabilities and practice skills to incorporate into garden science curriculum used in teaching and related class-work.

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 restricted funds and used only to support the WYG programs.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

13. 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 USNA totaled the following for the years ended December 31:

| | 2018 | 2017 |
|-----------------------|------------|-----------|
| Internship support | \$ 67,266 | \$ 57,721 |
| Pavilion donation | 123,284 | - |
| Other | 9,048 | 10,923 |
| Total support to USNA | \$ 199,598 | \$ 68,644 |

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 \$718,080 and \$737,539 for the years ended December 31, 2018 and 2017, respectively. In addition, FONA also provided other services to 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 USNA were for the following for the years ended December 31:

| | 2018 | 2017 |
|----------------------------------|------------|------------|
| Washington Youth Garden | \$ 655,000 | \$ 574,890 |
| Replanting Springhouse Run | 26,299 | 3,714 |
| Cultural Programming | 25,222 | 29,379 |
| USNA Director's Fund | 7,370 | 50,000 |
| Hikes and Tours | 4,189 | - |
| Update to USNA Master Plan | - | 79,556 |
| Total managed support activities | \$ 718,080 | \$ 737,539 |

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

13. Support to USNA (continued)

During 2018, the USDA, FONA, and USNA entered into an events management agreement to establish responsibilities for the management of corporate and other events at USNA for the purpose of supporting USNA programs. The agreement commenced on April 2, 2018 and is scheduled to expire on April 2, 2023. Under this agreement FONA may collect revenues on behalf of USNA, of which 40% will be deposited into a USNA Director's fund maintained by FONA to be used for USNA expenditures. The remaining 60% of revenue will be used by FONA for payment to a commissioned Events Manager, FONA's operating expenses, and services and programs provided by FONA to USNA. The agreement may be terminated with 90 days' advance written notice by any party.

14. 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, 2018 and 2017 totaled \$23,588 and \$18,143, respectively.

During 2018, FONA established a Section 401(k) plan for its employees, which became effective subsequent to year-end on January 1, 2019. This plan replaced the previous SIMPLE IRA plan. The plan is available to all eligible employees and permits employee contributions up to limits established by law. FONA may make discretionary contributions to the plan.

15. Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, benefits, and payroll taxes, which are allocated on the basis of estimates of time and effort. Additionally, expenses such as rent, insurance, outside computer services, office supplies, telephone and internet costs, postage, and depreciation and amortization are allocated based on pro-rata year-to-date expenses of each function.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

16. 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, 2018 and 2017, 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.

17. Results of Operations

FONA experienced a net operating deficit during the year ended December 31, 2018. While total net assets remained positive at December 31, 2018, continued losses could potentially have a significant effect on FONA's programs and operations. These losses are being realized in net assets without donor restrictions; however, the losses are covered by a Board-designated operating reserve. Management is implementing strategies to restructure operations to stabilize reserves, reduce expenditures, expand unrestricted funding streams, and seek broader revenue sources. FONA expects to increase its reserves in future years, bringing all net asset balances to positive levels of reserves. The financial statements do not include any adjustments that may be necessary if FONA is unable to continue as a going concern.