

Friends of the National Arboretum, Inc.

Financial Statements
and Independent Auditor's Report

December 31, 2022 and 2021

Friends of the National Arboretum, Inc.

Financial Statements
December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022 and 2021; the related statements of activities, functional expenses, and cash flows for the years then ended; and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FONA as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of FONA and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, FONA adopted Accounting Standards Update (ASU) 2016-02, Accounting Standards Codification (ASC) 842, *Leases*, and all subsequent ASUs that modified ASC 842. FONA has applied the modified retrospective method to adopt this standard during the year ended December 31, 2022, and adjusted the presentation in the financial statements as permitted by ASC 842. Our opinion is not modified with respect to this matter.

Emphasis of Matter (continued)

As discussed in Note 2 to the financial statements, FONA adopted Financial Accounting Standards Board ASU 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about FONA's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted 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, including omissions, 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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 FONA'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about FONA'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.



Vienna, Virginia
December 13, 2023

Friends of the National Arboretum, Inc.

Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 1,208,211	\$ 1,219,805
Investments	2,309,016	2,810,734
Accounts receivable	27,115	6,260
Contributions receivable	21,086	43,580
Government grants receivable	29,208	42,815
Prepaid expenses	10,246	15,095
Property and equipment, net	26,993	34,574
Right-of-use asset – operating lease	9,222	-
	\$ 3,641,097	\$ 4,172,863
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 49,872	\$ 83,271
Accrued salaries and related benefits	71,534	92,471
Deferred revenue	122,250	100,250
Line of credit	12,517	14,092
Lease liability – operating lease	9,222	-
	265,395	290,084
Net Assets		
Without donor restrictions:		
Undesignated	18,177	87,504
Board-designated	300,000	300,000
	318,177	387,504
Total without donor restrictions		
With donor restrictions:		
Endowment corpus – perpetual in nature	1,484,072	1,484,072
Unappropriated endowment earnings	624,971	1,082,733
Purpose restricted	948,482	928,470
	3,057,525	3,495,275
Total with donor restrictions		
	3,375,702	3,882,779
Total net assets		
	\$ 3,641,097	\$ 4,172,863
Total liabilities and net assets		

See accompanying notes.

Friends of the National Arboretum, Inc.

Statement of Activities
For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	\$ 637,133	\$ 267,656	\$ 904,789
Government grants	-	514,300	514,300
Annual events	716,190	-	716,190
Membership	72,452	-	72,452
Contributed services and materials	3,727	13,099	16,826
Investment return, net	(43,982)	(457,762)	(501,744)
Other revenue	6,903	-	6,903
Released from restrictions	775,043	(775,043)	-
	<u>2,167,466</u>	<u>(437,750)</u>	<u>1,729,716</u>
Total revenue and support			
Expenses			
Program services:			
Washington Youth Garden	764,401	-	764,401
Projects and activities	278,838	-	278,838
Annual events	212,806	-	212,806
Membership and outreach	99,161	-	99,161
	<u>1,355,206</u>	<u>-</u>	<u>1,355,206</u>
Total program services			
Supporting services:			
Management and general	482,655	-	482,655
Fundraising	398,932	-	398,932
	<u>881,587</u>	<u>-</u>	<u>881,587</u>
Total supporting services			
Total expenses	<u>2,236,793</u>	<u>-</u>	<u>2,236,793</u>
Change in Net Assets	(69,327)	(437,750)	(507,077)
Net Assets, beginning of year	<u>387,504</u>	<u>3,495,275</u>	<u>3,882,779</u>
Net Assets, end of year	<u>\$ 318,177</u>	<u>\$ 3,057,525</u>	<u>\$ 3,375,702</u>

See accompanying notes.

Friends of the National Arboretum, Inc.

Statement of Activities
For the Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Support			
Contributions	\$ 463,153	\$ 978,285	\$ 1,441,438
Government grants	-	305,279	305,279
Annual events	397,751	-	397,751
Membership	52,119	-	52,119
Contributed services and materials	13,754	12,782	26,536
Investment return, net	12,777	195,261	208,038
Other revenue	341,038	-	341,038
Released from restrictions	659,873	(659,873)	-
	<u>1,940,465</u>	<u>831,734</u>	<u>2,772,199</u>
Expenses			
Program services:			
Washington Youth Garden	689,584	-	689,584
Projects and activities	79,539	-	79,539
Annual events	156,898	-	156,898
Membership and outreach	114,847	-	114,847
	<u>1,040,868</u>	<u>-</u>	<u>1,040,868</u>
Supporting services:			
Management and general	644,348	-	644,348
Fundraising	188,770	-	188,770
	<u>833,118</u>	<u>-</u>	<u>833,118</u>
Total expenses	<u>1,873,986</u>	<u>-</u>	<u>1,873,986</u>
Change in Net Assets	66,479	831,734	898,213
Net Assets, beginning of year	<u>321,025</u>	<u>2,663,541</u>	<u>2,984,566</u>
Net Assets, end of year	<u><u>\$ 387,504</u></u>	<u><u>\$ 3,495,275</u></u>	<u><u>\$ 3,882,779</u></u>

See accompanying notes.

Friends of the National Arboretum, Inc.

Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program Services					Supporting Services			
	Washington Youth Garden	Projects and Activities	Annual Events	Membership and Outreach	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries	\$ 414,095	\$ 69,357	\$ 43,823	\$ 56,922	\$ 584,197	\$ 221,246	\$ 235,147	\$ 456,393	\$ 1,040,590
Benefits	62,682	10,064	6,252	8,535	87,533	19,722	32,919	52,641	140,174
Payroll taxes	34,406	5,418	3,488	4,608	47,920	27,966	18,864	46,830	94,750
Support to USNA	9,099	60,029	104	-	69,232	-	-	-	69,232
Printing	8,735	1,646	1,887	11,035	23,303	5,317	3,636	8,953	32,256
Professional fees	96,634	114,114	4,526	8,000	223,274	152,806	91,789	244,595	467,869
Refreshments	36,274	5,562	38,293	-	80,129	149	4,816	4,965	85,094
Training	4,274	-	-	199	4,473	2,673	-	2,673	7,146
Telephone and website	12,487	465	563	858	14,373	15,351	2,012	17,363	31,736
Depreciation and amortization	6,557	-	390	-	6,947	634	-	634	7,581
Travel	923	-	-	-	923	-	70	70	993
Postage and delivery	8	28	-	3,178	3,214	956	1,350	2,306	5,520
Garden and program supplies	35,475	5,591	40,311	492	81,869	2,349	529	2,878	84,747
Membership, promotion, and processing	113	320	1,948	464	2,845	-	105	105	2,950
Bank fees	-	-	-	-	-	9,406	1,802	11,208	11,208
Rent and maintenance; equipment and office	32,012	6,244	58,541	4,870	101,667	10,367	3,644	14,011	115,678
Other program costs	2,753	-	-	-	2,753	-	-	-	2,753
Miscellaneous	-	-	-	-	-	1,745	-	1,745	1,745
Insurance	7,455	-	-	-	7,455	10,490	-	10,490	17,945
Contributed services and materials	419	-	12,680	-	13,099	1,478	2,249	3,727	16,826
Total Expenses	\$ 764,401	\$ 278,838	\$ 212,806	\$ 99,161	\$ 1,355,206	\$ 482,655	\$ 398,932	\$ 881,587	\$ 2,236,793

See accompanying notes.

Friends of the National Arboretum, Inc.

Statement of Functional Expenses
For the Year Ended December 31, 2021

	Program Services					Supporting Services			
	Washington Youth Garden	Projects and Activities	Annual Events	Membership and Outreach	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries	\$ 364,305	\$ 802	\$ 49,177	\$ 68,730	\$ 483,014	\$ 272,918	\$ 126,985	\$ 399,903	\$ 882,917
Benefits	53,124	56	6,817	9,872	69,869	38,937	16,569	55,506	125,375
Payroll taxes	30,543	64	4,019	5,677	40,303	21,757	10,263	32,020	72,323
Support to USNA	8,696	2,081	-	-	10,777	-	-	-	10,777
Printing	3,709	-	2,346	8,209	14,264	3,338	3,064	6,402	20,666
Professional fees	146,490	75,104	16,164	12,450	250,208	240,997	6,455	247,452	497,660
Refreshments	449	339	30,872	-	31,660	2,153	10,193	12,346	44,006
Training	3,528	-	-	-	3,528	786	-	786	4,314
Telephone and website	11,590	10	637	1,521	13,758	21,841	1,578	23,419	37,177
Depreciation and amortization	5,676	-	390	-	6,066	990	-	990	7,056
Travel	788	-	-	-	788	-	29	29	817
Postage and delivery	10	-	21	3,042	3,073	798	1,409	2,207	5,280
Garden and program supplies	35,157	1,016	13,385	789	50,347	3,124	1,372	4,496	54,843
Membership, promotion, and processing	58	-	90	465	613	583	-	583	1,196
Bank fees	556	67	585	1,072	2,280	4,093	2,408	6,501	8,781
Rent and maintenance; equipment and office	13,605	-	23,379	3,020	40,004	6,721	8,445	15,166	55,170
Miscellaneous	-	-	-	-	-	1,715	-	1,715	1,715
Insurance	7,534	-	-	-	7,534	9,843	-	9,843	17,377
Contributed services and materials	3,766	-	9,016	-	12,782	13,754	-	13,754	26,536
Total Expenses	\$ 689,584	\$ 79,539	\$ 156,898	\$ 114,847	\$ 1,040,868	\$ 644,348	\$ 188,770	\$ 833,118	\$ 1,873,986

See accompanying notes.

Friends of the National Arboretum, Inc.

Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ (507,077)	\$ 898,213
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,581	7,056
Realized and unrealized loss (gain) on investments	559,762	(113,069)
Amortization of right-of-use asset – operating lease	2,685	-
Forgiveness of loans payable – Paycheck Protection Program	-	(322,740)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(20,855)	24,274
Contributions receivable	22,494	(3,071)
Grants receivable	13,607	94
Prepaid expenses	4,849	21,475
Right-of-use asset - operating lease	(11,907)	-
(Decrease) increase in:		
Accounts payable and accrued expenses	(33,399)	41,643
Accrued salaries and related benefits	(20,937)	17,570
Deferred revenue	22,000	12,275
Refundable advances	-	(37,986)
Lease liability - operating lease	9,222	-
Net cash provided by operating activities	48,025	545,734
Cash Flows from Investing Activities		
Purchases of property and equipment	-	(29,161)
Purchases of investments	(78,869)	(229,137)
Proceeds from sales of investments	20,825	133,500
Net cash used in investing activities	(58,044)	(124,798)
Cash Flows from Financing Activities		
Payments on line of credit	(1,575)	(1,953)
Proceeds from issuance of loan – Paycheck Protection Program	-	159,340
Net cash (used in) provided by financing activities	(1,575)	157,387
Net (Decrease) Increase in Cash and Cash Equivalents	(11,594)	578,323
Cash and Cash Equivalents, beginning of year	1,219,805	641,482
Cash and Cash Equivalents, end of year	\$ 1,208,211	\$ 1,219,805

See accompanying notes.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2022 and 2021

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, 2022 and 2021 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.

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, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are recorded at fair value based on quoted market prices. All interest and dividends, realized and unrealized gains and losses, and investment management fees are included as a component of net investment return 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, 2022 and 2021, 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, 2022 and 2021 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 contributions is recorded at December 31, 2022 and 2021, as management believes that all amounts are fully collectible.

Government Grants Receivable

FONA's government 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 receivables are expected to be collected within one year, and is recorded at net realizable value at December 31, 2022 and 2021. No allowance for doubtful receivables 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 10 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, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Leases

FONA determines if an arrangement is a lease at inception. Operating lease is included in the right-of-use (“ROU”) assets, which represent FONA’s right to use an underlying asset for the lease terms, and lease liabilities represent FONA’s obligation to make lease payments arising from the lease. Operating ROU lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As FONA’s lease does not provide an implicit rate, FONA used a risk-free rate based on the information available at the commencement date in determining the present value of lease payments.

The ROU assets also include any lease payments made and exclude lease incentives. FONA’s lease terms may include options to extend or terminate the lease when it is reasonably certain that FONA will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Revenue Recognition

Revenue Accounted for in Accordance with Contribution Accounting

Grants and contributions that are nonreciprocal are recognized as revenue when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. 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 funds 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.

FONA receives certain promises to give, collected over multiple accounting periods, and classifies the portion receivable in future accounting periods as restricted revenue. FONA discounts the promises to give using an appropriate discount rate over the contribution period, if material.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue Accounted for in Accordance with Contribution Accounting (continued)

Conditional contributions contain a donor-imposed condition that represents a barrier that must be overcome before FONA is entitled to the assets transferred or promised. Failure to overcome the barrier gives the donor a right of return of the assets it has transferred, or gives the promisor a right of release from its obligation to transfer its assets. Conditional contributions are recognized as revenue, either with or without donor restrictions, when donor-imposed conditions are substantially met and any barriers are overcome. Donor restrictions are also satisfied when qualifying expenditures are incurred for the donor-specified program.

Donated goods and services that meet the criteria for recognition are recognized at fair value at the time of donation. These goods and services benefit the general programs and consist primarily of donated materials, legal, advertising, and other consulting and professional services. The value of these donated goods and services is included in the financial statements as both revenue and expense for the years ended December 31, 2022 and 2021.

Additionally, 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.

Revenue is recognized when FONA satisfies a performance obligation by transferring a promised good to, or performing a service for, a customer. The amount of revenue recognized reflects the consideration FONA expects to receive in exchange for satisfying distinct performance obligations. If a performance obligation does not meet the criteria to be considered distinct, FONA combines it with other performance obligations until a distinct bundle of goods or services exists. Fees or amounts received in advance of satisfying contractual performance obligations are reflected as deferred revenue in the statements of financial position. Revenue is recognized either over time or at the point in time that contractual obligations are met.

Revenue from registrations, events, and plant sales from FONA's annual events are recognized at the time the event is held. Any amounts received in advance are deferred until the performance obligation is met. At December 31, 2022 and 2021, deferred revenue from events totaled \$122,250 and \$100,250, respectively, and is reflected as deferred revenue in the accompanying statements of financial position.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

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.

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.

Advertising Costs

FONA expenses advertising costs as incurred. Advertising expenses were \$2,871 and \$1,197 for the years ended December 31, 2022 and 2021, respectively.

Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Accounting Standards Codification (ASC) 842, *Leases*. The update requires a lessee to recognize an ROU asset and lease liability, initially measured at the present value of the lease payments, in its statement of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective for FONA's fiscal year ended December 31, 2022. FONA adopted ASC 842 during the year ended December 31, 2022, and adjusted the presentation in the financial statements as permitted by ASC 842. A modified retrospective transition approach is required for lessees for finance and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Adopted Accounting Pronouncements (continued)

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which is intended to increase transparency of contributed nonfinancial assets for nonprofit entities through enhancements in presentation and disclosure requirements. Nonprofit entities are required to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash and other financial contributions. Nonprofit entities are also required to disclose various information related to contributed nonfinancial assets. FONA has implemented ASU 2020-07, and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented, and the implementation had no impact on previously reported net assets.

Recently Issued Accounting Pronouncement

In 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses* (Topic 326), *Measurement of Credit Losses on Financial Instruments*. This ASU addresses measurement and reporting of credit losses related to accounts receivable, notes receivable, leases receivable, and held-to-maturity debt securities. The ASU mandates the current expected credit loss (CECL) model, which measures and reports expected losses over the contractual life of an asset. The measurement of expected life credit losses will be based on relevant information, not just past events (including historical experience and current conditions), but also the “reasonable and supportable” forecasts that affect collectability of the reported amount. This guidance is effective for FONA beginning in 2023. Management is evaluating the potential impact of this update on FONA’s financial statements.

Subsequent Events

In preparing these financial statements, FONA has evaluated events and transactions for potential recognition or disclosure through December 13, 2023, the date the financial statements were available to be issued.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2022 and 2021

3. Liquidity and Availability

FONA strives to maintain liquid financial assets on hand to meet its 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.

Additionally, FONA considers net assets with donor restrictions, including unappropriated endowment earnings, for use in current programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. Excluded from total available for general expenditures is the portion of the endowments that are donor-restricted and held in perpetuity.

Financial assets that are available for general expenditures within one year of the statements of financial position date comprise the following at December 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,208,211	\$ 1,219,805
Investments	2,309,016	2,810,734
Accounts receivable	27,115	6,260
Contributions receivable	21,086	43,580
Government grants receivable	29,208	42,815
Less: endowment corpus	<u>(1,484,072)</u>	<u>(1,484,072)</u>
Total available for general expenditures	<u>\$ 2,110,564</u>	<u>\$ 2,639,122</u>

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.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2022 and 2021

5. Investments and Fair Value Measurements

Net investment return consists of the following for the years ended December 31:

	2022	2021
Interest and dividends	\$ 66,970	\$ 104,241
Realized gain	2,228	51,704
Unrealized (loss) gain	(561,990)	61,365
Less: investment management fees	(8,952)	(9,272)
Total investment return, net	<u>\$ (501,744)</u>	<u>\$ 208,038</u>

FONA follows FASB Accounting Standards Codification 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, 2022 and 2021

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, 2022:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,461	\$ -	\$ -	\$ 2,461
Mutual funds:				
Large cap growth	122,303	-	-	122,303
International growth	303,125	-	-	303,125
Money market	244,277	-	-	244,277
Mid cap value fund	134,647	-	-	134,647
Bond fund	964,909	-	-	964,909
Large blend	351,168	-	-	351,168
Mid cap growth	186,126	-	-	186,126
Total investments	<u>\$ 2,309,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,309,016</u>

The following table presents FONA's fair value hierarchy for those investments measured on a recurring basis as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 476	\$ -	\$ -	\$ 476
Mutual funds:				
Large cap growth	204,013	-	-	204,013
International growth	392,303	-	-	392,303
Money market	241,205	-	-	241,205
Mid cap value fund	146,195	-	-	146,195
Bond fund	1,136,738	-	-	1,136,738
Large blend	446,916	-	-	446,916
Mid cap growth	242,888	-	-	242,888
Total investments	<u>\$ 2,810,734</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,810,734</u>

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2022 and 2021

6. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2022</u>	<u>2021</u>
Equipment	\$ 108,348	\$ 108,348
Capital improvements	<u>25,524</u>	<u>25,524</u>
Total property and equipment	133,872	133,872
Less: accumulated depreciation and amortization	<u>(106,879)</u>	<u>(99,298)</u>
Property and equipment, net	<u><u>\$ 26,993</u></u>	<u><u>\$ 34,574</u></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's leadership in this effort.

Meyer Kidder Fund

The Meyer Kidder Fund ("the Fund") is comprised of two endowment 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 financially support one or more post-graduate or graduate Collections Fellows, whose academic training includes horticulture, botany, or a related field, for up to twelve-month terms, to be awarded periodically as funding allows.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
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7. Net Assets With Donor Restrictions (continued)

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

	2022	2021
Subject to expenditures for specified purposes:		
Garden projects	\$ 14,133	\$ 7,974
Director’s fund	246,559	137,181
Cherry tree restoration	24,600	24,600
Herb garden	25,000	25,000
USNA projects – Hickey Run	91,742	91,955
Canopy Trail Campaign	500,936	596,248
Asian Collection	2,491	2,491
New Initiatives Fund	40,000	40,000
Capital Columns Campaign	3,021	3,021
Total subject to expenditures for specified purposes	948,482	928,470
Endowments:		
Subject to endowment spending policy – unappropriated endowment earnings	624,971	1,082,733
Heritage Collections Fund	1,000,000	1,000,000
Meyer Kidder Fund	484,072	484,072
Total endowments	2,109,043	2,566,805
Total net assets with donor restrictions	\$ 3,057,525	\$ 3,495,275

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2022 and 2021

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.

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 net assets with donor restrictions (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 net assets with donor restrictions is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by FONA 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.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2022 and 2021

8. Endowment (continued)

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 FONA 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.

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>2022</u>	<u>2021</u>
Donor-restricted endowment funds	<u>\$ 2,109,043</u>	<u>\$ 2,566,805</u>

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2022 and 2021

8. Endowment (continued)

Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Endowment funds, beginning of year	\$ 2,566,805	\$ 2,371,544
Interest and dividends	57,888	96,167
Net (depreciation) appreciation (realized and unrealized)	(507,478)	107,551
Investment management fees	<u>(8,172)</u>	<u>(8,457)</u>
Endowment funds, end of year	<u>\$ 2,109,043</u>	<u>\$ 2,566,805</u>

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 FONAs 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 net assets without donor restrictions as of December 31, 2022 and 2021.

9. Commitments and Contingencies

Government Grants

Funds received from governments are subject to audit under the provisions of the agreements. The ultimate determination of amounts received under the agreements is based upon the allowance of costs reported to and accepted by the oversight agency. Until the grant is closed out, there exists a contingency to refund any amount received in excess of allowable costs.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2022 and 2021

9. Commitments and Contingencies (continued)

Operating Lease

FONA leases office equipment under an operating lease that expires in 2026. The lease requires fixed monthly payments over the terms of the lease.

Supplemental qualitative information related to the long-term operating lease is as follows:

Operating lease cost	\$	2,832
Cash paid for amounts included in the measurement of lease liability – operating cash flows	\$	2,832
Right-of-use asset obtained in exchange for lease obligations	\$	11,907
Weighted-average remaining lease term (in years)		3.33
Weighted-average discount rate		1.37%

Maturities of the lease liability under FONA's long-term operating lease are as follows for the years ending December 31:

2023	\$	2,832
2024		2,832
2025		2,832
2026		944
		<hr/>
Total minimum lease payments		9,440
Less: discount to present value at 1.37%		(218)
		<hr/>
Present value of operating lease liability	\$	<u>9,222</u>

10. Line of Credit

In September 2016, FONA opened a line of credit with a limit of \$100,000 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. The outstanding borrowings on this line of credit at December 31, 2022 and 2021 amounted to \$12,517 and \$14,092, respectively.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
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11. Loans Payable – Paycheck Protection Program

FONA applied for two loans under the Paycheck Protection Program (PPP) pursuant to Division A, Title 1 of the CARES Act, which was enacted on March 27, 2020. The PPP is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll through the COVID-19 coronavirus, for which FONA qualified. After the loans are granted, the Small Business Administration (SBA) will forgive loans if all employee retention criteria are met, and the funds are used for eligible expenses.

The initial loan was granted to FONA on May 7, 2020 in the amount of \$163,400 with terms including a 1.00% fixed interest rate. The loan was scheduled to mature on May 7, 2022. At December 31, 2020, the amount is recorded as a loan payable, which is reflected in the accompanying statements of financial position. On March 29, 2021, the SBA approved full forgiveness of the loan, and remitted the forgiveness amount to the financial institution, including applicable interest accruals. For the year ended December 31, 2021, FONA recorded \$163,400 as other revenue, which is reflected in the statement of activities.

In 2021, FONA applied for a second round of the PPP loan. The loan was granted to FONA on March 8, 2021 in the amount of \$159,340, and included a 1.00% fixed interest rate. The loan was scheduled to mature on March 8, 2026. On December 27, 2021, the SBA approved full forgiveness of the loan, and remitted the forgiveness amount to the financial institution, including applicable interest accruals. For the year ended December 31, 2021, FONA recorded \$159,340 as other revenue, which is reflected in the statement of activities.

12. Employee Retention Tax Credit

The Employee Retention Tax Credit (ERTC) was established by the CARES Act in March 2020. It was intended to help businesses retain their workforces and avoid layoffs during the coronavirus pandemic. It provides a per employee credit to eligible businesses based on a percentage of qualified wages and health insurance benefits paid to employees. It works as a refundable payroll tax credit claimed quarterly, and it can provide reductions to payroll taxes or cash refunds. The CARES Act did not allow businesses that received PPP loans to also claim the ERTC, but the Consolidated Appropriations Act, which was enacted at the end of 2020, retroactively removed the limitation so entities that had applied for or received PPP loans could still get the ERTC.

During the year ended December 31, 2022, FONA filed refund claims in the aggregate amount of \$244,758 with the Internal Revenue Service, which are included in government grants revenue in the accompanying statement of activities.

Friends of the National Arboretum, Inc.

Notes to Financial Statements
December 31, 2022 and 2021

13. Contributed Services and Materials

During the years ended December 31, 2022 and 2021, 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>2022</u>	<u>2021</u>
Materials	\$ 16,826	\$ 12,782
Legal and other specialized services	<u>-</u>	<u>13,754</u>
Total contributed services and materials	<u>\$ 16,826</u>	<u>\$ 26,536</u>

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

	<u>2022</u>	<u>2021</u>
Washington Youth Garden	\$ 419	\$ 3,766
Annual events	12,680	9,016
Management and general	1,479	13,754
Fundraising	<u>2,248</u>	<u>-</u>
Total benefit to programs and supporting services	<u>\$ 16,826</u>	<u>\$ 26,536</u>

14. 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, 2022 and 2021

14. 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 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 was 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
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15. 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:

	2022	2021
Internship support	\$ 66,464	\$ 8,696
Other	2,768	2,081
 Total support to USNA	 \$ 69,232	 \$ 10,777

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 \$878,609 and \$776,456 for the years ended December 31, 2022 and 2021, 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:

	2022	2021
Washington Youth Garden	\$ 764,401	\$ 689,799
Canopy Trail	96,312	68,167
Cultural Programming	2,224	1,653
Hikes and Tours	10,292	10,168
USNA Director's Fund	4,997	6,669
Replanting Springhouse Run	383	-
 Total managed support activities	 \$ 878,609	 \$ 776,456

Friends of the National Arboretum, Inc.

Notes to Financial Statements
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15. 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 expired 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.

16. Retirement Plan

During 2018, FONA established a Section 401(k) plan for its employees, which became effective on January 1, 2019. 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. Contributions to the plan during the years ended December 31, 2022 and 2021 totaled \$33,189 and \$24,147, respectively.

17. 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. Where feasible, FONA allocates its expenses directly to specific programs and functions. The expenses that are allocated include salaries, benefits, and payroll taxes, among other expenses, which are allocated on the basis of estimates of time and effort.

18. 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, 2022 and 2021, no tax provision was made as FONA had no significant 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.