

THE ARBORETUM FOUNDATION

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED JUNE 30, 2017 AND 2016



Arboretum Foundation

THE ARBORETUM FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

January 17, 2018

Board of Directors
The Arboretum Foundation
Seattle, Washington

We have audited the accompanying financial statements of The Arboretum Foundation (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2017 and 2016, and 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.

Auditors' 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 in the first paragraph of this letter present fairly, in all material respects, the financial position of The Arboretum Foundation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Jacobson Jarvis & Co, PLLC

Jacobson Jarvis & Co, PLLC

THE ARBORETUM FOUNDATION
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 457,352	\$ 231,164
Investments	1,410,217	1,384,785
Promises to give	115,150	207,433
Other receivables	25,153	19,331
Prepaid expenses	8,794	7,925
Gift shop inventory	19,554	15,491
Total Current Assets	2,036,220	1,866,129
Endowment Investments	2,033,369	1,884,977
Furniture and Equipment, net of accumulated depreciation of \$162,357 and \$161,816	125	666
	<u>\$ 4,069,714</u>	<u>\$ 3,751,772</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 63,891	\$ 94,052
Grants payable	120,456	13,655
Unearned revenue	2,222	22,222
Total Current Liabilities	186,569	129,929
Net Assets		
Unrestricted	1,733,869	1,567,094
Temporarily restricted	764,256	690,254
Permanently restricted	1,385,020	1,364,495
Total Net Assets	3,883,145	3,621,843
	<u>\$ 4,069,714</u>	<u>\$ 3,751,772</u>

THE ARBORETUM FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Activities								
Public Support, Revenue, and Other Support								
Contributions	\$ 438,289	\$ 62,001	\$ 11,025	\$ 511,315	\$ 409,335	\$ 170,329	\$ 31,380	\$ 611,044
Membership dues	68,360			68,360	61,501			61,501
Gift shop sales, less cost of goods sold of \$29,851 and \$37,147	31,965			31,965	26,146			26,146
Special events revenue, less cost of direct donor benefits of \$60,700 and \$35,525	273,467			273,467	260,966			260,966
Investment income, net of fees of \$27,007 and \$27,432	7,621	6,898		14,519	9,859	6,635		16,494
In-kind contributions	21,328			21,328	20,528			20,528
Japanese Garden earned revenue	96,273			96,273	35,425			35,425
Japanese Garden contributions	20,725	-		20,725	48,634	35,000		83,634
Other revenue	34,298			34,298	33,230			33,230
Net assets released from purpose restrictions	247,780	(247,780)		-	93,452	(93,452)		-
Total Public Support, Revenue, and Other Support	<u>1,240,106</u>	<u>(178,881)</u>	<u>11,025</u>	<u>1,072,250</u>	<u>999,076</u>	<u>118,512</u>	<u>31,380</u>	<u>1,148,968</u>
Operating Expenses								
Program services	695,637			695,637	699,669			699,669
Fundraising	198,060			198,060	158,752			158,752
Management and general	173,334			173,334	148,211			148,211
Total Operating Expenses	<u>1,067,031</u>			<u>1,067,031</u>	<u>1,006,632</u>			<u>1,006,632</u>
Net Gain (Loss) on Investments	160,733	167,040	-	327,773	(32,343)	(20,215)	-	(52,558)
Change in Net Assets from Operating Activities	<u>333,808</u>	<u>(11,841)</u>	<u>11,025</u>	<u>332,992</u>	<u>(39,899)</u>	<u>98,297</u>	<u>31,380</u>	<u>89,778</u>
Non-operating Activities								
Contributions	-	130,925	9,500	140,425	-	-	8,500	8,500
Net assets released from purpose restrictions	45,082	(45,082)		-	43,415	(43,415)		-
Program expenses for Master Plan	(138,406)			(138,406)	(10,075)			(10,075)
Fundraising expenses	(53,709)			(53,709)	(91,422)			(91,422)
Management and general expenses	(20,000)			(20,000)	(26,000)			(26,000)
Change in Net Assets from Non-operating Activities	<u>(167,033)</u>	<u>85,843</u>	<u>9,500</u>	<u>(71,690)</u>	<u>(84,082)</u>	<u>(43,415)</u>	<u>8,500</u>	<u>(118,997)</u>
Total Change in Net Assets	166,775	74,002	20,525	261,302	(123,981)	54,882	39,880	(29,219)
Net Assets - beginning of year	1,567,094	690,254	1,364,495	3,621,843	1,691,075	635,372	1,324,615	3,651,062
Net Assets - end of year	<u>\$ 1,733,869</u>	<u>\$ 764,256</u>	<u>\$ 1,385,020</u>	<u>\$ 3,883,145</u>	<u>\$ 1,567,094</u>	<u>\$ 690,254</u>	<u>\$ 1,364,495</u>	<u>\$ 3,621,843</u>

See notes to financial statements.

THE ARBORETUM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2017 AND 2016

	2017				2016			
	Programs	Fundraising	Management and General	Total Expenses	Programs	Fundraising	Management and General	Total Expenses
Payroll and related expenses	\$ 334,980	\$ 178,161	\$ 137,558	\$ 650,699	\$ 283,255	\$ 188,884	\$ 128,641	\$ 600,780
Grants to others	401,044	-	-	401,044	341,359	-	-	341,359
Events	19,514	39,029	6,505	65,048	13,324	26,649	4,443	44,416
Professional fees	1,496	796	27,368	29,660	1,298	866	16,920	19,084
Bulletin	18,594	4,648	-	23,242	19,470	4,868	-	24,338
Miscellaneous	11,570	6,155	5,278	23,003	10,233	6,824	4,647	21,704
In-kind expense	10,979	5,840	4,509	21,328	9,678	6,454	4,396	20,528
Repair and maintenance	10,479	5,574	4,305	20,358	9,478	6,320	4,305	20,103
Printing and postage	7,264	4,529	2,044	13,837	4,561	1,578	2,135	8,274
Telephone	5,342	2,840	2,193	10,375	4,311	2,875	1,958	9,144
Office supplies	5,332	2,837	2,191	10,360	3,101	2,068	1,406	6,575
Garden contest and display garden	5,367	-	-	5,367	4,677	-	-	4,677
Public relations	2,082	1,108	855	4,045	2,905	1,514	4,856	9,275
Depreciation	-	252	289	541	-	751	289	1,040
Taxes and licenses	-	-	239	239	-	-	215	215
Newsletter	-	-	-	-	2,094	523	-	2,617
Total Expenses	834,043	251,769	193,334	1,279,146	709,744	250,174	174,211	1,134,129
Less Non-operating Expenses	(138,406)	(53,709)	(20,000)	(212,115)	(10,075)	(91,422)	(26,000)	(127,497)
Total Operating Expenses	\$ 695,637	\$ 198,060	\$ 173,334	\$ 1,067,031	\$ 699,669	\$ 158,752	\$ 148,211	\$ 1,006,632

THE ARBORETUM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Cash received from:		
Contributions	\$ 744,223	\$ 494,198
Memberships	68,360	61,501
Gift shop sales	61,816	63,293
Special events	334,167	296,491
Japanese Garden earned revenue	70,451	40,182
Investments	41,526	43,926
Other	34,298	34,218
Cash paid to:		
Personnel	(660,134)	(618,226)
University of Washington/City of Seattle	(294,243)	(341,359)
Vendors	<u>(348,750)</u>	<u>(237,743)</u>
Net Cash Provided (Used) by Operating Activities	<u>51,714</u>	<u>(163,519)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	686,510	732,228
Purchases of investments	<u>(532,561)</u>	<u>(671,702)</u>
Net Cash Provided by Investing Activities	<u>153,949</u>	<u>60,526</u>
Cash Flows Provided by Financing Activities		
Proceeds from donations restricted to endowment	<u>20,525</u>	<u>39,880</u>
Change in Cash and Cash Equivalents	226,188	(63,113)
Cash and Cash Equivalents – beginning of year	<u>231,164</u>	<u>294,277</u>
Cash and Cash Equivalents – end of year	<u>\$ 457,352</u>	<u>\$ 231,164</u>

THE ARBORETUM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Change in Net Assets to		
Cash Flows from Operating Activities		
Change in net assets	\$ 261,302	\$ (29,219)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	541	1,040
Net (gain) loss on investments	(327,773)	52,558
Donations restricted to endowment	(20,525)	(39,880)
Changes in		
Promises to give	92,283	(169,100)
Other receivables	(5,822)	(16,477)
Prepaid expenses	(869)	769
Gift shop inventory	(4,063)	5,044
Accounts payable and accrued liabilities	(30,161)	9,524
Grants payable	106,801	-
Unearned revenue	(20,000)	22,222
	<u>51,714</u>	<u>(163,519)</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>51,714</u>	\$ <u>(163,519)</u>

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Arboretum Foundation (the Foundation) was created on June 11, 1935 to support the preservation and development of the Washington Park Arboretum through advocacy and fundraising. Throughout the Arboretum's history, the Foundation has provided funds for routine maintenance and special projects including the Graham Visitors Center, restoration of key components of Arboretum plant collections and grounds, and creation of new plant displays and gardens. Today, the Foundation, with an active member and volunteer constituency, regularly raises funds to support ongoing Arboretum improvements, education, and public programs. The Foundation is the Arboretum's primary advocate, providing public relations initiatives and outreach designed to strengthen the Arboretum's support among public officials, businesses, and the community at large.

With 230 acres of green space and internationally significant plant collections, the Washington Park Arboretum welcomes approximately 500,000 visitors annually. The Arboretum's primary purposes—conservation, education, and recreation—are fulfilled through school-age learning activities, horticultural research, plant display, plant study programs, and passive recreation opportunities. The Washington Park Arboretum is located near central Seattle, just south of the University of Washington campus, on the shores of Lake Washington.

The City of Seattle owns most of the Washington Park Arboretum's land and buildings, and the University of Washington owns some of the land and buildings and all of the collections. The Arboretum is managed cooperatively by the University and the City; the Foundation is its major support organization. Seattle Parks and Recreation is responsible for park functions throughout the Arboretum. The University of Washington manages the Arboretum's collections, horticultural programs, facilities and education programs through the University of Washington Botanic Gardens.

In January of 2016, the Foundation took over the support functions of the Seattle Japanese Garden from the Associated Recreation Council (ARC), which had been providing the support functions through the Japanese Garden Advisory Council (JGAC). The operations and maintenance are still handled by Seattle Parks and Recreation. The Foundation is the lead for organizing the cycle of cultural events and programs, for recruiting and training volunteers, and for fundraising and community outreach. The Foundation receives a base amount of the gate revenue collected by the City plus a percentage over a designated threshold designed to ensure the City receives adequate funds to support general operations and maintenance. The Foundation also receives the total amount collected from two predetermined annual events.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation

In accordance with financial accounting standards, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets of the Foundation are classified as follows: Unrestricted net assets are available without restriction for support of the Foundation's operations.

Unrestricted net assets have been designated by the Board of Directors of the Foundation as follows as of June 30:

	<u>2017</u>	<u>2016</u>
Sustaining Fund	\$ 200,000	\$ 200,000
Ogle Reserve Fund	200,000	200,000
Quasi-Endowment	260,287	244,336
Capital Projects	160,495	234,204
Special Use Funds	160,154	147,646
	<u>\$ 980,936</u>	<u>\$ 1,026,186</u>

Temporarily restricted net assets are restricted to be used for certain current operations of the Foundation. Temporarily restricted net assets are available for the following purposes as of June 30:

	<u>2017</u>	<u>2016</u>
Azalea Way	\$ 103,205	\$ 240,611
Master Plan Maintenance	180,116	116,553
Environmental Education Center Pre-design	131,125	-
Rhododendron Glen	83,167	68,069
Education	23,865	23,865
Endowment earnings not yet appropriated	130,246	99,104
Japanese Garden capital projects	1,603	35,000
Other	110,929	107,052
	<u>\$ 764,256</u>	<u>\$ 690,254</u>

Permanently restricted net assets represent endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for current operations or specific projects.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-operating activities

The Foundation's non-operating activities relate to the Washington Park Arboretum Master Plan. This plan includes a vision for the future of the Arboretum that will last for generations. The activities involved in the plan are improved plant collections, plant displays, facilities, visitor services, educational programs, and a major gifts campaign over the next several years to fund portions of the plan including a new Environmental Education Center.

Federal income tax

The Internal Revenue Service has recognized The Arboretum Foundation as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation.

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Cash and cash equivalents

Cash and cash equivalents consist of checking accounts and money market funds.

Concentration of credit risk

The Foundation maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year or that are uninsured. The Foundation has not experienced any losses in these accounts.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Foundation maintains a master investment pool. Investment earnings from securities in the master investment pool are allocated to the individual funds based on the relationship of the fair value of each fund to the total fair value of the master investment pool, as adjusted for additions to or deductions from those accounts.

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Investments consist of the following as of June 30, 2017:

	<u>Endowment</u>	<u>Other</u>	<u>Total</u>
Cash & Money Market	\$ 111,969	\$ -	\$ 111,969
Equities and Equity Funds	1,029,685	765,872	1,795,557
Fixed Income	646,783	458,603	1,105,386
Exchange Traded Funds	<u>244,932</u>	<u>185,742</u>	<u>430,674</u>
	<u>\$ 2,033,369</u>	<u>\$ 1,410,217</u>	<u>\$ 3,443,586</u>

Investments consist of the following as of June 30, 2016:

	<u>Endowment</u>	<u>Other</u>	<u>Total</u>
Cash & Money Market	\$ 104,135	\$ -	\$ 104,135
Equities and Equity Funds	924,107	684,347	1,608,454
Fixed Income	661,952	551,869	1,213,821
Exchange Traded Funds	<u>194,783</u>	<u>148,569</u>	<u>343,352</u>
	<u>\$ 1,884,977</u>	<u>\$ 1,384,785</u>	<u>\$ 3,269,762</u>

Promises to give

Unconditional promises to give are stated at net realizable value. In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Unconditional promises to give as of June 30, 2017 consist of:

Receivable in less than one year	\$ 117,150
Less allowance for doubtful accounts	<u>(2,000)</u>
	<u>\$ 115,150</u>

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of June 30, 2017, 46% of promises to give were due from one donor. As of June 30, 2016, 88% of total promises to give were due from three donors.

Gift shop inventory

Gift shop inventory consists of gift shop merchandise that is stated at the lower of first-in, first-out cost or market.

Property and equipment

Furniture and equipment are stated at cost or, if donated, at fair value at the date of donation. Items with a cost or fair value of \$2,000 or greater are capitalized. Depreciation of furniture and equipment is provided using the straight-line method over the estimated useful lives of the assets, generally three to ten years.

Unearned revenue

Revenues received are deferred and shown as unearned revenue until the period in which the services are provided.

Accounts of individual units

The accompanying statements of financial position do not include the assets, liabilities, and related net assets of the 20 local units. These amounts are estimated by management and the finance committee to be immaterial relative to the Foundation's assets.

Restricted and unrestricted support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the year in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-kind goods, services and facilities

Donated marketable securities and other non-cash donations are recorded at their estimated fair values at the date of donation. Donated services are recorded as in-kind contributions and are recognized as revenue at estimated values at the date of receipt if they (a) create or enhance non-financial assets, or (b) require specialized skills and would need to be purchased if not provided by donation. Corresponding expenses are recognized as the assets and services are utilized. The Foundation occupies a portion of the Visitors Center rent-free where it conducts its activities. The following items have been recorded as in-kind in the financial statements for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Goods	\$ 800	\$ -
Contributed facilities	<u>20,528</u>	<u>20,528</u>
Total in-kind contributions	<u>\$ 21,328</u>	<u>\$ 20,528</u>

The Foundation utilizes volunteers for multiple tasks including cashiering in the gift shop, assisting the professional horticulture staff in maintaining the botanical collection, potting and growing plants, office work, small crafting projects, assisting with plant and holiday sales, and help planning and executing events. These volunteer hours do not qualify for revenue recognition under generally accepted accounting principles but are important to Foundation general operations. For the years ended June 30, 2017 and June 30, 2016, the Arboretum Foundation utilized 870 (unaudited) and 784 (unaudited) total volunteers for a total of 14,203 (unaudited) and 15,647 (unaudited) hours, respectively.

Functional allocation of expenses

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE B - FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis (at least annually) are as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
As of June 30, 2017:				
Equities and Equity Funds	\$ 1,795,557	\$ -	\$ -	\$ 1,795,557
Fixed Income	1,105,386	-	-	1,105,386
Exchange traded funds	430,674	-	-	430,674
	<u>\$ 3,331,617</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,331,617</u>
As of June 30, 2016:				
Equities and Equity Funds	\$ 1,608,454	\$ -	\$ -	\$ 1,608,454
Fixed Income	1,213,821	-	-	1,213,821
Exchange traded funds	343,352	-	-	343,352
	<u>\$ 3,165,627</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,165,627</u>

Assets and liabilities stated at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return, which is a level 3 input.

NOTE C - CHARITABLE REMAINDER TRUST

The Foundation is named as remainderman in a charitable remainder trust agreement. The terms of this agreement provide for the disbursement of the trust assets to the Foundation upon the death of the final beneficiary. A contribution and related asset will be recognized at such time as the amount can be reasonably estimated.

NOTE D - ENDOWMENT

The Foundation's endowment contains four individual donor-restricted funds established for maintenance of the Master Plan projects, Rhododendron Glen, Faulstich Totem and general purposes. The endowment also includes board designated quasi-endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE D - ENDOWMENT (Continued)

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by the State of Washington and determined that 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, is appropriate. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization 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 of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Return Objectives and Risk Parameters

The Foundation 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).

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE D - ENDOWMENT (Continued)

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. The Foundation expects its endowment funds, over time, to outperform inflation by at least 3%, net of management fees and expenses, annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation 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). The Foundation targets a diversified asset allocation that places a greater emphasis on equity than debt-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution to operating funds each year no less than 3% nor more than 4% of the average of the previous four calendar year-end endowment fund balances. This objective allows the fund to grow through gains on investments over a period of time, while distributions would be based on earnings less management expenses. This is consistent with the Foundation's objective to maintain or increase the purchasing power of assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Endowment net assets by fund type as of June 30, 2017:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Board designated Quasi-endowment	\$ 260,287	\$ -	\$ -	\$ 260,287
Donor-restricted endowment funds				
Master Plan Endowment	-	180,116	922,453	1,102,569
General Endowment	-	130,249	367,567	497,816
Ruth Ellerbeck Endowment	-	75,586	75,000	150,586
Faulstich Totem Endowment	<u>-</u>	<u>2,111</u>	<u>20,000</u>	<u>22,111</u>
Total endowment funds	<u>\$ 260,287</u>	<u>\$ 388,062</u>	<u>\$ 1,385,020</u>	<u>\$ 2,033,369</u>

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE D - ENDOWMENT (Continued)

Change in endowment net assets for the year ended June 30, 2017:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 244,336	\$ 276,146	\$ 1,364,495	\$ 1,884,977
Investment return:				
Investment income	1,023	6,898		7,921
Net gains	24,762	167,040		191,802
Total investment return	25,785	173,938	-	199,723
Contributions, net	-	-	20,525	20,525
Appropriated for expenditure	(9,834)	(62,022)	-	(71,856)
Endowment net assets, end of year	<u>\$ 260,287</u>	<u>\$ 388,062</u>	<u>\$ 1,385,020</u>	<u>\$ 2,033,369</u>

Endowment net assets by fund type as of June 30, 2016:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Board designated Quasi-endowment	\$ 244,336	\$ -	\$ -	\$ 244,336
Donor-restricted endowment funds				
Master Plan Endowment	-	116,553	912,953	1,029,506
General Endowment	-	99,104	356,542	455,646
Ruth Ellerbeck Endowment Fund	-	60,489	75,000	135,489
Faulstich Totem Endowment	-	-	20,000	20,000
Total endowment funds	<u>\$ 244,336</u>	<u>\$ 276,146</u>	<u>\$ 1,364,495</u>	<u>\$ 1,884,977</u>

Change in endowment net assets for the year ended June 30, 2016:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 256,543	\$ 349,040	\$ 1,324,615	\$ 1,930,198
Investment return:				
Investment income	1,013	6,635		7,648
Net losses	(3,086)	(20,215)		(23,301)
Total investment return	(2,073)	(13,580)	-	(15,653)
Contributions, net	-	-	39,880	39,880
Appropriated for expenditure	(10,134)	(59,314)	-	(69,448)
Endowment net assets, end of year	<u>\$ 244,336</u>	<u>\$ 276,146</u>	<u>\$ 1,364,495</u>	<u>\$ 1,884,977</u>

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE E - GRANTS IN SUPPORT OF THE ARBORETUM

The City of Seattle owns the land on which the Arboretum is located. University of Washington has an agreement with the City to manage the special collections of the Arboretum, including the Graham Visitors Center. Each year the Foundation grants money to the University and/or City to be used towards carrying out the management and maintenance. As of June 30, 2017, the Foundation has granted the following amounts to the University of Washington and City of Seattle, or for the benefit of these institutions.

Contributions 7/1/2001 through 6/30/2016	\$ 7,832,890
Fiscal 2017 Contributions	<u>401,044</u>
Contributions through 6/30/2017	<u>\$ 8,233,934</u>

NOTE F - COMMITMENTS

In accordance with the agreement between the City of Seattle and the Foundation, each fiscal year the Foundation is required to make a contribution to the Washington Park Arboretum. The contribution is calculated as at least 35% of the Foundation's average annual change in unrestricted net assets (without regard to this contribution) over the preceding three years, and is payable within 120 days after the previous fiscal year end. Based on the calculation, the minimum contribution commitment for 2018 is \$31,000.

During the year ended June 30, 2017, the Foundation worked together with the University of Washington to raise funds for a pre design study to determine the feasibility of building a new environmental education center at the Arboretum on a site where there currently exists a greenhouse with limited classroom space. As of June 30, 2017, the Foundation had raised \$131,125 for this project and the University of Washington had raised \$137,175.

NOTE G - FUNDRAISING EXPENSES

In order to accomplish the Foundation's mission of preserving and developing the Washington Park Arboretum through financial support, a significant amount of time, effort, and money is spent raising funds. The Foundation also focuses its fundraising efforts on building an endowment to continue to provide support to the Washington Park Arboretum in the future. These fundraising efforts are carried out in a variety of ways, often attempting to remain consistent with the horticultural interests of Foundation members. As a result of these efforts and because of the nature of the Foundation as a fundraising body, the proportion of fundraising expenses may be higher than other not-for-profit organizations.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE G - FUNDRAISING EXPENSES (Continued)

As part of its function as a supporting and advocacy organization for the Arboretum as a whole, there have been instances in which the Foundation has raised funds for general improvements but the funding did not flow through the Foundation's own books. The most recent example is the State Route 520 bridge project, which impacted Arboretum wetlands and was still ongoing through June 30, 2017. Among other positive results from the Foundation's lobbying on behalf of the Arboretum during this process, the state agreed to build the new Arboretum Loop Trail, a \$7.8 million (unaudited) project that improves bike and pedestrian pathways and related areas through the Arboretum.

NOTE H - RETIREMENT PLAN

The Foundation sponsors a 403(b) plan to which all full and part time employees may contribute. The contributions are invested with TIAA and are immediately vested in the employee's accounts. The Foundation does not contribute to the plan.

NOTE I - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to June 30, 2017 through January 17, 2018, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at June 30, 2017, including the estimates inherent in the processing of financial statements.