

THE ARBORETUM FOUNDATION

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED JUNE 30, 2019 AND 2018



Arboretum Foundation

THE ARBORETUM FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

January 15, 2020

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 355,176	\$ 395,894
Investments	2,288,345	1,654,713
Promises to give	7,810	4,359
Other receivables	230,277	69,544
Prepaid expenses	9,166	8,232
Gift shop inventory	31,901	20,401
Total Current Assets	<u>2,922,675</u>	<u>2,153,143</u>
Endowment investments	<u>2,742,900</u>	<u>2,132,162</u>
	<u>\$ 5,665,575</u>	<u>\$ 4,285,305</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 84,083	\$ 81,006
Grants payable	13,655	42,966
Unearned revenue	2,222	6,754
Total Current Liabilities	<u>99,960</u>	<u>130,726</u>
Net Assets		
Without donor restriction	2,730,424	1,907,189
With donor restriction	<u>2,835,191</u>	<u>2,247,390</u>
Total Net Assets	<u>5,565,615</u>	<u>4,154,579</u>
	<u>\$ 5,665,575</u>	<u>\$ 4,285,305</u>

THE ARBORETUM FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Operating Activities						
Public Support, Revenue, and Other Support						
Contributions	\$ 1,220,967	\$ 97,950	\$ 1,318,917	\$ 522,610	\$ 70,500	\$ 593,110
Membership dues	81,513		81,513	64,936		64,936
Gift shop sales	134,797		134,797	89,345		89,345
Less cost of goods sold	<u>(66,746)</u>		<u>(66,746)</u>	<u>(44,971)</u>		<u>(44,971)</u>
Net gift shop sales	68,051		68,051	44,374		44,374
Special events revenue	383,801		383,801	348,710		348,710
Less cost of direct benefits to donors	<u>(49,849)</u>		<u>(49,849)</u>	<u>(43,357)</u>		<u>(43,357)</u>
Net special events revenue	333,952		333,952	305,353		305,353
Investment income	16,085	13,485	29,570	11,116	8,570	19,686
In-kind contributions	25,770		25,770	26,620		26,620
Japanese Garden earned revenue	220,791		220,791	180,881		180,881
Japanese Garden contributions	69,895	-	69,895	45,995	-	45,995
Other revenue	35,756		35,756	34,006		34,006
Net assets released from purpose restrictions	<u>457,038</u>	<u>(457,038)</u>	<u>-</u>	<u>366,025</u>	<u>(366,025)</u>	<u>-</u>
Total Public Support, Revenue, and Other Support	<u>2,529,818</u>	<u>(345,603)</u>	<u>2,184,215</u>	<u>1,601,916</u>	<u>(286,955)</u>	<u>1,314,961</u>
Operating Expenses						
Program services	927,395		927,395	760,939		760,939
Fundraising	261,548		261,548	230,618		230,618
Management and general	<u>221,310</u>		<u>221,310</u>	<u>206,178</u>		<u>206,178</u>
Total Operating Expenses	<u>1,410,253</u>		<u>1,410,253</u>	<u>1,197,735</u>		<u>1,197,735</u>
Net Gain on Investments	<u>86,727</u>	<u>82,146</u>	<u>168,873</u>	<u>94,280</u>	<u>115,382</u>	<u>209,662</u>
Change in Net Assets from Operating Activities	<u>1,206,292</u>	<u>(263,457)</u>	<u>942,835</u>	<u>498,461</u>	<u>(171,573)</u>	<u>326,888</u>

THE ARBORETUM FOUNDATION
STATEMENTS OF ACTIVITIES (Continued)
YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Non-operating Activities						
Contributions	\$ -	\$ 899,500	\$ 899,500	\$ -	\$ 316,250	\$ 316,250
Net assets released from purpose restrictions	48,242	(48,242)	-	46,563	(46,563)	-
Program expenses for Master Plan	(358,957)		(358,957)	(291,235)		(291,235)
Fundraising expenses	(52,342)		(52,342)	(60,469)		(60,469)
Management and general expenses	(20,000)		(20,000)	(20,000)		(20,000)
Change in Net Assets from Non-operating Activities	(383,057)	851,258	468,201	(325,141)	269,687	(55,454)
Total Change in Net Assets	823,235	587,801	1,411,036	173,320	98,114	271,434
Net Assets - beginning of year	1,907,189	2,247,390	4,154,579	1,733,869	2,149,276	3,883,145
Net Assets - end of year	\$ 2,730,424	\$ 2,835,191	\$ 5,565,615	\$ 1,907,189	\$ 2,247,390	\$ 4,154,579

THE ARBORETUM FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019				2018			
	Programs	Fundraising	Management and General	Total Expenses	Programs	Fundraising	Management and General	Total Expenses
Payroll and related expenses	\$ 389,590	\$ 220,953	\$ 177,856	\$ 788,399	\$ 362,131	\$ 197,683	\$ 162,993	\$ 722,807
Grants to others	768,676	-	-	768,676	567,894	-	-	567,894
Events	21,050	42,101	7,017	70,168	20,994	48,054	6,998	76,046
Gift shop cost of goods sold	66,746	-	-	66,746	44,971	-	-	44,971
Cost of direct benefits to donors	-	49,849	-	49,849	-	43,357	-	43,357
Professional fees	4,549	9,780	28,458	42,787	9,754	2,522	28,606	40,882
Repair and maintenance	13,661	7,747	6,236	27,644	17,385	9,801	7,513	34,699
Miscellaneous	14,359	8,144	6,871	29,374	15,899	8,963	6,870	31,732
In-kind expense	12,734	7,222	5,814	25,770	13,338	7,519	5,763	26,620
Bulletin	24,313	2,702	-	27,015	19,736	4,934	-	24,670
Printing and postage	13,333	5,353	3,691	22,377	8,253	3,891	2,718	14,862
Office supplies	5,892	3,342	2,690	11,924	5,735	3,232	2,477	11,444
Telephone	3,872	2,196	1,768	7,836	4,256	2,399	1,839	8,494
Public relations	7,669	4,350	-	12,019	3,700	2,089	-	5,789
Display garden	6,654	-	-	6,654	3,099	-	-	3,099
Taxes and licenses	-	-	909	909	-	-	276	276
Depreciation	-	-	-	-	-	-	125	125
Total Expenses by function	1,353,098	363,739	241,310	1,958,147	1,097,145	334,444	226,178	1,657,767
Less expenses included with revenues on the statement of activities								
Gift shop cost of goods sold	(66,746)	-	-	(66,746)	(44,971)	-	-	(44,971)
Cost of direct benefits to donors	-	(49,849)	-	(49,849)	-	(43,357)	-	(43,357)
Total Expenses included in expenses on the statement of activities	1,286,352	313,890	241,310	1,841,552	1,052,174	291,087	226,178	1,569,439
Less Non-operating Expenses	(358,957)	(52,342)	(20,000)	(431,299)	(291,235)	(60,469)	(20,000)	(371,704)
Total Operating Expenses	<u>\$ 927,395</u>	<u>\$ 261,548</u>	<u>\$ 221,310</u>	<u>\$ 1,410,253</u>	<u>\$ 760,939</u>	<u>\$ 230,618</u>	<u>\$ 206,178</u>	<u>\$ 1,197,735</u>

THE ARBORETUM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Cash received from:		
Contributions	\$ 2,088,941	\$ 1,035,146
Memberships	81,513	64,936
Gift shop sales	134,797	89,345
Special events	383,801	348,710
Japanese Garden earned revenue	221,946	141,022
Investments	60,243	48,971
Other	35,756	34,006
Cash paid to:		
Personnel	(778,247)	(715,504)
University of Washington/City of Seattle	(777,987)	(615,384)
Vendors	<u>(445,484)</u>	<u>(390,079)</u>
Net Cash Provided by Operating Activities	<u>1,005,279</u>	<u>41,169</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,014,283	754,373
Purchases of investments	<u>(2,089,780)</u>	<u>(888,000)</u>
Net Cash Used by Investing Activities	<u>(1,075,497)</u>	<u>(133,627)</u>
Cash Flows Provided by Financing Activities		
Proceeds from donations restricted to endowment	<u>29,500</u>	<u>31,000</u>
Change in Cash and Cash Equivalents	(40,718)	(61,458)
Cash and Cash Equivalents – beginning of year	<u>395,894</u>	<u>457,352</u>
Cash and Cash Equivalents – end of year	<u>\$ 355,176</u>	<u>\$ 395,894</u>

THE ARBORETUM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Change in Net Assets to		
Cash Flows from Operating Activities		
Change in net assets	\$ 1,411,036	\$ 271,434
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	-	125
Net gain on investments	(168,873)	(209,662)
Donations restricted to endowment	(29,500)	(31,000)
Changes in		
Promises to give	(3,451)	110,791
Other receivables	(160,733)	(44,391)
Prepaid expenses	(934)	562
Gift shop inventory	(11,500)	(847)
Accounts payable and accrued liabilities	3,077	17,115
Grants payable	(29,311)	(77,490)
Unearned revenue	<u>(4,532)</u>	<u>4,532</u>
Net Cash Provided by Operating Activities	<u>\$ 1,005,279</u>	<u>\$ 41,169</u>

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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 600,000 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 supporter. 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 events. All such net profits accumulated by the Foundation from any Seattle Japanese Garden operations are spent directly on the Seattle Japanese Garden for programming, fundraising, and capital projects.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new accounting pronouncement

On August 18, 2016, 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. The Foundation has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

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.

Basis of presentation

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Certain net assets without restriction have been designated by the Board of Directors of the Foundation as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Sustaining Fund	\$ 400,000	\$ 400,000
Quasi-Endowment	820,929	268,420
Special Use Funds	355,712	340,637
	<u>\$ 1,576,641</u>	<u>\$ 1,009,057</u>

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Net assets with donor restrictions are as follows at June 30:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specific purpose:		
Azalea Way	\$ 62,970	\$ 62,970
Environmental Education Center Pre-design	12,375	12,375
Rhododendron Glen	592,500	-
Education	23,865	23,865
Lake Washington Boulevard Beautification	121,000	165,000
Other	<u>100,510</u>	<u>119,438</u>
	<u>913,220</u>	<u>383,648</u>
Subject to the Foundation's endowment spending policy and appropriation:		
Master Plan Endowment	1,179,423	1,152,755
General Endowment	547,447	525,740
Ruth Ellerbeck Rhododendron Glen Endowment	170,242	161,597
Faulstich Totem Endowment	<u>24,859</u>	<u>23,650</u>
	<u>1,921,971</u>	<u>1,863,742</u>
Total net assets with donor restrictions	<u>\$ 2,835,191</u>	<u>\$ 2,247,390</u>

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released from restriction when the assets are placed in service.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 net assets without donor restriction 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.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments consist of the following as of June 30, 2019:

	<u>Endowment</u>	<u>Other</u>	<u>Total</u>
Cash & Money Market	\$ 210,750	\$ -	\$ 210,750
Equities and Equity Funds	1,183,883	868,297	2,052,180
Fixed Income	1,060,247	1,202,056	2,262,303
Exchange Traded Funds	288,020	217,992	506,012
	<u>\$ 2,742,900</u>	<u>\$ 2,288,345</u>	<u>\$ 5,031,245</u>

Investments consist of the following as of June 30, 2018:

	<u>Endowment</u>	<u>Other</u>	<u>Total</u>
Cash & Money Market	\$ 39,920	\$ -	\$ 39,920
Equities and Equity Funds	1,049,503	757,610	1,807,113
Fixed Income	794,636	697,579	1,492,215
Exchange Traded Funds	248,103	199,524	447,627
	<u>\$ 2,132,162</u>	<u>\$ 1,654,713</u>	<u>\$ 3,786,875</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, 2019 consist of:

Receivable in less than one year	\$ 9,810
Less allowance for doubtful accounts	<u>(2,000)</u>
	<u>\$ 7,810</u>

Concentrations

Contributions from two donors accounted for 63% of total support for the year ended June 30, 2019. Contributions from one donor accounted for 34% of total support for the year ended June 30, 2018.

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.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 12 local units. These amounts are estimated by management and the finance committee to be immaterial relative to the Foundation's assets.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances.

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>2019</u>	<u>2018</u>
Goods and services	\$ 5,242	\$ 6,092
Contributed facilities	<u>20,528</u>	<u>20,528</u>
Total in-kind contributions	<u>\$ 25,770</u>	<u>\$ 26,620</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.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 and June 30, 2018, respectively, the Arboretum Foundation utilized 886 (unaudited) and 1,115 (unaudited) total volunteers for a total of 12,981 (unaudited) and 12,050 (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. Where possible, specific expenses have been charged directly to the appropriate category. When functions are shared or costs are intermingled, expenses are primarily allocated based on employee wage allocations. If the wage allocation is not relevant, expenses are allocated by making a qualitative judgement as to the appropriate functional category (for instance, the small fundraising component of our Bulletin versus its primarily program focus).

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.

NOTE B - LIQUIDITY

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, equity securities, bonds, and a variety of mutual funds.

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated (quasi) endowments, contributions and other income without donor restrictions and contributions with donor restrictions to be available for use in its annual operations. General expenditures include administrative and general expenses, fundraising expenses and grant commitments.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE B - LIQUIDITY (Continued)

- Maintaining sufficient reserves to provide reasonable assurance that long-term grant commitments and obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

As of June 30, 2019, the following tables show the total financial assets held by the Foundation and the amounts of those financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

Total financial assets	\$ 5,624,508
Less donor-imposed restrictions:	
Subject to expenditure for specific purpose	(913,220)
Endowments	<u>(1,921,971)</u>
Net financial assets after donor-imposed restrictions	2,789,317
Less board designated funds	<u>(1,576,641)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,212,676</u>

The Foundation's governing board has designated a portion of its resources without donor restriction for quasi-endowment. Those amounts have not been included in the financial assets available to meet general expenditures over the next 12 months as these funds are invested for long-term appreciation. However, these funds remain available and may be spent at the discretion of the Board. During the years ended June 30, 2018 and 2019, the Foundation was able to meet its cash needs using annual revenues and without utilizing investment reserves.

NOTE C - FAIR VALUE MEASUREMENTS

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

	Valuation Input Tier			Total
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	
As of June 30, 2019:				
Equities and Equity Funds	\$ 2,052,180	\$ -	\$ -	\$ 2,052,180
Fixed Income	2,262,303	-	-	2,262,303
Exchange Traded Funds	506,012	-	-	506,012
	<u>\$ 4,820,495</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,820,495</u>

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE C - FAIR VALUE MEASUREMENTS (Continued)

	Valuation Input Tier			Total
	(Level 1)	(Level 2)	(Level 3)	
As of June 30, 2018:				
Equities and Equity Funds	\$ 1,807,113	\$ -	\$ -	\$ 1,807,113
Fixed Income	1,492,215	-	-	1,492,215
Exchange Traded Funds	447,627	-	-	447,627
	<u>\$ 3,746,955</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,746,955</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 D - 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 E - 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.

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 net assets with donor restriction (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE E - ENDOWMENT (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified as corpus is maintained in the endowment fund 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).

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.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE E - ENDOWMENT (Continued)

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, 2019:

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>	<u>Total</u>
Board designated quasi-endowment	\$ 820,929	\$ -	\$ 820,929
Donor-restricted endowment funds			
Master Plan Endowment	-	1,179,423	1,179,423
General Endowment	-	547,447	547,447
Ruth Ellerbeck Endowment	-	170,242	170,242
Faulstich Totem Endowment	<u>-</u>	<u>24,859</u>	<u>24,859</u>
Total endowment funds	<u>\$ 820,929</u>	<u>\$ 1,921,971</u>	<u>\$ 2,742,900</u>

Change in endowment net assets for the year ended June 30, 2019:

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 268,420</u>	<u>\$ 1,863,742</u>	<u>\$ 2,132,162</u>
Investment return:			
Investment income	1,934	13,485	15,419
Net gains	<u>11,783</u>	<u>82,146</u>	<u>93,929</u>
Total investment return	13,717	95,631	109,348
Contributions, net	548,969	29,500	578,469
Appropriated for expenditure	<u>(10,177)</u>	<u>(66,902)</u>	<u>(77,079)</u>
Endowment net assets, end of year	<u>\$ 820,929</u>	<u>\$ 1,921,971</u>	<u>\$ 2,742,900</u>

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE E - ENDOWMENT (Continued)

Endowment net assets by fund type as of June 30, 2018:

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>	<u>Total</u>
Board designated quasi-endowment	\$ 268,420	\$ -	\$ 268,420
Donor-restricted endowment funds			
Master Plan Endowment	-	1,152,755	1,152,755
General Endowment	-	525,740	525,740
Ruth Ellerbeck Endowment Fund	-	161,597	161,597
Faulstich Totem Endowment	<u>-</u>	<u>23,650</u>	<u>23,650</u>
Total endowment funds	<u>\$ 268,420</u>	<u>\$ 1,863,742</u>	<u>\$ 2,132,162</u>

Change in endowment net assets for the year ended June 30, 2018:

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 260,287</u>	<u>\$ 1,773,082</u>	<u>\$ 2,033,369</u>
Investment return:			
Investment income	1,253	8,570	9,823
Net gains	<u>16,865</u>	<u>115,380</u>	<u>132,245</u>
Total investment return	18,118	123,950	142,068
Contributions, net	-	31,000	31,000
Appropriated for expenditure	<u>(9,985)</u>	<u>(64,290)</u>	<u>(74,275)</u>
Endowment net assets, end of year	<u>\$ 268,420</u>	<u>\$ 1,863,742</u>	<u>\$ 2,132,162</u>

NOTE F - 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, 2019, 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 6/30/2018	\$ 8,801,828
Fiscal 2019 Contributions	<u>768,676</u>
Contributions through 6/30/2019	<u>\$ 9,570,504</u>

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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 the primary fundraising body within the Arboretum partnership, the proportion of fundraising expenses may be higher than other not-for-profit organizations.

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. A recent example is the State Route 520 bridge project, which impacted Arboretum wetlands and was ongoing through June 30, 2019. 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. The Arboretum Loop Trail was completed during the year ended June 30, 2018.

NOTE H - 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 in support of the Washington Park Arboretum. The contribution is calculated as at least 35% of the Foundation's average annual change in net assets without donor restriction (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 2020 is \$60,000.

During the years leading up to and including the year ended June 30, 2018, 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. During the year ended June 30, 2018, a professional consulting firm was hired to perform the initial design study to define the parameters of a future capital campaign. The Foundation disbursed \$140,000 towards this project during the year ended June 30, 2018 and the University of Washington disbursed a similar amount during this same period. No funds were raised or expended during the year ended June 30, 2019. However, additional activity is expected in future years.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE I - RETIREMENT PLAN

The Foundation sponsors a 403(b) plan to which all full-time 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. Subsequent to year-end, this legacy 403(b) retirement plan with TIAA was frozen as of December 15, 2019, at which time the Foundation adopted a SIMPLE IRA plan effective for the pay period starting on January 1, 2020 and the Foundation will begin making matching deposits into eligible employees SIMPLE IRA equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation.

NOTE J - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to June 30, 2019 through January 15, 2020, 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, 2019, including the estimates inherent in the processing of financial statements.