

THE ARBORETUM FOUNDATION

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED JUNE 30, 2020 AND 2019



Arboretum Foundation

THE ARBORETUM FOUNDATION  
FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2020 AND 2019

**TABLE OF CONTENTS**

INDEPENDENT AUDITOR'S REPORT	2
STATEMENTS OF FINANCIAL POSITION June 30, 2020 and 2019	4
STATEMENTS OF ACTIVITIES Years ended June 30, 2020 and 2019	5 - 6
STATEMENTS OF FUNCTIONAL EXPENSES Years ended June 30, 2020 and 2019	7
STATEMENTS OF CASH FLOWS Years ended June 30, 2020 and 2019	8 - 9
NOTES TO FINANCIAL STATEMENTS	10 - 23

INDEPENDENT AUDITOR'S REPORT

December 16, 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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 456,590	\$ 355,176
Investments	1,688,853	2,288,345
Promises to give	1,197	7,810
Other receivables	28,228	230,277
Prepaid expenses	9,939	9,166
Gift shop inventory	31,928	31,901
	Total Current Assets	2,922,675
Endowment Investments	3,264,369	2,742,900
	\$ 5,481,104	\$ 5,665,575
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 82,569	\$ 84,083
Grants payable	6,174	13,655
Unearned revenue	2,222	2,222
	Total Current Liabilities	99,960
Paycheck Protection Program loan	129,500	-
	Total Liabilities	99,960
Net Assets		
Without donor restriction	2,647,743	2,730,424
With donor restriction	2,612,896	2,835,191
	Total Net Assets	5,565,615
	\$ 5,481,104	\$ 5,665,575

See notes to financial statements.

THE ARBORETUM FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities						
Public Support, Revenue, and Other Support						
Contributions	\$ 588,871	\$ 18,685	\$ 607,556	\$ 355,579	\$ 97,950	\$ 453,529
Bequests	7,044	-	7,044	865,388	-	865,388
Japanese Garden contributions	47,431	-	47,431	69,895	-	69,895
Membership dues	90,778		90,778	81,513		81,513
In-kind contributions	24,908		24,908	25,770		25,770
Special events	432,691		432,691	383,801		383,801
Less cost of direct benefits to donors	(43,193)		(43,193)	(49,849)		(49,849)
Net special events support	389,498		389,498	333,952		333,952
Gift shop sales	109,755		109,755	134,797		134,797
Less cost of goods sold	(50,151)		(50,151)	(66,746)		(66,746)
Net gift shop sales	59,604		59,604	68,051		68,051
Investment income	24,182	9,863	34,045	16,085	13,485	29,570
Japanese Garden earned revenue	185,146		185,146	220,791		220,791
Other revenue	25,583		25,583	35,756		35,756
Net assets released from purpose restrictions	88,346	(88,346)	-	457,038	(457,038)	-
Total Public Support, Revenue, and Other Support	1,531,391	(59,798)	1,471,593	2,529,818	(345,603)	2,184,215
Operating Expenses						
Program services	1,108,589		1,108,589	927,396		927,396
Fundraising	270,785		270,785	261,547		261,547
Management and general	224,895		224,895	221,310		221,310
Total Operating Expenses	1,604,269		1,604,269	1,410,253		1,410,253
Net Gain on Investments	70,355	42,425	112,780	86,727	82,146	168,873
Change in Net Assets from Operating Activities	(2,523)	(17,373)	(19,896)	1,206,292	(263,457)	942,835

THE ARBORETUM FOUNDATION  
STATEMENTS OF ACTIVITIES (Continued)  
YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Non-operating Activities						
Contributions	\$ -	\$ 21,500	\$ 21,500	\$ -	\$ 899,500	\$ 899,500
Net assets released from purpose restrictions	226,422	(226,422)	-	48,242	(48,242)	-
Program expenses for Master Plan	(232,000)		(232,000)	(358,956)		(358,956)
Fundraising expenses	(54,580)		(54,580)	(52,343)		(52,343)
Management and general expenses	(20,000)		(20,000)	(20,000)		(20,000)
Change in Net Assets from Non-operating Activities	<u>(80,158)</u>	<u>(204,922)</u>	<u>(285,080)</u>	<u>(383,057)</u>	<u>851,258</u>	<u>468,201</u>
Total Change in Net Assets	(82,681)	(222,295)	(304,976)	823,235	587,801	1,411,036
Net Assets - beginning of year	<u>2,730,424</u>	<u>2,835,191</u>	<u>5,565,615</u>	<u>1,907,189</u>	<u>2,247,390</u>	<u>4,154,579</u>
Net Assets - end of year	<u>\$ 2,647,743</u>	<u>\$ 2,612,896</u>	<u>\$ 5,260,639</u>	<u>\$ 2,730,424</u>	<u>\$ 2,835,191</u>	<u>\$ 5,565,615</u>

THE ARBORETUM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2020 AND 2019

	2020				2019			
	Programs	Fundraising	Management and General	Total Expenses	Programs	Fundraising	Management and General	Total Expenses
Payroll and related expenses	\$ 449,186	\$ 226,898	\$ 187,607	\$ 863,691	\$ 389,590	\$ 220,953	\$ 177,856	\$ 788,399
Grants to others	703,371	-	-	703,371	768,676	-	-	768,676
Events	39,357	81,750	13,119	134,226	21,050	91,950	7,017	120,017
Professional fees	39,955	20,991	14,975	75,921	4,549	9,780	28,458	42,787
Gift shop cost of goods sold	50,151	-	-	50,151	66,746	-	-	66,746
Repairs and maintenance	21,239	10,729	8,871	40,839	13,661	7,747	6,236	27,644
Miscellaneous	16,064	8,852	7,319	32,235	14,359	8,144	6,871	29,374
Bulletin	20,904	2,323	-	23,227	24,313	2,702	-	27,015
Printing and postage	13,681	5,770	2,225	21,676	13,333	5,353	3,691	22,377
In-kind expense	10,676	5,393	4,459	20,528	12,734	7,222	5,814	25,770
Office supplies	6,977	3,524	2,914	13,415	5,892	3,342	2,690	11,924
Display garden	9,137	-	-	9,137	6,654	-	-	6,654
Telephone	4,607	2,328	1,925	8,860	3,872	2,196	1,768	7,836
Public relations	5,435	-	-	5,435	7,669	4,350	-	12,019
Taxes and licenses	-	-	1,215	1,215	-	-	909	909
Interest and bank fees	-	-	266	266	-	-	-	-
<b>Total Expenses by function</b>	<b>1,390,740</b>	<b>368,558</b>	<b>244,895</b>	<b>2,004,193</b>	<b>1,353,098</b>	<b>363,739</b>	<b>241,310</b>	<b>1,958,147</b>
Less expenses included with revenues on the statement of activities								
Gift shop cost of goods sold	(50,151)	-	-	(50,151)	(66,746)	-	-	(66,746)
Cost of direct benefits to donors	-	(43,193)	-	(43,193)	-	(49,849)	-	(49,849)
<b>Total Expenses included in expenses on the statement of activities</b>	<b>1,340,589</b>	<b>325,365</b>	<b>244,895</b>	<b>1,910,849</b>	<b>1,286,352</b>	<b>313,890</b>	<b>241,310</b>	<b>1,841,552</b>
Less Non-operating Expenses	(232,000)	(54,580)	(20,000)	(306,580)	(358,956)	(52,343)	(20,000)	(431,299)
<b>Total Operating Expenses</b>	<b>\$ 1,108,589</b>	<b>\$ 270,785</b>	<b>\$ 224,895</b>	<b>\$ 1,604,269</b>	<b>\$ 927,396</b>	<b>\$ 261,547</b>	<b>\$ 221,310</b>	<b>\$ 1,410,253</b>



THE ARBORETUM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from:		
Contributions	\$ 657,015	\$ 1,389,973
Bequests	173,464	698,968
Memberships	90,778	81,513
Gift shop sales	109,755	134,797
Special events	432,691	383,801
Japanese Garden earned revenue	220,775	221,946
Investments	44,789	60,243
Other	25,583	35,756
Cash paid to:		
Personnel	(853,440)	(778,247)
University of Washington/City of Seattle	(710,852)	(777,987)
Vendors	(424,788)	(445,484)
Net Cash (Used) Provided by Operating Activities	<u>(234,230)</u>	<u>1,005,279</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	1,191,342	1,014,283
Purchases of investments	(1,011,283)	(2,089,780)
Net Cash Provided (Used) by Investing Activities	<u>180,059</u>	<u>(1,075,497)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Paycheck Protection Program loan	129,500	-
Proceeds from donations restricted to endowment	26,085	29,500
Net Cash Provided by Financing Activities	<u>155,585</u>	<u>29,500</u>
Change in Cash and Cash Equivalents	101,414	(40,718)
Cash and Cash Equivalents – beginning of year	<u>355,176</u>	<u>395,894</u>
Cash and Cash Equivalents – end of year	<u>\$ 456,590</u>	<u>\$ 355,176</u>

THE ARBORETUM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<b>Reconciliation of Change in Net Assets to</b>		
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (304,976)	\$ 1,411,036
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Net gain on investments	(102,036)	(168,873)
Donations restricted to endowment	(26,085)	(29,500)
Changes in		
Promises to give	6,613	(3,451)
Other receivables	202,049	(160,733)
Prepaid expenses	(773)	(934)
Gift shop inventory	(27)	(11,500)
Accounts payable and accrued liabilities	(1,514)	3,077
Grants payable	(7,481)	(29,311)
Unearned revenue	-	(4,532)
	<u>                    </u>	<u>                    </u>
Net Cash (Used) Provided by Operating Activities	<u>\$ (234,230)</u>	<u>\$ 1,005,279</u>

# THE ARBORETUM FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

### 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, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new accounting pronouncement

FASB Accounting Standards Codification Topic 606, Revenue from Contracts with Customers, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Foundation has implemented Topic 606 and has adjusted the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented. Analysis of various provisions of this standard resulted in no significant changes in the way the Foundation recognizes revenue from contracts with customers, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

In June 2018, FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Foundation has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

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, and educational programs. A planned major gifts campaign to fund portions of the plan including a new environmental education center has been postponed due to the COVID-19 pandemic.

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.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	<u>2020</u>	<u>2019</u>
Sustaining Fund	\$ 412,000	\$ 400,000
Quasi-Endowment	1,332,878	820,929
Special Use Funds	<u>291,076</u>	<u>355,712</u>
	<u>\$ 2,035,954</u>	<u>\$ 1,576,641</u>

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>2020</u>	<u>2019</u>
Subject to expenditure for specific purpose:		
Azalea Way	\$ 62,970	\$ 62,970
Environmental Education Center Pre-design	12,375	12,375
Rhododendron Glen	480,500	592,500
Education	23,865	23,865
Lake Washington Boulevard Beautification	61,500	121,000
Other	<u>40,195</u>	<u>100,510</u>
	<u>681,405</u>	<u>913,220</u>
Subject to the Foundation's endowment spending policy and appropriation:		
Master Plan Endowment	1,177,961	1,179,423
General Endowment	552,936	547,447
Ruth Ellerbeck Rhododendron Glen Endowment	175,061	170,242
Faulstich Totem Endowment	<u>25,533</u>	<u>24,859</u>
	<u>1,931,491</u>	<u>1,921,971</u>
Total net assets with donor restrictions	<u>\$ 2,612,896</u>	<u>\$ 2,835,191</u>

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2020 AND 2019

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 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.

Investments consist of the following as of June 30, 2020:

	<u>Endowment</u>	<u>Other</u>	<u>Total</u>
Cash & Money Market	\$ 162,567	\$ -	\$ 162,567
Equities and Equity Funds	1,430,847	687,933	2,118,780
Fixed Income	1,352,165	841,980	2,194,145
Exchange Traded Funds	318,790	158,940	477,730
	<u>\$ 3,264,369</u>	<u>\$ 1,688,853</u>	<u>\$ 4,953,222</u>

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>

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. Unconditional promises to give are due in less than one year and are net of allowance for uncollectible amounts.

Concentrations

Contributions from two donors accounted for 63% of total support for the year ended June 30, 2019. No such concentrations existed for the year ended June 30, 2020.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Support and revenue recognition

Gift shop sales are recognized at the time of purchase. The Foundation recognizes earned revenue from services when the services are provided. Membership dues are contributory in nature and are recognized when received. The Foundation records special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference. All goods and services are transferred at a point in time.

The Foundation recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or release, are not recognized until the conditions on which they depend have been met. The Foundation had no conditional promises to give as of June 30, 2020.

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 ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following items have been recorded as in-kind for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Goods and services	\$ 4,380	\$ 5,242
Contributed facilities	<u>20,528</u>	<u>20,528</u>
Total in-kind contributions	<u>\$ 24,908</u>	<u>\$ 25,770</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, 2020 and June 30, 2019, respectively, the Arboretum Foundation utilized 619 (unaudited) and 886 (unaudited) total volunteers for a total of 8,880 (unaudited) and 12,981 (unaudited) hours, respectively. Volunteer activities were limited due to pandemic-related program closures in the current year.

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.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the net assets or change in net assets as of or for the year ended June 30, 2019.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

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
- 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.

The following table shows the total financial assets held by the Foundation and the amounts of those financial assets that could readily be made available within one year of the statement of financial position date to meet general expenditures at June 30:

	<u>2020</u>	<u>2019</u>
Total financial assets	\$ 5,439,237	\$ 5,624,508
Less donor-imposed restrictions:		
Subject to expenditure for specific purpose	(681,405)	(913,220)
Endowments	<u>(1,931,491)</u>	<u>(1,921,971)</u>
Net financial assets after donor-imposed restrictions	2,826,341	2,789,317
Less board designated funds	<u>(2,035,954)</u>	<u>(1,576,641)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 790,387</u>	<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, 2020 and 2019, the Foundation was able to meet its cash needs using annual revenues and without utilizing investment reserves.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE C - FAIR VALUE MEASUREMENTS

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

	Valuation Input Tier			Total
	(Level 1)	(Level 2)	(Level 3)	
As of June 30, 2020:				
Equities and Equity Funds	\$ 2,118,780	\$ -	\$ -	\$ 2,118,780
Fixed Income	2,194,145	-	-	2,194,145
Exchange Traded Funds	477,730	-	-	477,730
	<u>\$ 4,790,655</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,790,655</u>
	Valuation Input Tier			
	(Level 1)	(Level 2)	(Level 3)	Total
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>

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.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE E - 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 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 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.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE E - ENDOWMENT (Continued)

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, 2020:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Board designated quasi-endowment	\$ 1,332,878	\$ -	\$ 1,332,878
Donor-restricted endowment funds			
Master Plan Endowment	-	1,177,961	1,177,961
General Endowment	-	552,936	552,936
Ruth Ellerbeck Endowment	-	175,061	175,061
Faulstich Totem Endowment	<u>-</u>	<u>25,533</u>	<u>25,533</u>
Total endowment funds	<u>\$ 1,332,878</u>	<u>\$ 1,931,491</u>	<u>\$ 3,264,369</u>

Change in endowment net assets for the year ended June 30, 2020:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets,			
beginning of year	\$ 820,929	\$ 1,921,971	\$ 2,742,900
Contributions, net	500,000	26,085	526,085
Investment return	22,245	52,288	74,533
Appropriated for expenditure	<u>(10,296)</u>	<u>(68,853)</u>	<u>(79,149)</u>
Endowment net assets, end of year	<u>\$ 1,332,878</u>	<u>\$ 1,931,491</u>	<u>\$ 3,264,369</u>

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE E - ENDOWMENT (Continued)

Endowment net assets by fund type as of June 30, 2019:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</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 Fund	-	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>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets,			
beginning of year	\$ 268,420	\$ 1,863,742	\$ 2,132,162
Contributions, net	548,969	29,500	578,469
Investment return	13,717	95,631	109,348
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>

NOTE F - PAYCHECK PROTECTION PROGRAM LOAN

The Foundation applied for and received a Paycheck Protection Program loan through Commerce Bank in the amount of \$129,500 plus accrued interest of \$266 for a total outstanding balance of \$129,766 as of June 30, 2020. The loan was funded on April 15, 2020 and has a maturity date of April 15, 2022. The interest rate is 1%. Updated guidance from Commerce Bank extends principal and interest deferral until 10 months after the conclusion of a 24-week Forgiveness Covered Period, or the date that the borrower applies for loan forgiveness, whichever comes first. Based on the April 15, 2020 origination date, principal and interest could be deferred on the Foundation's loan until August 2021. The forgiveness option applies to employers who maintain their staffing levels and salaries at pre-COVID-19 pandemic levels. Expenses eligible to trigger forgiveness include employee wages, benefits, and office lease payments. The loan has been recognized as a financial liability as of June 30, 2020.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE G - 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, 2020, 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 6/30/2019	\$ 9,570,504
Fiscal 2020 Contributions	<u>703,371</u>
Contributions through 6/30/2020	<u>\$ 10,273,875</u>

NOTE H - 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, 2020. 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. Additional mitigation dollars are anticipated as future phases of the SR-520 project are completed.

NOTE I - 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 2021 is \$109,000.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE J - RETIREMENT PLAN

The Foundation sponsors a 403(b) plan to which all full-time and part-time employees may contribute. Under the legacy 403(b) plan, contributions were invested with TIAA and immediately vested in the employee's accounts. The Foundation did not contribute to the plan. 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. The Foundation began making matching deposits into eligible employees' SIMPLE IRA accounts. For the months of January through June 2020, the Foundation contribution was equal to the employee's salary reduction contributions, up to a limit of 3% of the employee's compensation, which totaled \$9,669 for the year ended June 30, 2020.

NOTE K - RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. On March 23, 2020 the Governor of Washington declared a health emergency and issued an order to close all nonessential businesses until further notice. Management is currently evaluating the ongoing impacts of the COVID-19 pandemic and has concluded that while it is reasonably possible that the virus could have a negative effect on the Foundation's financial position, change in net asset, and cash flows, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE L - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to June 30, 2020 through December 16, 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, 2020, including the estimates inherent in the processing of financial statements.