

THE ARBORETUM FOUNDATION

Financial Statements
June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Arboretum Foundation
Seattle, Washington

Opinion

We have audited the accompanying financial statements of The Arboretum Foundation (the Foundation, a nonprofit organization), which comprise the statement of financial position as of June 30, 2023 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2023 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Prior Period Financial Statements

The financial statements of the Foundation as of June 30, 2022 were audited by other auditors whose report dated December 14, 2022 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Amanda O'Rourke, CPA
Matt Smith, CPA
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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Greenwood Ohlund

Seattle, Washington
December 13, 2023

THE ARBORETUM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2023 and 2022

| ASSETS | 2023 | 2022 |
|-----------------------------------|---------------|--------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 2,108,068 | \$ 471,536 |
| Investments | 3,477,269 | 2,904,977 |
| Contributions receivable | 119,521 | 112,606 |
| Gift shop inventory | 20,778 | 21,523 |
| Prepaid expenses and other assets | 29,087 | 17,248 |
| Total current assets | 5,754,723 | 3,527,890 |
| Investments Held for Endowments | 4,678,628 | 4,481,718 |
| Total assets | \$ 10,433,351 | \$ 8,009,608 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable | \$ 45,711 | \$ 48,322 |
| Grants payable | 136,666 | - |
| Accrued payroll and related | 50,894 | 41,754 |
| Unearned revenue | 23,405 | 21,787 |
| Total liabilities | 256,676 | 111,863 |
| Net Assets | | |
| Without donor restrictions | 4,975,075 | 4,302,286 |
| With donor restrictions | 5,201,600 | 3,595,459 |
| Total net assets | 10,176,675 | 7,897,745 |
| Total liabilities and net assets | \$ 10,433,351 | \$ 8,009,608 |

See accompanying notes to financial statements.

THE ARBORETUM FOUNDATION

STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2023 and 2022

| | 2023 | | | 2022 | | |
|--|-------------------------------|----------------------------|------------------|-------------------------------|----------------------------|------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Support and Revenue | | | | | | |
| Contributions | \$ 1,427,126 | \$ 1,775,060 | \$ 3,202,186 | \$ 2,054,220 | \$ 157,500 | \$ 2,211,720 |
| Special events | 434,584 | - | 434,584 | 325,809 | - | 325,809 |
| Special events - direct benefit to donor | (85,982) | - | (85,982) | - | - | - |
| Japanese Garden program fees | 183,295 | - | 183,295 | 222,218 | - | 222,218 |
| Membership dues | 105,287 | - | 105,287 | 111,914 | - | 111,914 |
| Gift shop sales | 200,245 | - | 200,245 | 153,908 | - | 153,908 |
| Gift shop sales - cost of goods sold | (87,782) | - | (87,782) | (68,022) | - | (68,022) |
| Investment return | 355,462 | 176,899 | 532,361 | (469,335) | (294,036) | (763,371) |
| Other income | 3,442 | - | 3,442 | 175,480 | - | 175,480 |
| Net assets released from restrictions | 649,529 | (649,529) | - | 139,192 | (139,192) | - |
| Total support and revenue | 3,185,206 | 1,302,430 | 4,487,636 | 2,645,384 | (275,728) | 2,369,656 |
| Expenses | | | | | | |
| Program services | 1,325,317 | - | 1,325,317 | 1,295,730 | - | 1,295,730 |
| Management and general | 291,337 | - | 291,337 | 314,035 | - | 314,035 |
| Fundraising | 332,014 | - | 332,014 | 410,258 | - | 410,258 |
| Total expenses | 1,948,668 | - | 1,948,668 | 2,020,023 | - | 2,020,023 |
| Change in net assets before non-operating activities | 1,236,538 | 1,302,430 | 2,538,968 | 625,361 | (275,728) | 349,633 |
| Non-Operating Activities | | | | | | |
| Contributions to Master Plan | - | 671,925 | 671,925 | 167,450 | 1,636,265 | 1,803,715 |
| Grants to others - Master Plan | (931,963) | - | (931,963) | (875,107) | - | (875,107) |
| Net assets released from restrictions related to Master Plan | 368,214 | (368,214) | - | 830,916 | (830,916) | - |
| Change in non-operating activities | (563,749) | 303,711 | (260,038) | 123,259 | 805,349 | 928,608 |
| Change in net assets | 672,789 | 1,606,141 | 2,278,930 | 748,620 | 529,621 | 1,278,241 |
| Net Assets, beginning of year | 4,302,286 | 3,595,459 | 7,897,745 | 3,553,666 | 3,065,838 | 6,619,504 |
| Net Assets, end of year | \$ 4,975,075 | \$ 5,201,600 | \$ 10,176,675 | \$ 4,302,286 | \$ 3,595,459 | \$ 7,897,745 |

See accompanying notes to financial statements.

THE ARBORETUM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES For the Years Ended June 30, 2023 and 2022

| | 2023 | | | | 2022 | | | |
|---|----------------------------|---------------------------|--------------------------|----------------------------|----------------------------|---------------------------|--------------------------|----------------------------|
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| Grants to others | \$ 1,479,510 | \$ - | \$ - | \$ 1,479,510 | \$ 1,374,442 | \$ - | \$ - | \$ 1,374,442 |
| Payroll and related | 512,576 | 141,787 | 265,319 | 919,682 | 547,449 | 203,883 | 264,562 | 1,015,894 |
| Professional fees | 82,743 | 110,961 | 14,328 | 208,032 | 28,369 | 45,535 | 16,703 | 90,607 |
| Event meals, entertainment and other | 44,719 | 14,906 | 89,439 | 149,064 | 24,421 | 8,140 | 48,841 | 81,402 |
| Gift shop cost of goods sold | 87,782 | - | - | 87,782 | 68,022 | - | - | 68,022 |
| Repairs and maintenance | 33,891 | 9,375 | 17,543 | 60,809 | 100,562 | 37,452 | 48,599 | 186,613 |
| Miscellaneous | 19,584 | 5,415 | 10,137 | 35,136 | 12,148 | 4,524 | 5,870 | 22,542 |
| Bulletin | 28,619 | - | 3,180 | 31,799 | 26,270 | - | 2,919 | 29,189 |
| Printing and postage | 25,046 | 1,151 | 2,215 | 28,412 | 26,016 | 1,660 | 7,706 | 35,382 |
| Donated facilities, materials and other services | 11,717 | 3,241 | 6,065 | 21,023 | 15,792 | 5,881 | 7,632 | 29,305 |
| Office supplies | 8,982 | 2,485 | 4,649 | 16,116 | 7,268 | 2,707 | 3,512 | 13,487 |
| Telephone | 4,544 | 1,257 | 2,352 | 8,153 | 4,875 | 1,816 | 2,356 | 9,047 |
| Public relations | 5,349 | - | 2,769 | 8,118 | 3,225 | - | 1,558 | 4,783 |
| Taxes and licenses | - | 759 | - | 759 | - | 2,437 | - | 2,437 |
| Total expenses | 2,345,062 | 291,337 | 417,996 | 3,054,395 | 2,238,859 | 314,035 | 410,258 | 2,963,152 |
| Less: Special events - direct benefit to donor | - | - | (85,982) | (85,982) | - | - | - | - |
| Less: Gift shop cost of goods sold | (87,782) | - | - | (87,782) | (68,022) | - | - | (68,022) |
| Less: Grants to others - Master Plan | (931,963) | - | - | (931,963) | (875,107) | - | - | (875,107) |
| | <u>\$ 1,325,317</u> | <u>\$ 291,337</u> | <u>\$ 332,014</u> | <u>\$ 1,948,668</u> | <u>\$ 1,295,730</u> | <u>\$ 314,035</u> | <u>\$ 410,258</u> | <u>\$ 2,020,023</u> |

See accompanying notes to financial statements.

THE ARBORETUM FOUNDATION

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2023 and 2022

| | 2023 | 2022 |
|--|------------------|-----------------|
| Cash Flows from Operating Activities | | |
| Cash received from: | | |
| Contributions | \$ 4,291,780 | \$ 4,572,418 |
| Japanese Garden program fees | 184,913 | 135,433 |
| Membership dues | 105,287 | 111,914 |
| Gift shop sales | 200,245 | 113,076 |
| Interest and dividends | 84,920 | 38,606 |
| Other | 3,442 | 45,958 |
| Cash paid to: | | |
| University of Washington and City of Seattle | (1,342,844) | (1,358,804) |
| Personnel | (910,542) | (1,030,651) |
| Vendors | (668,908) | (526,607) |
| Net cash flows from operating activities | 1,948,293 | 2,101,343 |
| Cash Flows from Investing Activities | | |
| Purchases of investments | (5,976,883) | (2,801,910) |
| Proceeds from sales of investments | 5,655,122 | 652,483 |
| Net cash flows from investing activities | (321,761) | (2,149,427) |
| Cash Flows from Financing Activity | | |
| Contributions received restricted to endowment | 10,000 | 10,000 |
| Net change in cash and cash equivalents | 1,636,532 | (38,084) |
| Cash and Cash Equivalents, beginning of the year | 471,536 | 509,620 |
| Cash and Cash Equivalents, end of the year | \$ 2,108,068 | \$ 471,536 |

See accompanying notes to financial statements.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies

Organization and Nature of Activities

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 750,000 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 (the City) 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. Under an agreement with the City through December 2032, 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 provides certain staffing and programmatic support to Seattle Japanese Garden.

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 assisted in fundraising for general improvements, but the funding did not flow through the Foundation's own books. Two examples relate to the State Route 520 bridge project, which impacted Arboretum wetlands and was ongoing through June 30, 2023. As a result of the Foundation's lobbying on behalf of the Arboretum during the SR-520 process, the State of Washington agreed to build the new Arboretum Loop Trail, a \$7.8 million (unaudited) project completed in 2018 that improves bike and pedestrian pathways and related areas through the Arboretum. In 2023, the Foundation helped negotiate a second agreement to provide \$22.7 million in State of Washington funds to support redevelopment of the 28-acre peninsula currently used for construction staging. These project funds are to be held by the City and administered by the three Arboretum partners.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Financial Statement Presentation

In accordance with accounting principles generally accepted in the United States of America, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net Assets without Donor Restrictions

Net assets without donor restrictions are available for support of the Foundation's operations, however, certain net assets without donor restrictions have been designated by the Board of Directors of the Foundation as follows at June 30:

| | <u>2023</u> | <u>2022</u> |
|-------------------|---------------------|---------------------|
| Quasi-endowment | \$ 2,648,473 | \$ 2,555,341 |
| Special use funds | 735,795 | 658,094 |
| Operating reserve | <u>480,000</u> | <u>480,000</u> |
| | <u>\$ 3,864,268</u> | <u>\$ 3,693,435</u> |

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THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Net Assets with Donor Restrictions

Net assets with donor restrictions are subject to donor-imposed stipulations that will be met either by actions of the Foundation or the passage of time, or net assets that have donor-imposed restrictions that are perpetual (endowments). Net assets with donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted purpose or as time restrictions are met. Net assets with donor restrictions are available for the following purposes at June 30:

| | 2023 | 2022 |
|--|--------------|--------------|
| Net assets with purpose restrictions - Operating | | |
| Sustaining Fund | \$ 600,000 | \$ - |
| Woodland Meadow | 555,584 | 175,000 |
| Community survey | 137,060 | - |
| UW horticulture staffing | 120,000 | - |
| Strategic fund support | 60,000 | - |
| Entry improvements | 42,000 | 42,000 |
| Tsutakawa gates maintenance | 20,000 | 82,206 |
| Other | 69,917 | 78,143 |
| Net assets with purpose restrictions - Master Plan | | |
| Japanese garden projects | 812,897 | 749,574 |
| Pacific Pathways - China | 378,274 | 154,787 |
| Rhododendron Glen | 151,000 | 225,250 |
| Azalea Way | 62,970 | 62,970 |
| Education | 53,868 | 23,865 |
| Lake Washington Boulevard beautification | 52,060 | 46,787 |
| Arts programming | 43,440 | 28,500 |
| Environmental Education Center Pre-design | 12,375 | - |
| Total net assets with purpose restrictions | 3,171,445 | 1,669,082 |
| Net assets with endowment restrictions | | |
| Unappropriated endowment earnings | | |
| Master Plan Endowment | 203,243 | 155,643 |
| General Endowment | 162,208 | 135,341 |
| Ruth Ellerbeck Rhododendron Glen Endowment | 125,372 | 108,519 |
| Faulstich Totem Endowment | 9,223 | 6,765 |
| Total unappropriated endowment earnings | 500,046 | 406,268 |
| Endowment fund perpetual restrictions | | |
| Master Plan Endowment | 1,002,954 | 1,002,954 |
| General Endowment | 432,155 | 422,155 |
| Ruth Ellerbeck Rhododendron Glen Endowment | 75,000 | 75,000 |
| Faulstich Totem Endowment | 20,000 | 20,000 |
| Total endowment fund perpetual restrictions | 1,530,109 | 1,520,109 |
| Total net assets with endowment restrictions | 2,030,155 | 1,926,377 |
| | \$ 5,201,600 | \$ 3,595,459 |

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and those holdings with initial maturities of three months or less. On occasion, the Foundation has amounts deposited with financial institutions in excess of federally insured limits. The Foundation has not experienced any losses in these accounts, and management does not believe it is exposed to a significant credit risk. Certain cash and cash equivalents are held for long-term purposes or are restricted by a donor for the endowment fund and, therefore, are classified as investments or investments held for endowments.

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Investments

Investments are reported at their fair value in the statements of financial position using Level 1 inputs in the fair value hierarchy described above, as the marketable equity securities held are deemed to be actively traded.

Investments consist of the following at June 30:

| | 2023 | 2022 |
|--|---------------------|---------------------|
| Cash and cash equivalents | \$ 343,843 | \$ 1,231,436 |
| United States Treasuries and certificates of deposit | 4,053,444 | 3,147,840 |
| Domestic common stocks and equity mutual funds | 3,254,331 | 2,591,676 |
| Exchange traded funds | 504,279 | 415,743 |
| | <u>\$ 8,155,897</u> | <u>\$ 7,386,695</u> |

Investments are presented in the statements of financial position as follows at June 30:

| | 2023 | 2022 |
|---------------------------------|---------------------|---------------------|
| Investments | \$ 3,477,269 | \$ 2,904,977 |
| Investments Held for Endowments | 4,678,628 | 4,481,718 |
| | <u>\$ 8,155,897</u> | <u>\$ 7,386,695</u> |

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Investment return (consisting of realized and unrealized gains and losses, and dividends and interest) are reported on the statements of activities as increases or decreases in net assets without donor restrictions unless a donor restricts its use.

Contributions Receivable

Receivables consist of balances due from donors and are stated at the amount management expects to collect from the outstanding balances (net realizable value). Management reviews the collectability of receivables on a periodic basis and determines the amount estimated to be uncollectible. A reserve for doubtful accounts is then established. The Foundation charges off receivables against the allowance when management determines that a receivable is not collectible. The Foundation does not generally require collateral on any of its receivables. No allowance for receivables was considered necessary at June 30, 2023 or 2022.

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.

Grants Payable

Grant awards, although not legally binding, are reported as an expense and liability when the unconditional award is made. Grants payable represents payments to be made to (or directly to the vendors of) the City and the University of Washington.

Revenue Recognition

Contributions (including those received at special events as well as membership dues, which are contributory in nature) are recognized in the period the unconditional award is received and are recorded as increases in net assets with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Expirations of net assets with donor restrictions (i.e. donor stipulated purpose has been fulfilled or stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

Approximately 48% and 60% of total support and revenue were provided by two and three donors for the years ended June 30, 2023 and 2022, respectively.

Gift shop sales are recognized as revenue at the point of sale.

Japanese Garden program fees consist of gate fees earned and are recognized upon entrance (the sole performance obligation). Program fees received in advance of the performance obligation provided are recognized as unearned revenue. Unearned revenue at June 30, 2021, recognized to revenue during the year ended June 30, 2022, was \$2,222. Unearned revenue at June 30, 2022, recognized to revenue during the year ended June 30, 2023, was \$21,787.

There are no significant judgements or estimates in the recognition of program fees revenue.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Non-Operating Activities

The Foundation's non-operating activities relate to the Washington Park Arboretum Master Plan (the Master Plan). The Master 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. The Foundation plans to fundraise for Master Plan projects including Woodland Meadow and the Japanese Garden Pavilion.

Donated Services

Approximately 550 unpaid volunteers donated over 7,000 hours of their time to carry out programs and activities of the Foundation. The estimated value of the volunteer services is not included in these financial statements because it does not meet the accounting criteria for recording.

As part of the original occupancy agreement for the Graham Visitors Center, the City provides the Foundation with in-kind support in the form of rent-free occupancy. The Foundation has estimated the value of donated space of \$20,528 for each of the years ending June 30, 2023 and 2022, and has included these gifts within contributions on the statements of activities.

Functional Allocation of Expenses

The financial statements report expenses from operating, fundraising and administrative activities. Rent, depreciation and amortization, and staffing expenses, therefore, require an allocation process for these activities. The allocation for payroll and related is based on percentages of time worked in these same areas of activity. Professional fees, event meals, entertainment and other, and repairs and maintenance are allocated based on estimates of use of resources.

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. 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.

Federal Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes is made in the accompanying financial statements, as the Foundation has no activities subject to unrelated business income tax.

Reclassifications

Certain prior year balances have been reclassified in order to conform to the current year presentation.

Subsequent Events

Management of the Foundation has evaluated subsequent events through the date these financial statements were available to be issued, which was December 13, 2023.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 – Liquidity and Availability of Resources

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 return 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, less those amounts not available to cover general expenditures within one year at June 30:

| | 2023 | 2022 |
|--|---------------------|-------------------|
| Financial Assets at Year-End | | |
| Cash and cash equivalents | \$ 2,108,068 | \$ 471,536 |
| Investments | 8,155,897 | 7,386,695 |
| Contributions receivable, net | 119,521 | 112,606 |
| | <u>10,383,486</u> | <u>7,970,837</u> |
| Less: Amounts Not Available to be Used Within One Year for General Expenditures | | |
| Net assets with board designations | (3,864,268) | (3,693,435) |
| Net assets with donor restrictions | (5,201,600) | (3,595,459) |
| | <u>\$ 1,317,618</u> | <u>\$ 681,943</u> |

Note 3 – Endowments

The Endowment consists of four donor restricted endowments in which the investment return is to be used as restricted by each fund. The endowment funds also include a board-designated quasi-endowment fund. As required by accounting principles generally accepted in the United States, 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

Interpretation of Relevant Law

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as making it advisable for the Foundation to track the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation considers the value of a fund to be deficient if the fair value of the fund is less than the sum of (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 earnings are classified as unappropriated endowment earnings until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the endowment fund;
- The purposes of the Foundation and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Foundation; and
- The investment policies of the Foundation.

Changes in endowment net assets are as follows for the years ending June 30, 2023 and 2022:

| | Quasi- Endowment | With Donor Restrictions | | Total |
|-------------------------------------|---------------------|----------------------------|---------------------|---------------------|
| | | Unappropriated Earnings | Perpetual | |
| Endowment net assets, June 30, 2021 | \$ 1,756,129 | \$ 772,442 | \$ 1,510,109 | \$ 4,038,680 |
| Investment return | (205,686) | (294,036) | - | (499,722) |
| Contributions | 1,045,163 | - | 10,000 | 1,055,163 |
| Appropriations for expenditure | (40,265) | (72,138) | - | (112,403) |
| Endowment net assets, June 30, 2022 | 2,555,341 | 406,268 | 1,520,109 | 4,481,718 |
| Investment return | 203,227 | 176,899 | - | 380,126 |
| Contributions | - | - | 10,000 | 10,000 |
| Appropriations for expenditure | (110,095) | (83,121) | - | (193,216) |
| Endowment net assets, June 30, 2023 | <u>\$ 2,648,473</u> | <u>\$ 500,046</u> | <u>\$ 1,530,109</u> | <u>\$ 4,678,628</u> |

Investment Objectives and Policy

The Foundation has adopted investment and spending policies for the Endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. The Foundation expects its endowment funds, over time, to outperform inflation by at least 3%, net of investment fees and expenses, annually.

THE ARBORETUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no endowment funds with deficiencies at June 30, 2023 or 2022.

Note 4 – Affiliation with the University of Washington and City of Seattle

The University of Washington (the University) has an agreement with the City of Seattle (the City) to manage the special collections of the Arboretum, including the Graham Visitors Center. Each year the Foundation makes grants to the University and/or City to be used towards carrying out the management and maintenance. During the years ended June 30, 2023 and 2022, the Foundation granted \$1,479,510 and \$1,358,804, respectively to the University and City for the benefit of these institutions and are included within grants to others in the statements of functional expenses.

Cumulative grants to the University and City are as follows through the year ended June 30, 2023:

| | |
|--|-----------------------------|
| Grants from July 1, 2001 through June 30, 2022 | \$ 12,419,831 |
| Grants during the year ended June 30, 2023 | <u>1,479,510</u> |
| | <u><u>\$ 13,899,341</u></u> |

In addition, in accordance with the agreement between the City and the Foundation, each fiscal year the Foundation is required to make a grant in support of the Washington Park Arboretum. The grant is calculated as at least 35% of the Foundation's average annual change in net assets without donor restriction (without regard to this grant) over the preceding three years. These grants are included within the total grants above, and significantly exceeded the required amount during the years ended June 30, 2023 and 2022.