

**THE HOLDEN ARBORETUM AND AFFILIATE
d.b.a. HOLDEN FORESTS & GARDENS**

CONSOLIDATED FINANCIAL REPORT

SEPTEMBER 30, 2021

THE HOLDEN ARBORETUM AND AFFILIATE
d.b.a. HOLDEN FORESTS & GARDENS

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Consolidated statement of financial position	3
Consolidated statement of activities	4
Consolidated statement of functional expenses	5
Consolidated statement of cash flows	6
Notes to consolidated financial statements	7-21

Independent Auditors' Report

To the Board of Directors
The Holden Arboretum and Affiliate
d.b.a. Holden Forests & Gardens
Kirtland, Ohio

We have audited the accompanying consolidated financial statements of The Holden Arboretum and Affiliate, Cleveland Botanical Garden (a nonprofit organization), d.b.a. Holden Forests & Gardens, which comprise the consolidated statement of financial position as of September 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Holden Arboretum and Affiliate as of September 30, 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report of Summarized Comparative Information

We have previously audited The Holden Arboretum and Affiliate's 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 14, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Meloney + Novotny LLC

Cleveland, Ohio
December 16, 2021

HOLDEN FORESTS AND GARDENS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2021

(With Comparative Totals at September 30, 2020)

	Current Year Total	Prior Year Total
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 6,269,592	\$ 4,032,417
Inventory	74,070	160,737
Pledges receivable	423,983	229,487
Prepays and other assets	<u>172,947</u>	<u>191,214</u>
Total current assets	6,940,592	4,613,855
Pledges receivable	9,070	12,048
Property, buildings and equipment, net	39,162,996	41,346,537
Remainder trusts	248,325	201,700
Investments - gift annuities	219,344	354,098
Investments - endowment	57,243,751	46,337,552
Investments - funds held in trust by others	<u>113,881,841</u>	<u>95,013,320</u>
TOTAL ASSETS	<u>\$ 217,705,919</u>	<u>\$ 187,879,110</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 728,741	\$ 543,025
Split-interest agreements - current	50,395	67,525
Accrued expenses	691,251	683,004
Deferred revenue	<u>350,662</u>	<u>336,510</u>
Total current liabilities	1,821,049	1,630,064
Loans payable	555,432	1,406,000
Split-interest agreements liability	<u>131,772</u>	<u>165,910</u>
Total liabilities	2,508,253	3,201,974
NET ASSETS		
Without donor restrictions	69,232,974	62,873,454
With donor restrictions	<u>145,964,692</u>	<u>121,803,682</u>
Total net assets	<u>215,197,666</u>	<u>184,677,136</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 217,705,919</u>	<u>\$ 187,879,110</u>

The accompanying notes are an integral part of these financial statements

HOLDEN FORESTS AND GARDENS
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended September 30, 2021
(With Comparative Totals for Year Ended September 30, 2020)

	Without Donor Restrictions	With Donor Restrictions	Current Year Total	Prior Year Total
OPERATING SUPPORT AND REVENUE				
Contributions	\$ 2,708,909	\$ 1,624,329	\$ 4,333,238	\$ 3,648,899
Government grants	276,335	149,074	425,409	352,995
In-kind donation	279,364		279,364	5,833
Holden Arboretum Trust	4,454,440		4,454,440	4,529,543
Fundraising events	118,688		118,688	20,233
Admissions, education and ancillary services	2,336,066		2,336,066	1,974,958
Endowment income available for operations	1,536,110	271,670	1,807,780	1,715,793
Operating investment income	212,953		212,953	219,449
Net assets released and reclassified from restrictions	<u>678,302</u>	<u>(678,302)</u>	<u>-</u>	<u>-</u>
Total operating support and revenue	12,601,167	1,366,771	13,967,938	12,467,703
OPERATING EXPENSES				
Program expenses:				
Horticulture	4,054,525		4,054,525	3,807,385
Research and conservation	2,244,304		2,244,304	1,981,938
Education	1,258,116		1,258,116	1,439,724
Guest relations	3,326,304		3,326,304	2,993,610
Green Corps	18,761		18,761	99,386
Total program expenses	<u>10,902,010</u>		<u>10,902,010</u>	<u>10,322,043</u>
Management and administration	2,622,322		2,622,322	2,895,423
Development	<u>803,221</u>		<u>803,221</u>	<u>924,269</u>
Total operating expenses	<u>14,327,553</u>		<u>14,327,553</u>	<u>14,141,735</u>
(DECREASE) INCREASE FROM OPERATING ACTIVITY	(1,726,386)	1,366,771	(359,615)	(1,674,032)
NON-OPERATING ACTIVITY				
Contributions - estate bequests	897,015		897,015	1,002,134
Master planning expenses	(253,196)		(253,196)	-
Loan forgiveness	1,406,000		1,406,000	-
Non-operating appreciation of investments	4,300,461	5,576,507	9,876,968	1,464,668
Change in funds held in trust by others		18,868,521	18,868,521	484,633
Gain on sale of property, building and equipment	84,837		84,837	11,120
	<u>6,435,117</u>	<u>24,445,028</u>	<u>30,880,145</u>	<u>2,962,555</u>
CHANGE IN NET ASSETS	4,708,731	25,811,799	30,520,530	1,288,523
NET ASSETS – BEGINNING OF YEAR, AS RECLASSIFIED	<u>64,524,243</u>	<u>120,152,893</u>	<u>184,677,136</u>	<u>183,388,613</u>
NET ASSETS – END OF YEAR	<u>\$ 69,232,974</u>	<u>\$ 145,964,692</u>	<u>\$ 215,197,666</u>	<u>\$ 184,677,136</u>

The accompanying notes are an integral part of these financial statements.

HOLDEN FORESTS AND GARDENS

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2021
(With Comparative Totals for Year Ended September 30, 2020)

	Horticulture	Research and Conservation	Education	Guest Relations	Green Corps	Management and Administration	Development	Current Year Total	%	Prior Year Total	%
Compensation and benefits	\$1,909,791	\$1,737,517	\$ 729,165	\$1,452,284		\$1,709,022	\$ 395,263	\$ 7,933,042	54.4	\$ 8,095,436	57.2
Utilities	172,163	71,099	53,412	258,668	\$ 1,981	89,666	10,278	657,267	4.5	650,787	4.6
Professional and subcontract services	105,070	87,985	135,544	148,688	9,686	150,713	57,084	694,770	4.8	773,258	5.5
Building and equipment maintenance	156,420	32,943	45,894	293,057	2,121	52,731	11,166	594,332	4.1	525,792	3.7
Education and membership	36,872	32,363	60,505	99,682	752	62,833	142,666	435,673	3.0	414,179	2.9
Advertising	40,633	27,127	14,545	33,919	81	34,519	9,187	160,011	1.1	194,723	1.4
Landscape maintenance	297,009	16,299	5,076	76,688	101	28,044	2,670	425,887	2.9	246,138	1.7
Staff development and travel	32,155	24,226	12,066	36,307	1,055	77,262	6,503	189,574	1.3	184,759	1.3
Other		4,869	2,108	84,166		22,349	47,834	161,326	1.1	158,879	1.1
Office supplies	20,903	6,982	5,949	21,976	993	45,441	36,180	138,424	0.9	123,576	0.9
Technology	32,038	20,650	36,279	75,487	1,177	107,711	41,205	314,547	2.2	159,618	1.1
Insurance and real estate tax	57,826	28,416	32,686	50,388	814	20,817	4,211	195,158	1.3	189,225	1.3
Research expenses		78,245						78,245	0.5	63,842	0.6
Operating expenses before depreciation	2,860,880	2,168,721	1,133,229	2,631,310	18,761	2,401,108	764,247	11,978,256	82.2	11,780,212	83.3
Depreciation	1,193,645	75,583	124,887	694,994		221,214	38,974	2,349,297	16.1	2,361,523	16.7
Operating expenses	4,054,525	2,244,304	1,258,116	3,326,304	18,761	2,622,322	803,221	14,327,553	98.3	14,141,735	100.0
Master planning						253,196		253,196	1.7	-	-
Total expenses	<u>\$4,054,525</u>	<u>\$2,244,304</u>	<u>\$1,258,116</u>	<u>\$3,326,304</u>	<u>\$ 18,761</u>	<u>\$2,875,518</u>	<u>\$ 803,221</u>	<u>\$14,580,749</u>	<u>100.0</u>	<u>\$14,141,735</u>	<u>100.0</u>

The accompanying notes are an integral part of these financial statements.

HOLDEN FORESTS AND GARDENS

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended September 30, 2021
(With Comparative Totals for Year Ended September 30, 2020)

	Current Year Total	Prior Year Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 30,520,530	\$ 1,288,523
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,349,297	2,361,523
Gain on sale of property, building and equipment	(84,837)	(11,120)
Unrealized gains of investments	(9,839,044)	(2,643,370)
Realized (gains) losses of investments	(1,457,491)	64,911
Change in funds held in trust by others	(18,868,521)	(484,633)
Gifts restricted for permanent endowment	(288,329)	(287,870)
Loan forgiveness	(1,406,000)	-
Decrease in inventory	86,667	53,519
(Increase) decrease in pledges receivable	(191,518)	91,938
Decrease (increase) in prepaids and other assets	18,267	(139,083)
(Increase) decrease in charitable remainder trust	(46,625)	27,622
Increase (decrease) in accounts payable and accrued expenses	193,963	(461,411)
Increase in deferred revenue	14,152	135,582
Total adjustments	<u>(29,520,019)</u>	<u>(1,292,392)</u>
Net cash provided (used) by operating activities	1,000,511	(3,869)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,257,730)	(2,547,467)
Proceeds from sale of investments	2,782,820	3,725,998
Purchase of equipment and vehicles	(375,059)	(294,075)
Purchase of land, buildings and improvements	(224,810)	(1,472,109)
Proceeds from sale of property, building and equipment	<u>518,950</u>	<u>14,151</u>
Net cash provided (used) by investing activities	444,171	(573,502)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	555,432	1,406,000
Gifts restricted for permanent endowment	288,329	287,870
Decrease in gift annuity liability	<u>(51,268)</u>	<u>(22,644)</u>
Net cash provided by financing activities	<u>792,493</u>	<u>1,671,226</u>
INCREASE IN CASH AND EQUIVALENTS	2,237,175	1,093,855
CASH AND EQUIVALENTS – BEGINNING OF YEAR	<u>4,032,417</u>	<u>2,938,562</u>
CASH AND EQUIVALENTS – END OF YEAR	<u>\$ 6,269,592</u>	<u>\$ 4,032,417</u>

The accompanying notes are an integral part of these financial statements.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

- A. The Holden Arboretum ("Arboretum") and Cleveland Botanical Garden ("Garden") (collectively the "Organization") are Ohio nonprofit, tax exempt, publicly-supported charitable organizations that envision that all communities will be transformed into vibrant places where trees, plants and people thrive. The Garden's sole member is the Arboretum. The Arboretum and Garden operate under the name Holden Forests & Gardens, a name owned by the Arboretum and licensed to the Garden. The two entities, under the name Holden Forests & Gardens, collaborate and coordinate their activities at their two campuses with the mission of connecting people with the wonder, beauty and value of trees and plants to inspire action for healthy communities.

Land Holdings, LLC was formed in March 2020 to facilitate the purchase of properties. The Arboretum is the sole member of the entity which is consolidated accordingly.

- B. Principles of Consolidation – The consolidated financial statements of the Organization are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. All significant intercompany activity was eliminated in consolidation.
- C. New Accounting Pronouncements – In 2019, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2019-03, *Updating the Definition of Collections (Topic 958)*. The amendments modify the definition of the term collections, allowing the proceeds from the sale of collection items to be used to support the direct care of existing collections in addition to the current requirement that proceeds from sales of collection items be used to acquire other items for collections. Effective October 1, 2020, the Organization adopted ASU 2019-03, resulting in no material impact to the consolidated financial statements.
- D. Accounting Method – The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization has reported 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 represent net assets that are not subject to donor-imposed restrictions. Contributions are considered to be available for general use unless specifically restricted by the donor. Net assets without donor restrictions include board designated endowment funds of \$29,099,836 as of September 30, 2021 (Note 9). These designations are based on Board actions, which can be altered or revoked at a future time by the Board.

Net assets with donor restrictions are the result of timing differences between the receipt of funds and the incurrence of the related expenses. Also, they represent endowment funds which are subject to the restriction of the donors that the principal be invested in perpetuity and only the income be utilized. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. However, donor-restricted contributions and investment earnings whose restrictions are met in the same period are reported as net assets without donor restrictions.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Accounting Method (Continued)

The Organization reports gifts of property, buildings and equipment as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how the long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

E. Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

F. Cash and Equivalents – The Organization maintains cash and equivalents at various financial institutions which, at times, may exceed federally insured amounts and may significantly exceed the consolidated statement of financial position amount due to outstanding checks. For purposes of the consolidated statement of cash flows, cash and equivalents include short-term highly liquid investments with original maturities of three months or less.

G. Inventory – Inventories of retail shop merchandise are carried at lower of cost or net realizable value, using the first-in, first-out method.

H. Revenue Recognition – The Organization derives its revenues from membership, admissions, education and ancillary services based on the satisfaction of performance obligations. Performance obligations are determined based on the service provided by the Organization. The following explains the performance obligations related to each revenue stream and how those are recognized. The revenue streams noted below do not include significant financing components as performance obligations are satisfied within a year of receipt of payments. The following explains the performance obligations related to each revenue stream and how they are recognized:

Membership – The Organization receives revenue from various levels of membership. Membership benefits include free admission and the ability to attend certain special events before the general public. Membership dues are recognized over the course of one or two years, representing the period over which the Organization satisfies the performance obligation.

Admissions – Revenue from ticket sales, events and group admissions is based on established levels. The Organization primarily recognizes revenue for admissions at point of sale.

Education – Revenue generated from specific education courses at the point in time when services are provided to its visitors.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Revenue Recognition (Continued)

Ancillary services – The Organization receives revenue from various ancillary services, including commissions on food sales, retail store purchase, parking, space rentals and special events. Revenue is recognized for food commissions and purchases of goods at the point in time when the sale occurs. Revenue from space rentals and special events is recognized when the event occurs.

- I. Contributions and Pledges Receivable – The Organization considers all contributions to be unrestricted unless specifically restricted by the donor. Donated items are reflected as contributions at their estimated fair market value at the time of donation. Unconditional pledges receivable are recognized as revenues in the period the promise is received. Conditional pledges receivable are recognized when the conditions upon which they depend are met. The pledges are stated at their fair market value at the date of recognition. Pledges that are to be received over a period of years are discounted to fair value assuming their respective payment terms and an appropriate discount rate as of the date the pledge is received. The discount is amortized into contribution revenue over the term of the respective pledge agreement.

The Organization utilizes the allowance method to record its estimate of uncollectible pledges receivable. The allowance is based upon prior years' experience and management's analysis of specific promises made.

- J. Property, Buildings and Equipment – Property, buildings and equipment are recorded at cost or, if contributed, appraised market value at the date of the gift. Purchases will be capitalized if they have an estimated useful life of two years or more and have an acquisition cost in excess of \$2,000. Expenditures for maintenance and repairs are expensed in the period incurred. Improvements are capitalized as additions to the appropriate asset accounts. Depreciation is computed using the straight-line method over the estimated useful economic life of each asset.
- K. Fair Value of Financial Instruments – The carrying values of receivables, accounts payable and loans payable approximate fair value because of the short-term maturity of these financial instruments.

The Organization estimates the fair value of financial instruments using available market information and other generally accepted valuation methodologies. Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value are classified into three levels:

Level 1 – Quoted market prices in active markets for identical assets and liabilities.

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs in which little or no market data exists.

The following table sets forth by level within the fair value hierarchy the Organization's financial assets and liabilities that were accounted for at a fair value on a recurring basis as of September 30, 2021. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels. The table does not include cash on hand or other assets and liabilities that are measured at historical cost or any basis other than fair value.

	Assets at Market Value as of September 30, 2021			
	Level 1	Level 2	Level 3	Total
Cash and equivalents	\$ 917,898			\$ 917,898
Mutual funds	21,977,378			21,977,378
Charitable multi-asset equity fund	-	\$ 33,514		33,514
Equities - common stock	4,351,767	-		4,351,767
Corporate bonds	3,597,026	-		3,597,026
American Foundation	-	4,686,259		4,686,259
Other	57,513	-		57,513
Total investments in the fair value hierarchy	<u>\$30,901,582</u>	<u>\$ 4,719,773</u>		35,621,355
Investments measured at NAV				<u>21,841,740</u>
Total investments				57,463,095
Funds held in trust (Note 9):				
Holden Arboretum Trust			\$ 109,252,681	109,252,681
Corning Institute			4,629,160	4,629,160
			<u>\$ 113,881,841</u>	<u>113,881,841</u>
Total investments				<u>\$ 171,344,936</u>

Mutual funds – Mutual funds consist of investments in mutual funds in a variety of industries, and market segments that are valued on quoted prices in active markets and are classified as Level 1.

Charitable multi-asset equity fund – The charitable multi-asset equity fund is held in a pooled investment account, which invests primarily in publicly traded equity securities and is valued at the market value of the underlying assets. The Organization considers these investments to be Level 2.

Equities – Equities consist of investments in common stock of domestic and international corporations in a variety of industries that are valued based on quoted prices in active markets and are classified as Level 1.

Corporate bonds – Quoted prices in active markets are used to value fixed income investments and, therefore, are classified as Level 1.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

American Foundation – The investments in the American Foundation are held in a pooled investment account, which invests primarily in equities and fixed income securities and are valued at market value of the underlying assets. The Organization considers these investments to be Level 2.

Funds held in trust – Funds held in trust by others consist of funds as described in Note 8. The Organization's share of interests in these trusts is recorded at fair market value. The fair value of these funds is based on inputs that are derived principally from observable market data which is used to estimate the future cash flows of the trust. Because there is not an active market for a fund held in trust, these are considered Level 3 valuations.

The table below sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the year ended September 30, 2021:

	The Holden Arboretum Trust	Corning Institute	Total
Balance at September 30, 2020	\$ 90,993,460	\$ 4,019,860	\$ 95,013,320
Endowment distributions to operations	(4,454,440)	(25,341)	(4,479,781)
Net realized and unrealized gains relating to instruments still held at the reporting date	<u>22,713,661</u>	<u>634,641</u>	<u>23,348,302</u>
Balance at September 30, 2021	<u>\$ 109,252,681</u>	<u>\$ 4,629,160</u>	<u>\$ 113,881,841</u>

The Organization is required to disclose the nature and risk of the investments recorded at NAV. The following table and paragraphs summarize the nature and risk of these investments at September 30, 2021:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Period Notice
Investment in partnerships:				
Large cap equities	\$ 8,107,761	\$ -	Monthly	15 days
Mid cap equities	5,402,719	-	Monthly	15 days
Small cap equities	2,677,873	-	Monthly	15 days
Micro cap equities	3,041,544	-	Monthly	15 days
International equities	2,435,101	-	Monthly	15 days
Private equity	<u>176,742</u>	<u>58,548</u>	Illiquid	N/A
	<u>\$ 21,841,740</u>	<u>\$ 58,548</u>		

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

Partnership equity investments – This class includes interests in partnerships that invest in various sectors (large cap, mid cap, small cap, micro cap and international) of the equity markets. The partnerships make direct investment in securities through managed relationships with third party investment managers. In addition, the partnerships may also invest in mutual funds, investment trusts and other independently managed pooled investment vehicles that are deemed appropriate. The fair value of the investments in this class has been estimated based on the net asset value of the Organization's proportionate partnership interest in capital. The partnerships may withhold up to 5% of members' redemptions until the partnership's net asset value per unit is finalized. Any withheld amount must be paid out to the redeeming member within 180 days of the redemption date.

Partnership private equity investments – This class includes interest in partnerships that invest in a portfolio of private investment funds and other investment vehicles that are formed and managed by third party managers for the purpose of investing in private equity and venture capital funds. Investments in the underlying funds are valued, as a practical expedient, utilizing the net asset valuations provided by management of each fund, without adjustment. The underlying funds determine their net asset valuation in a manner consistent with accounting principles generally accepted in the United States of America for investment companies. Redemption policies do not allow the Organization to withdraw any portion of its partnership interest without the consent of the partnership manager, which is not expected to be granted. Currently, and through the terminations of the underlying funds, the Organization expects to receive periodic distributions from the liquidation of the partnership's underlying assets, based solely on the partnership manager's discretion.

L. Permanent Collections – The Organization's permanent collections of accessioned and non-accessioned woody plants and herbaceous plants of conservation and horticultural significance, herbarium specimens, wood samples, tree artifacts, animals, birds, reptiles and insects, library and rare books and works of art that support the Organization's mission are protected and preserved for public exhibition, education, research and the furtherance of the public good. Accordingly, such collections are not recorded for financial statement purposes. Accessions and deaccessions to the permanent collections are made by the Curator of Living Collections and Land Assets per the guidelines established in the Organization's Collection Management policy which has been developed in accordance with the American Alliance of Museums Code of Ethics and American Public Gardens Association. Objects in the Organization's permanent collections are neither disposed of for financial gain nor encumbered in any manner.

M. Income Taxes – The Organization has been ruled exempt from federal income tax pursuant to Internal Revenue Code Section 501(c)(3) and has been classified as a public charity under Section 509(a)(1).

As of September 30, 2021, the Organization's federal income taxes for years from September 30, 2018 and thereafter remain subject to examination by the Internal Revenue Service.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- N. Contingencies – The Garden is involved in two cases pending, in various stages, in the Common Pleas Court of Cuyahoga County, the Eighth District Court of Appeals and the Supreme Court of Ohio involving the use of certain property (the "Garden premises") the Garden leases from the City of Cleveland (the "City") and subleases from University Circle, Incorporated ("UCI"). The first case is a declaratory judgment action brought by the Garden against (a) various descendants (the "descendant defendants") of Jephtha Wade, who conveyed Wade Park (an area that includes the land leased by the Garden) to the City, subject to certain restrictions (the "restrictions"), (b) various trusts created by the descendants of Jephtha Wade (the "trusts"), (c) the City and UCI, (d) the State of Ohio and (e) various land owners adjacent to the Garden, seeking determinations (i) that the Garden has not violated the restrictions by, for example, charging admission to portions of the Garden premises and erecting fences around portions of the Garden premises and (ii) that a fence restriction on the property is enforceable only by the adjacent landowners. Some of the descendants and trusts counterclaimed and/or filed third-party complaints against the Garden generally seeking declarations of the restrictions to the contrary. In April 2019, the Common Pleas Court granted summary judgment in favor of the Garden and against the descendant defendants. The descendant defendants appealed to the Eighth District Court of Appeals, which affirmed in part and reversed in part. That decision is now on appeal to the Ohio Supreme Court, where the case has been fully briefed and argued and is pending a decision.

Second, after the declaratory judgment action was filed, one of the descendants commenced a proceeding in the Common Pleas Court of Cuyahoga County claiming to do so as a taxpayer action on behalf of the City against the Garden, the City and UCI. The complaint alleges, among other things, that the Garden's charging of admission violates the leases between the City and the Garden and UCI and the Garden and the restrictions. The taxpayer action was subsequently consolidated with the declaratory judgment action.

Third, more recently, the same descendant that commenced the first taxpayer action commenced a second, separate taxpayer action on behalf of the City against the Garden, the City, UCI and the State of Ohio. The complaint alleges various taxpayer action claims and seeks disgorgement of admission and parking garage fees received by the Garden since 2003. The claims in this second taxpayer action were subsequently made part of the original taxpayer action by way of an amended complaint therein. Once the claims in the second taxpayer action were joined in the first taxpayer action, the second, separate taxpayer action was dismissed. The City, UCI and the Garden jointly moved to dismiss all of the taxpayer claims, which motion remains pending. The Common Pleas Court stayed any further activity in the taxpayer action pending the outcome of the Supreme Court of Ohio's decision in the declaratory judgment action.

The Garden cannot reasonably estimate a liability relating to these cases as of September 30, 2021. The Organization is periodically involved in litigation and is subject to certain claims that arise in the normal course of operations. In the opinion of management, the ultimate disposition of the litigation and claims will not have a material adverse effect on the Organization's operations or financial position.

- O. Conditional Asset Retirement Obligations – Management has considered accounting principles, specifically as they relate to its legal obligations to perform asset retirement activities on its existing properties, which primarily are for the future remediation and removal of asbestos from Organization-owned property. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the Organization may settle obligations is unknown and cannot be estimated. As a result, management cannot reasonably estimate the liability related to these asset retirement activities as of September 30, 2021.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- P. In-kind Donations – The Organization records in-kind donations at fair value of the assets received or if the services received (a) create or enhance a long-lived asset or (b) require specialized skills by individuals that would have been purchased if not donated. At September 30, 2021, the amounts reflected in the consolidated financial statements as in-kind donations related primarily to legal services.
- Q. Reclassifications – Certain prior year balances have been reclassified to conform with current year presentation and net assets with donor restriction of \$1,650,789 have been reclassified to net assets without donor restriction due to new information discovered in the current year.
- R. Comparative Information – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2020, from which the summarized information was derived.
- S. Subsequent Events – The Organization has evaluated all events subsequent to the consolidated statement of financial position of September 30, 2021, through December 16, 2021, which is the date these consolidated financial statements were available to be issued. There were no subsequent events that require disclosure.

Note 2. Notes Receivable

On December 15, 2010, the Garden entered into a credit agreement with three financial institutions. Under this agreement, the Garden borrowed \$11.5 million by entering into multiple term loans. Proceeds from these loans were utilized to repay the remaining balance of tax-exempt bonds.

The credit agreement was amended to extend the expiration date to March 21, 2014. At March 21, 2014, the credit agreement expired and all amounts outstanding became due and payable. On September 8, 2014, the Arboretum purchased the credit agreement from the three financial institutions and executed a Fourth Amendment to the Credit Agreement with the Garden. This amendment included changes to certain terms of the credit agreement, including the conversion of outstanding and unpaid interest into outstanding principal (total of \$11,351,508); re-defining the maturity date to be 10 business days following the Arboretum's demand for payment; indicating that no further interest will accrue under the credit agreement unless a payment default were to occur at maturity; indicating that no payments are required to amortize the outstanding principal prior to maturity; and provisions made for the Arboretum to make additional advances to the Garden under the credit agreement for uses approved by the Arboretum.

The purchase price by the Arboretum per the loan sale agreement was \$3,575,000. Based upon the Fourth Amendment to the Credit Agreement, the outstanding principal is classified as long-term. As of September 30, 2021, the Arboretum has made advances of \$2,975,000 to the Garden as well as a \$648,000 endowment transfer. Due to the related party nature of this transaction, the note receivable and transfers by the Arboretum are eliminated for the consolidated financial statements.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 3. Pledges Receivable, Net

Pledges were discounted to their present value assuming their respective terms and a discount rate of 5%. Pledges receivable are to be collected as follows:

Payable within one year	\$ 425,483
Payable beyond one year	<u>10,000</u>
Total pledges receivable	435,483
Less allowance and discount	<u>(2,430)</u>
Balance at September 30, 2021	<u><u>\$ 433,053</u></u>

Note 4. Investments

The Organization records investments in the consolidated financial statements at fair value. Investments received by gift are recorded at market value at the date of donation. The Organization's alternative investments partnerships and private equity funds are valued at market value from reports provided by the investment managers. Because of the inherent uncertainty of the value terms, the fair values may differ significantly from values that would have been used had a ready market for these investments existed.

Under the Organization's policy governing transfer of funds for operations for the year ended September 30, 2021, up to 5% of the average of the preceding sixteen quarters' market closing values with a one quarter lag from the fiscal year end is available for current operations. During the year ended September 30, 2021, \$1,807,780, approximately 4.5% of the prior sixteen quarters' market closing values, was distributed for current operations under this policy.

An analysis of investment activity is as follows for the year ended September 30, 2021:

Interest and dividends, net of fees	\$ 601,166
Realized gain on investment	1,457,491
Unrealized appreciation on investments	<u>9,839,044</u>
	11,897,701
Less: endowment income utilized for operations	1,807,780
operating investment income	<u>212,953</u>
	<u>2,020,733</u>
Non-operating appreciation of investments	<u><u>\$ 9,876,968</u></u>

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 5. Property, Buildings and Equipment

Property, buildings and equipment, at September 30, 2021, net of elimination are as follows:

	The Holden Arboretum	Cleveland Botanical Garden	Total
Land and land improvements	\$24,475,029	\$ 3,544,216	\$28,019,245
Buildings and structures	11,177,830	41,848,629	53,026,459
Field operating and office equipment	4,762,202	2,459,546	7,221,748
Furnishings/other	334,187	-	334,187
Construction in process	79,936	111,414	191,350
	<u>40,829,184</u>	<u>47,963,805</u>	<u>88,792,989</u>
Less accumulated depreciation	<u>16,619,020</u>	<u>33,010,973</u>	<u>49,629,993</u>
Total property, building and equipment, net	<u>\$24,210,164</u>	<u>\$14,952,832</u>	<u>\$39,162,996</u>

The Arboretum has received contributions of development rights - via conservation easements - associated with approximately 1,616 acres of land. No value has been placed on these contributions and the easements are not reflected in the consolidated statement of financial position. However, the Arboretum is required to maintain the integrity of the easements and may incur legal and other costs to enforce the easements.

Note 6. Line of Credit

The Organization has entered into a demand line of credit arrangement with BNY Mellon National Association that carries a maximum possible balance of \$1,700,000. The line of credit has a variable interest rate that is the LIBOR rate plus 1.75% (2.11% at September 30, 2021). There was no outstanding balance under this agreement and no interest expense incurred for the year ended September 30, 2021. The board designated portion of the Arboretum Endowment Fund is the collateral for the line of credit.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 7. Net Assets

Net assets with donor restrictions consisted of the following:

<u>Subject to expenditure for specified purpose:</u>	
Horticulture	\$ 279,992
Research	172,219
Education	385,746
Canopy Walk and Emergent Tower	57,284
Exhibition	574,092
Capital projects	839,558
Vibrant green communities	63,164
Woodlot management	251,129
Collections	359,586
Green Corps	427,922
Other	1,082
Promises to give, restricted by donors for:	
Horticulture	113,499
Research	192,245
Integration	19,000
Master planning	55,000
Cuyahoga arts and culture	19,395
	3,810,913
<u>Subject to the passage of time:</u>	
Split-interest agreements	94,109
Charitable remainder trusts	248,325
Promises to give not restricted by donors, but which are unavailable for expenditure until received	33,914
	376,348
<u>Endowments:</u>	
Subject to Arboretum's spending policy and appropriation:	
Original donor-restricted amount and amounts required to be maintained in perpetuity by donor:	
Horticulture	1,059,387
Research	832,795
Education	3,334,112
Canopy Walk and Emergent Tower	500,000
Lantern Court	105,639
Glasshouse	94,020
Internships	250,000
Hershey Children's Garden	730,100
Terrace	1,000,000
Retail store	250,000
Library	21,486
Butterflies and birds	301,688
Green Corps	657,861
Community outreach	3,000,000
General operations	2,286,532
Accumulated endowment gains	13,471,970
Total endowments	27,895,590
<u>Not subject to spending policy or appropriation:</u>	
Beneficial interest in funds held in Trust	113,881,841
Total net assets with donor restrictions	\$ 145,964,692

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8. Funds Held in Trust by Others

Funds held in trust by others consist of irrevocable trusts established for the benefit of the Arboretum. These funds are reflected in the consolidated financial statements as net assets with donor restrictions. Under the Arboretum's policy governing transfer of funds for operations, which is consistent with Ohio's Institutional Trust Funds Act of 1999, 5% of the prior year's average month end market value is distributed from The Holden Arboretum Trust ("Trust") for current operations. For the Corning Institute for Education and Research ("Institute"), an annual funding request of 5% of the prior year's average month end market value is submitted by the Arboretum to the Institute's Board of Directors.

The Institute was established in October 1986 to provide financial support for teaching and research in botany, horticulture and ecology. The Institute will terminate on its fiftieth (50th) anniversary, October 2036, at which time the Institute's funds will be distributed to the Arboretum, to be administered as a separate fund and used for the same purposes as when it was established.

The Trust has committed to make future additional investments totaling \$3,307,098. Any unfunded commitments related to these investments are to be satisfied through the redistribution of investment assets by the Trust.

Note 9. UPMIFA and Endowment Funds

The Board of Directors of the Organization has approved an investment policy detailing the long-term goals, asset allocation, guidelines for security selection, measurable objectives and on-going communication. Objectives of the Organization are, first and foremost, to preserve the safety of the principal and second, to maximize investment return. Endowment funds are subject to the investment policy approved by the Board of Directors.

The Organization's endowment consists of donor-restricted funds and board designated endowment funds. Donor-restricted funds consist of donor gift amounts required to be maintained in perpetuity. Board designated endowment funds consists of funds invested by management for the long-term benefit of the Organization. The endowment funds are recorded at historic dollar value.

Income and realized/unrealized gains/losses from donor-restricted funds is recorded as net assets with donor restrictions until appropriated for expenditure in accordance with the spending policy approved by the Board of Directors. Activity related to board designated endowment funds is recorded as net assets without donor restrictions.

Income from endowment is appropriated based on an approval process through the Board of Directors. Specific committees recommend amounts to be disbursed from the accumulated earnings of the endowment funds, which are then approved for appropriation by the Board of Directors. Income from board designated endowment funds can be used for horticulture, research, education and general operations.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 9. UPMIFA and Endowment Funds (Continued)

Endowment net assets composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions			Total Funds
		Original Gift Amount	Accumulated Gains (Losses)	Total With Donor Restrictions	
Endowment investments, beginning of the year, as reclassified	\$ 23,396,769	\$ 14,135,291	\$ 8,805,492	\$ 22,940,783	\$ 46,337,552
Investment return:					
Investment income	352,962		624,590	624,590	977,552
Realized and unrealized gains	6,076,083		4,951,917	4,951,917	11,028,000
Total investment return	6,429,045		5,576,507	5,576,507	12,005,552
Contributions and transfers	870,812	288,329	(237,761)	50,568	921,380
Appropriations of net assets	(1,348,465)		(672,268)	(672,268)	(2,020,733)
Endowment investments, end of the year	<u>\$ 29,348,161</u>	<u>\$ 14,423,620</u>	<u>\$ 13,471,970</u>	<u>\$ 27,895,590</u>	<u>\$ 57,243,751</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level of that the donor requires the Organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported as a reduction of net assets with donor restrictions. The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law; however, the Organization's policy is that appropriations will not be made from underwater endowment funds. No such deficiencies were noted as of September 30, 2021.

Note 10. Split-Interest Agreements

The Organization is obligated under various charitable remainder trusts, whereby donors have contributed cash to the Organization with the agreement that the donors shall be the sole recipients of aggregate annuity payments of \$67,525 per annum. Such payments are payable in equal quarterly installments of approximately \$16,881 and shall terminate on the last payment date preceding the death of the donor. The trusts are recorded at present value of the future payments to be made to the beneficiaries. Discount rates used to value the annuity obligations have various rates.

Note 11. Loans Payable

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was signed into law by the U.S. Government. The CARES Act, among other things, created the Paycheck Protection Program ("PPP") to be administered by the U.S. Small Business Administration ("SBA"). In April 2020, the Organization received \$1,396,000 in unsecured loans under the PPP. The Organization initially recorded the loans as debt in 2020 and subsequently recorded \$1,396,000 of non-operating income when the loan was forgiven by the SBA in May 2021.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 11. Loans Payable (Continued)

In February 2021, the Organization received an additional \$555,432 unsecured loan under the PPP. Provisions of the PPP allow for partial or full forgiveness of the loan provided the proceeds are used for covered expenditures and certain other requirements are satisfied. The unforgiven portion of the loan, if any, is payable in 60 monthly installments (plus interest at a rate of 1% per annum) commencing seventeen months from the date of the loan.

In addition, the Arboretum received a \$10,000 Economic Injury Disaster Loan advance in April 2020. While the SBA referred to the program as an advance, it was written into law as a grant and recognized as such in the year ending September 20, 2021.

Note 12. Defined Contribution Plan

The Holden Forests & Gardens 403(b) Retirement Plan is a defined contribution retirement plan under section 403(b) of the Internal Revenue Code, which covers all eligible employees over the age of 18. Under this plan, employees may defer their wages in amounts up to federally imposed limits. An additional 3% of the employee's compensation from the Organization is contributed. After employees have completed one year of service, employee deferrals are matched by the Organization up to the first 3% of the employee's compensation. The Organization has made contributions to the plan of \$314,341 for 2021.

Note 13. Functional Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expense categories are allocated to their functional classification on the basis of estimates of time and effort with the exception of research expenses which are allocated directly.

Note 14. Financial Assets and Liquidity

The Organization receives substantial donor-restricted gifts to establish endowments that will exist in perpetuity and contributions with donor time and purpose restrictions. The income generated from donor-restricted endowments may have purpose restrictions. In addition, the Organization receives support without donor restrictions, investment income without donor restrictions and appropriated earnings from gifts with donor restrictions to fund its general expenditures.

The Organization 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 commitments and obligations will be met.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 14. Financial Assets and Liquidity (Continued)

The following table reflects the Organization's financial assets available within one year:

Financial assets:	
Cash and equivalents	\$6,269,592
Pledges receivable, payable within one year	<u>423,053</u>
Financial assets, at year-end	6,692,645
Plus endowment spending rate appropriation for next year	<u>2,020,733</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$8,713,378</u></u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments. The Organization has board designated endowment funds of \$29,348,161 as of September 30, 2021. Although the Organization does not intend to spend from these funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts could be made available if necessary. The Organization also has a \$1,700,000 line of credit that can be utilized for any operating shortfalls.

Note 15. COVID-19 Pandemic

On January 30, 2020, the World Health Organization declared the outbreak of the coronavirus disease 2019 ("COVID-19") a global health emergency and subsequently declared the COVID-19 outbreak a global pandemic in March 2020. Although the pandemic has adversely affected domestic and global economic activity and continues to evolve as of the date of this report, management continues to assess and develop plans to mitigate any significant financial impact on the Organization.