

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

CONSOLIDATED FINANCIAL REPORT

SEPTEMBER 30, 2019

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

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Independent Auditors' Report

To the Board of Directors
The Holden Arboretum and Affiliate
d.b.a. Holden Forests and 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 and Gardens, which comprise the consolidated statement of financial position as of September 30, 2019, 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, 2019, 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 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 18, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Melroy + Novotny LLC".

Cleveland, Ohio
January 8, 2020

HOLDEN FORESTS AND GARDENS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2019

(With Comparative Totals at September 30, 2018)

	Current Year Total	Prior Year Total
	<u> </u>	<u> </u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 2,938,562	\$ 3,734,334
Inventory	214,256	205,192
Pledges receivable	296,285	200,186
Prepays and other assets	<u>52,131</u>	<u>46,163</u>
Total current assets	3,501,234	4,185,875
Pledges receivable	37,188	80,340
Property, buildings and equipment, net	41,944,907	43,422,311
Remainder trusts	229,322	251,095
Investments - gift annuities	386,276	459,676
Investments - endowment	44,905,446	45,892,559
Investments - funds held in trust by others	<u>94,528,687</u>	<u>98,552,999</u>
TOTAL ASSETS	<u>\$ 185,533,060</u>	<u>\$ 192,844,855</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 957,458	\$ 1,226,969
Split-interest agreements - current	69,525	69,069
Accrued expenses	729,982	561,802
Deferred revenue	<u>200,928</u>	<u>182,323</u>
Total current liabilities	1,957,893	2,040,163
Split-interest agreements liability	<u>186,554</u>	<u>193,955</u>
Total liabilities	2,144,447	2,234,118
NET ASSETS		
Without donor restrictions	63,328,886	62,866,385
With donor restrictions	<u>120,059,727</u>	<u>127,744,352</u>
Total net assets	<u>183,388,613</u>	<u>190,610,737</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 185,533,060</u>	<u>\$ 192,844,855</u>

The accompanying notes are an integral part of these financial statements

HOLDEN FORESTS AND GARDENS

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended September 30, 2019

(With Comparative Totals for Year Ended September 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	Current Year Total	Prior Year Total
OPERATING SUPPORT AND REVENUE				
Contributions	\$ 2,475,273	\$ 895,517	\$ 3,370,790	\$ 2,859,481
Government grants	248,808	49,965	298,773	240,648
Holden Arboretum Trust	4,709,400		4,709,400	4,703,457
Fundraising events	300,418		300,418	252,836
Admissions, courses, parking, store and other	3,144,021	8,750	3,152,771	2,795,536
Endowment income available for operations	1,421,055	15,701	1,436,756	1,360,358
Operating investment income	237,014		237,014	197,196
Net assets released from restrictions	<u>1,173,184</u>	<u>(1,173,184)</u>	<u>-</u>	<u>-</u>
Total support and revenue	13,709,173	(203,251)	13,505,922	12,409,512
OPERATING EXPENSES				
Program expenses:				
Horticulture and conservation	3,918,166		3,918,166	3,961,491
Research	1,464,183		1,464,183	1,449,828
Education	2,057,586		2,057,586	2,064,996
Guest relations	3,619,066		3,619,066	3,452,403
Green Corps	<u>561,765</u>		<u>561,765</u>	<u>564,978</u>
Total program expenses	11,620,766		11,620,766	11,493,696
Management and administration	3,142,418		3,142,418	2,409,788
Development	<u>1,158,591</u>		<u>1,158,591</u>	<u>1,104,789</u>
Total expenses	<u>15,921,775</u>		<u>15,921,775</u>	<u>15,008,273</u>
DECREASE FROM OPERATING ACTIVITY	(2,212,602)	(203,251)	(2,415,853)	(2,598,761)
NON-OPERATING ACTIVITY				
Contributions - estate bequests	428,147		428,147	15,000
- New Leaf Campaign			-	135,774
- other		5,095	5,095	5,002
Non-operating (depreciation) appreciation of investments	(841,257)	(363,323)	(1,204,580)	2,574,037
Change in funds held in trust by others		(4,024,312)	(4,024,312)	2,505,300
Gain on sale of property, building and equipment	1,364		1,364	214,272
New Leaf Campaign expenses	(20,564)		(20,564)	(35,943)
Integration expenses	(2,055)		(2,055)	(65,578)
Collection appreciation of investments		10,634	10,634	24,868
Net assets released from restrictions - Integration	<u>3,109,468</u>	<u>(3,109,468)</u>	<u>-</u>	<u>-</u>
	<u>2,675,103</u>	<u>(7,481,374)</u>	<u>(4,806,271)</u>	<u>5,372,732</u>
CHANGE IN NET ASSETS	462,501	(7,684,625)	(7,222,124)	2,773,971
NET ASSETS – BEGINNING OF YEAR, RESTATED	<u>62,866,385</u>	<u>127,744,352</u>	<u>190,610,737</u>	<u>187,836,766</u>
NET ASSETS – END OF YEAR	<u>\$ 63,328,886</u>	<u>\$ 120,059,727</u>	<u>\$ 183,388,613</u>	<u>\$ 190,610,737</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, 2019
(With Comparative Totals for Year Ended September 30, 2018)

	Horticulture and Conservation	Research	Education	Guest Relations	Green Corps	Management and Administration	Development	Current Year Total	%	Prior Year Total	%
Compensation and benefits	\$2,229,467	\$1,042,488	\$1,258,569	\$1,624,765	\$ 422,745	\$1,693,297	\$ 468,081	\$ 8,739,412	54.8	\$ 7,221,840	47.8
Landscape maintenance	227,928	13,945	12,911	105,525		2,759	771	363,839	2.3	536,514	3.6
Building and equipment maintenance	95,800	37,618	38,947	174,608	11,583	131,778	50,291	540,625	3.4	603,671	4.0
Professional and subcontract services	94,450	51,654	58,350	424,120	13,892	609,684	108,837	1,360,987	8.5	1,435,168	9.5
Advertising	3,059	2,018	5,996	137,455	4,800	23,037	2,020	178,385	1.1	177,645	1.2
Utilities	196,145	55,346	79,539	251,977	14,299	65,151	19,290	681,747	4.3	681,583	4.5
Insurance and real estate tax	41,479	19,825	23,633	38,188	544	35,766		159,435	1.0	184,987	1.2
Staff development and travel	27,798	28,487	52,397	12,188	11,308	92,478	13,916	238,572	1.5	173,242	1.1
Education and membership	56,919	8,010	284,311	274,936	22,881	65,410	170,504	882,971	5.5	1,019,254	6.7
Research expenses		78,334						78,334	0.5	103,706	0.7
Office supplies	6,382	4,657	13,343	31,085	647	56,674	21,738	134,526	0.8	139,087	0.9
Technology	2,207	910	4,036	5,420		9,219	4,712	26,504	0.2	47,507	0.3
Bad debt								-	-	40,000	0.3
Other	2,672	2,674	2,153	85,437	250	29,940	47,078	170,204	1.2	147,410	1.1
Operating expenses before depreciation	2,984,306	1,345,966	1,834,185	3,165,704	502,949	2,815,193	907,238	13,555,541	85.0	12,511,614	82.9
Depreciation	933,860	118,217	223,401	453,362	58,816	327,225	251,353	2,366,234	14.8	2,496,659	16.5
Operating expenses	3,918,166	1,464,183	2,057,586	3,619,066	561,765	3,142,418	1,158,591	15,921,775	99.9	15,008,273	99.4
New Leaf Campaign/site planning	13,285					7,279		20,564	0.1	35,943	0.2
Integration						2,055		2,055	-	65,578	0.4
Total expenses	<u>\$3,931,451</u>	<u>\$1,464,183</u>	<u>\$2,057,586</u>	<u>\$3,619,066</u>	<u>\$ 561,765</u>	<u>\$3,151,752</u>	<u>\$1,158,591</u>	<u>\$15,944,394</u>	<u>100.0</u>	<u>\$15,109,794</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, 2019

(With Comparative Totals for Year Ended September 30, 2018)

	Current Year Total	Prior Year Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (7,222,124)	\$ 2,773,971
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	2,366,234	2,496,659
Gain on sale of property, building and equipment	(1,364)	(214,272)
In-kind donation of property, building and equipment	(29,850)	(59,850)
Unrealized gains of investments	(176,623)	(3,268,140)
Realized gains of investments	(614,684)	(324,135)
Change in funds held in trust by others	4,024,312	(2,505,300)
Gifts restricted for permanent endowment	(5,660)	(2,341)
Bad debt expense	-	40,000
(Increase) decrease in inventory	(9,064)	11,356
(Increase) decrease in pledges receivable	(52,947)	1,037,908
(Increase) decrease in prepaids and other assets	(5,968)	33,174
Decrease (increase) in charitable remainder trust	21,773	(29,635)
Decrease in accounts payable and accrued expenses	(101,331)	(95,231)
Increase in deferred revenue	18,605	27,019
Total adjustments	<u>5,433,433</u>	<u>(2,852,788)</u>
Net cash used by operating activities	(1,788,691)	(78,817)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(11,041,658)	(1,464,115)
Proceeds from sale of investments	12,893,478	2,519,582
Purchase of equipment and vehicles	(353,720)	(856,668)
Purchase of land, buildings and improvements	(505,448)	(595,593)
Proceeds from sale of property, building and equipment	1,552	415,210
Net cash provided by investing activities	<u>994,204</u>	<u>18,416</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts restricted for permanent endowment	5,660	2,341
Decrease in gift annuity liability	(6,945)	(10,711)
Net cash used by financing activities	<u>(1,285)</u>	<u>(8,370)</u>
DECREASE IN CASH AND EQUIVALENTS	(795,772)	(68,771)
CASH AND EQUIVALENTS – BEGINNING OF YEAR	<u>3,734,334</u>	<u>3,803,105</u>
CASH AND EQUIVALENTS – END OF YEAR	<u>\$ 2,938,562</u>	<u>\$ 3,734,334</u>

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

HOLDEN FORESTS AND 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.
- 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 Pronouncement – In 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. A key change required by ASU 2016-14 is the net asset classifications used in these consolidated financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. The ASU has been applied retrospectively to all periods presented which increased net assets without donor restrictions by \$73,352 and decreased net assets with donor restrictions by \$73,352 resulting from the reclassifications of underwater endowment funds as required under ASU 2016-14. Disclosures related to functional allocation of expenses were expanded (Note 13) and a disclosure on liquidity was added (Note 14).
- 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 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 AND 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 books, Treehouse store memorabilia and retail shop merchandise are carried at lower of cost or net realizable value, using the first-in, first-out method.

H. Contributions and Pledges Receivable – The Organization recognizes contributions as revenue in the period in which the pledge (promise to give) is received. 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 substantially 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.

I. 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.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- J. Fair Value of Financial Instruments – The Organization has adopted ASU 2015-07 which removes the requirement to include investments in private investment companies in the fair value hierarchy for which fair value is measured using the net asset value ("NAV") per share practical expedient under ASC 820.

The carrying values of cash and equivalents, receivables, accounts payable and line of credit 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, 2019. 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.

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.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Fair Value of Financial Instruments (Continued)

	Assets at Market Value as of September 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash and equivalents	\$ 650,602			\$ 650,602
Mutual funds	10,595,778			10,595,778
Charitable multi-asset equity fund		\$ 48,147		48,147
Large cap equities - mutual funds	1,340,874			1,340,874
Small cap equities - mutual funds	2,286,283			2,286,283
Equities - common stock	2,581,965			2,581,965
International equities - mutual funds	3,203,363			3,203,363
Asset allocation - mutual funds	1,523,962			1,523,962
Corporate bonds	3,069,479			3,069,479
American Foundation		4,037,399		4,037,399
Other	55,810			55,810
Total investments in the fair value hierarchy	<u>\$25,308,116</u>	<u>\$ 4,085,546</u>		29,393,662
Investments measured at NAV				<u>15,898,060</u>
Total investments				45,291,722
Funds held in trust (Note 10):				
Holden Arboretum Trust			\$90,327,505	90,327,505
Corning Institute			<u>4,201,182</u>	<u>4,201,182</u>
			<u>\$94,528,687</u>	<u>94,528,687</u>
Total investments				<u>\$ 139,820,409</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. Partnerships whose underlying investments are equities are valued at market value of the underlying assets and are deemed to be Level 2.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Fair Value of Financial Instruments (Continued)

Fixed income – Fixed income securities consist of corporate bonds. Quoted prices in active markets are used to value fixed income investments and, therefore, are classified as Level 1.

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 9. 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, 2019:

	The Holden Arboretum Trust	Corning Institute	Total
Balance at September 30, 2018	\$94,285,667	\$ 4,267,332	\$98,552,999
Endowment distributions to operations	(4,709,400)	(212,953)	(4,922,353)
Net realized and unrealized gains relating to instruments still held at the reporting date	<u>751,238</u>	<u>146,803</u>	<u>898,041</u>
Balance at September 30, 2019	<u>\$90,327,505</u>	<u>\$ 4,201,182</u>	<u>\$94,528,687</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, 2019:

	Fair Value at June 30, 2019	Unfunded Commitments	Redemption Frequency	Redemption Period Notice
Investment in partnerships:				
Large cap equities	\$ 5,339,290	\$ -	Monthly	15 days
Mid cap equities	4,474,435	-	Monthly	15 days
Small cap equities	2,029,888	-	Monthly	15 days
Micro cap equities	2,103,142	-	Monthly	15 days
International equities	1,736,827	-	Monthly	15 days
Private equity	<u>214,478</u>	<u>-</u>	Illiquid	N/A
	<u>\$15,898,060</u>	<u>\$ -</u>		

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

J. 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 have 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 investment – This class includes interest in a partnership that invests 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.

- K. Permanent Collections –** The Arboretum's accessioned collections of woody plants and herbaceous plants of conservation significance, herbarium specimens, wood samples, tree artifacts, library and rare books and works of art that support the Arboretum'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. Additions and deaccessions to the permanent collections are made by the Board of Directors per the guidelines established in the Arboretum's Collection Management policy which has been developed in accordance with the American Alliance of Museums Code of Ethics. Objects in the Arboretum's permanent collections are neither disposed of for financial gain nor encumbered in any manner.
- L. 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, 2019, the Organization's federal income taxes for years from September 30, 2015 and thereafter remain subject to examination by the Internal Revenue Service.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- M. Contingencies – The Garden is involved in three cases pending in the Common Pleas Court of Cuyahoga County and Eighth District Court of Appeals involving the use of the 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 transferred Wade Park (an area that includes the land leased by the Garden) 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 a determination 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 that the fence restriction is only enforceable by the adjacent landowners. Some of the descendants and trusts have counterclaimed or filed a third-party complaint against the Garden generally seeking declarations of the restrictions to the contrary. In April 2019, the 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 and the case is ongoing. After the declaratory judgment 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. This action was stayed pending the outcome of the declaratory judgment action. After the court there granted summary judgment in favor of the Garden, the stay was lifted and this case remains ongoing. The Garden, City and UCI have jointly moved to dismiss the taxpayer action, including the claims originally raised in the second, separate taxpayer action, addressed below. 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, and remain ongoing. Once the claims in the second taxpayer action were joined in the first taxpayer action, the second, separate taxpayer action was dismissed. The Garden cannot reasonably estimate a liability relating to these cases as of September 30, 2019.

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.

- N. 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, 2019.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- O. Reclassifications and Restatements – Certain prior year balances have been reclassified and restated to conform with current year presentation. Restatements related to underwater endowments and accumulated earnings on restricted endowments are now being classified as net assets with donor restrictions.
- P. Subsequent Events – The Organization has evaluated all events subsequent to the consolidated statement of financial position of September 30, 2019, through January 8, 2020, which is the date these consolidated financial statements were available to be issued. There were no subsequent events that require disclosure.

Note 2. Integration

The Arboretum and Garden entered into an affiliation agreement on September 8, 2014 whereby the Arboretum would become the sole member of the Garden. The Arboretum and Garden amended their corporate documents to accommodate the terms of this affiliation agreement. As discussed in Note 3, the Arboretum purchased the debt outstanding under the Garden's credit agreement and executed a Fourth Amendment to the Credit Agreement providing the Garden with continued forbearance of the obligation to immediately repay amounts owed under the agreement and other modifications as discussed in Note 3. At September 30, 2019, the Arboretum had \$2,975,000 in advances receivable from the Garden. Furthermore, the Garden and the Arboretum entered into a management services agreement. These intercompany transactions have been eliminated in the consolidated financial statements.

Note 3. 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, 2019, additional advances of \$2,975,000 were made from the Arboretum 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 is eliminated for the consolidated financial statements.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 4. 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	\$ 310,785
Payable one to five years	40,000
Total pledges receivable	<u>350,785</u>
Less allowance and discount	<u>(17,312)</u>
Balance at September 30, 2019	<u><u>\$ 333,473</u></u>

Note 5. 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 limited partnerships and hedge 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, 2019, 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, 2019, \$1,436,756, 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, 2019:

Interest and dividends, net	\$ 630,880
Realized gain on investment	640,621
Unrealized depreciation on investments	<u>(802,311)</u>
	469,190
Less: endowment income utilized for operations	1,436,756
operating investment income	<u>237,014</u>
	<u>1,673,770</u>
Non-operating depreciation of investments	<u><u>\$(1,204,580)</u></u>

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 6. Property, Buildings and Equipment

Property, buildings and equipment, at September 30, 2019, net of elimination are as follows:

	The Holden Arboretum	Cleveland Botanical Garden	Total
Land and land improvements	\$23,740,105	\$ 3,236,750	\$26,976,855
Buildings and structures	11,154,841	40,823,730	51,978,571
Field operating and office equipment	4,569,343	2,222,289	6,791,632
Furnishings/other	334,187		334,187
Construction in process	13,563	225,948	239,511
	<u>39,812,039</u>	<u>46,508,717</u>	<u>86,320,756</u>
Less accumulated depreciation	<u>15,073,408</u>	<u>29,302,441</u>	<u>44,375,849</u>
Total property, building and equipment, net	<u>\$24,738,631</u>	<u>\$17,206,276</u>	<u>\$41,944,907</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 7. 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% (3.99% at September 30, 2019). There was no outstanding balance under this agreement and no interest expense incurred for the year ended September 30, 2019. The Arboretum Endowment Fund is the collateral for the line of credit.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8. Net Assets

Net assets with donor restrictions consisted of the following:

<u>Subject to expenditure for specified purpose:</u>	
Horticulture	\$ 125,612
Education	403,120
Capital projects	98,282
Vibrant green communities	75,855
School gardens	39,749
Green Corps	103,039
Other	2,481
Promises to give, the proceeds from which have been restricted by donors for:	
Research	57,635
Capital projects	3,000
Integration	57,530
Endowment	9,500
	<hr/> 975,803
<u>Subject to the passage of time:</u>	
Split-interest agreements	153,531
Charitable remainder trusts	229,322
Annuity trust agreements	(23,993)
Promises to give not restricted by donors, but which are unavailable for expenditure until received	205,808
	<hr/> 564,668
<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	644,825
Research	782,795
Education	3,334,112
Canopy Walk and Emergent Tower	500,000
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	3,657,861
General operations	2,280,534
Accumulated endowment gains	10,143,148
Total endowments	<hr/> 23,990,569
<u>Not subject to spending policy or appropriation:</u>	
Beneficial interest in funds held in Trust	94,528,687
Total net assets with donor restrictions	<hr/> <u>\$ 120,059,727</u>

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 9. 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 \$4,260,360. Any unfunded commitments related to these investments are to be satisfied through the redistribution of investment assets by the Trust.

Note 10. 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 funds functioning as endowment. The endowment funds are recorded at historic dollar value. Income and realized/unrealized gains/losses for donor-restricted funds are 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 funds functioning as endowment are 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.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 10. 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	\$ 21,326,148	\$ 13,841,761	\$ 10,724,650	\$ 24,566,411	\$ 45,892,559
Investment return:					
Investment income	286,176		452,994	452,994	739,170
Realized and unrealized gains (losses)	<u>521,932</u>		<u>(791,912)</u>	<u>(791,912)</u>	<u>(269,980)</u>
Total investment return	808,108		(338,918)	(338,918)	469,190
Contributions and transfers	(570,615)	5,660	782,422	788,082	217,467
Appropriations of net assets	<u>(854,093)</u>		<u>(819,677)</u>	<u>(819,677)</u>	<u>(1,673,770)</u>
Endowment investments, end of the year	<u>\$ 20,709,548</u>	<u>\$ 13,847,421</u>	<u>\$ 10,348,477</u>	<u>\$ 24,195,898</u>	<u>\$ 44,905,446</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, 2019.

Note 11. 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 \$69,069 per annum. Such payments are payable in equal quarterly installments of approximately \$17,268 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 12. Defined Contribution Plan

The Arboretum has 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. After employees have completed one year of service, employee deferrals are matched by the Arboretum up to the first 3% of the employee's compensation. An additional 3% of the employee's compensation from the Arboretum is contributed. The Arboretum has made contributions to the plan of \$184,889 for 2019.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 12. Defined Contribution Plan (Continued)

The Garden has a defined contribution retirement plan under section 403(b) of the Internal Revenue Code, which covers substantially all of its employees over the age of 18. Under this plan, employees may defer their wages in amounts up to federally imposed limits. After employees have completed one year of service, employee deferrals may be matched by the Garden up to the first 3% of the employee's compensation. An additional 3% of the employee's compensation is contributed by the Garden. The Garden made plan contributions of \$66,788 for 2019.

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.

Financial assets:	
Cash and equivalents	\$ 2,938,562
Pledges receivable	333,473
Investments	<u>45,291,722</u>
Financial assets, at year-end	48,563,757
Less those not available for general expenditures within one year:	
Subject to passage of time	(564,668)
Investments - endowment	(24,195,898)
Investments - funds functioning as endowment	(20,709,548)
Plus endowment spending rate appropriation for next year	<u>1,673,770</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,767,413</u>

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 14. Financial Assets and Liquidity (Continued)

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 funds functioning as endowment of \$20,709,548 as of September 30, 2019. Although the Organization does not intend to spend from its funds functioning as endowment 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.