

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

CONSOLIDATED FINANCIAL REPORT

SEPTEMBER 30, 2017

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, 2017, and the related consolidated statements of activities 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, 2017, 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 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Meloney + Novotny LLC

Cleveland, Ohio
January 18, 2018

HOLDEN FORESTS AND GARDENS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2017

(With Comparative Totals at September 30, 2016)

	Current Year Total	Prior Year Total
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 3,803,105	\$ 3,767,633
Inventory	216,548	216,385
Pledges receivable	1,279,338	1,472,309
Prepays and other assets	79,337	80,878
Total current assets	<u>5,378,328</u>	<u>5,537,205</u>
Pledges receivable	79,096	627,364
Property, buildings and equipment, net	44,607,797	45,514,642
Remainder trusts	221,460	232,969
Investments - endowment	43,318,730	37,288,157
Investments - gift annuities	496,697	492,943
Investments - funds held in trust by others	<u>96,047,699</u>	<u>89,368,242</u>
TOTAL ASSETS	<u>\$ 190,149,807</u>	<u>\$ 179,061,522</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 1,238,091	\$ 947,022
Gift annuities - current	68,916	68,344
Accrued expenses	645,911	626,422
Line of credit	-	1,700,000
Deferred revenue	155,304	160,365
Total current liabilities	<u>2,108,222</u>	<u>3,502,153</u>
Gift annuities liability	<u>204,819</u>	<u>189,899</u>
Total liabilities	2,313,041	3,692,052
NET ASSETS		
Unrestricted	68,630,016	63,446,554
Temporarily restricted	9,319,631	8,691,253
Permanently restricted		
Endowment funds	13,839,420	13,863,421
Funds held in trust by others	<u>96,047,699</u>	<u>89,368,242</u>
	<u>109,887,119</u>	<u>103,231,663</u>
Total net assets	<u>187,836,766</u>	<u>175,369,470</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 190,149,807</u>	<u>\$ 179,061,522</u>

The accompanying notes are an integral part of these financial statements

HOLDEN FORESTS AND GARDENS
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended September 30, 2017
(With Comparative Totals for Year Ended September 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Current Year Total	Prior Year Total
OPERATING SUPPORT AND REVENUE					
Contributions	\$ 3,587,452	\$ 885,264	\$ 500	\$ 4,473,216	\$ 3,721,391
Government grants	351,286	169,665		520,951	525,216
Holden Arboretum Trust	4,171,125			4,171,125	4,536,192
Special events:					
Revenue	378,275			378,275	510,238
Expense	<u>(204,646)</u>			<u>(204,646)</u>	<u>(250,200)</u>
	173,629			173,629	260,038
Admissions, courses, parking, store and other	3,243,954	2,730		3,246,684	3,305,206
Endowment income available for operations	1,314,000			1,314,000	705,640
Operating investment income	199,204			199,204	205,218
Net assets released from restrictions	<u>957,931</u>	<u>(933,430)</u>	<u>(24,501)</u>	<u>-</u>	<u>-</u>
Total support and revenue	13,998,581	124,229	(24,001)	14,098,809	13,258,901
OPERATING EXPENSES					
Program expenses:					
Horticulture and conservation	4,234,840			4,234,840	4,179,754
Research	1,635,897			1,635,897	1,519,814
Education	1,912,971			1,912,971	1,871,303
Guest relations	3,592,231			3,592,231	3,425,185
Green Corps	538,309			538,309	520,749
Total program expenses	<u>11,914,248</u>			<u>11,914,248</u>	<u>11,516,805</u>
Management and administration	2,364,326			2,364,326	2,493,807
Advancement	<u>1,319,796</u>			<u>1,319,796</u>	<u>1,155,167</u>
Total expenses	<u>15,598,370</u>			<u>15,598,370</u>	<u>15,165,779</u>
(DECREASE) INCREASE FROM OPERATING ACTIVITY	(1,599,789)	124,229	(24,001)	(1,499,561)	(1,906,878)
NON-OPERATING ACTIVITY					
Contributions - estate bequests	1,300,403			1,300,403	44,156
- New Leaf Campaign		130,440		130,440	266,358
- other		5,000		5,000	195,831
Non-operating appreciation of investments	3,247,048	732,362		3,979,410	2,021,694
Change in funds held in trust by others			6,679,457	6,679,457	1,273,273
Litigation				-	29,728
Gain on sale of property, building and equipment	2,007,501			2,007,501	71,061
Return of endowment funds to grantor (Shadybrook)	(30,757)			(30,757)	-
New Leaf Campaign expenses	(49,181)			(49,181)	(92,829)
Integration expenses	(62,840)			(62,840)	-
Collection appreciation of investments		31,888		31,888	17,194
Collection acquisitions		(24,464)		(24,464)	-
Net assets released from restrictions - Integration	61,837	(61,837)		-	-
Net assets released from restrictions - New Leaf	309,240	(309,240)		-	-
	<u>6,783,251</u>	<u>504,149</u>	<u>6,679,457</u>	<u>13,966,857</u>	<u>3,826,466</u>
CHANGE IN NET ASSETS	5,183,462	628,378	6,655,456	12,467,296	1,919,588
NET ASSETS – BEGINNING OF YEAR	<u>63,446,554</u>	<u>8,691,253</u>	<u>103,231,663</u>	<u>175,369,470</u>	<u>173,449,882</u>
NET ASSETS – END OF YEAR	<u>\$ 68,630,016</u>	<u>\$ 9,319,631</u>	<u>\$ 109,887,119</u>	<u>\$ 187,836,766</u>	<u>\$ 175,369,470</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, 2017

(With Comparative Totals for Year Ended September 30, 2016)

	Current Year Total	Prior Year Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 12,467,296	\$ 1,919,588
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,486,687	2,379,047
(Gain) loss on disposal of assets	(2,007,501)	8,265
Proceeds from sale of property, building and equipment	2,126,165	-
Proceeds from insurance	-	(71,061)
Unrealized gains of investments	(4,809,045)	(2,974,102)
Realized (gains) losses of investments	(282,755)	536,524
Change in funds held in trust by others	(6,679,457)	(1,273,273)
Gifts restricted for permanent endowment	(500)	(500)
Bad debt	283,740	405,500
(Increase) decrease in inventory	(163)	77,921
Decrease in pledges receivable	457,499	2,156,931
Decrease (increase) in prepaids and other assets	1,541	(40,601)
Decrease in charitable remainder trust	11,509	-
Increase (decrease) in accounts payable and accrued expenses	310,558	(560,374)
Decrease in deferred revenue	(5,061)	(15,446)
Total adjustments	<u>(8,106,783)</u>	<u>628,831</u>
Net cash provided by operating activities	4,360,513	2,548,419
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(3,288,455)	(4,854,734)
Proceeds from sale of investments	2,345,928	4,380,622
Proceeds from insurance, net	-	71,061
Purchase of equipment and vehicles	(410,857)	(146,100)
Donated land	(475,000)	-
Purchase of land, buildings and improvements	<u>(812,649)</u>	<u>(1,202,036)</u>
Net cash used by investing activities	(2,641,033)	(1,751,187)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payments on) proceeds from draw on line of credit	(1,700,000)	1,700,000
Gifts restricted for permanent endowment	500	500
Increase (decrease) in gift annuity liability	<u>15,492</u>	<u>(21,087)</u>
Net cash (used) provided by financing activities	<u>(1,684,008)</u>	<u>1,679,413</u>
INCREASE IN CASH AND EQUIVALENTS	35,472	2,476,645
CASH AND EQUIVALENTS – BEGINNING OF YEAR	<u>3,767,633</u>	<u>1,290,988</u>
CASH AND EQUIVALENTS – END OF YEAR	<u>\$ 3,803,105</u>	<u>\$ 3,767,633</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 vibrant green communities and diverse native forests in the Great Lakes region will flourish and sustain life. The Garden's sole member is the Arboretum. The Arboretum and Garden operate under the name Holden Forests and Gardens, a named owned by the Arboretum and licensed to the Garden. The two entities, under the name Holden Forests and Gardens, collaborate and coordinate their activities at their two campuses with the mission of advancing and inspiring a deeper understanding of plants to enhance life.
- 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. 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 three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets represent net assets that are not subject to donor-imposed restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Temporarily restricted net assets result from timing differences between the receipt of funds and the incurrence of the related expenses. 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted contributions.

Permanently restricted net assets 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.

- D. 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.
- E. 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.
- F. Inventory – Inventories of books, Treehouse store memorabilia and retail shop merchandise are carried at lower of cost or market, using the first-in, first-out method.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- G. 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.

- H. 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.
- I. Fair Value of Financial Instruments – The carrying values of cash and equivalents, receivables, accounts payable and short-term borrowings 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, 2017. 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 Arboretum'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)

I. Fair Value of Financial Instruments (Continued)

	Assets at Market Value as of September 30, 2017			
	Level 1	Level 2	Level 3	Total
Cash and equivalents	\$ 1,841,983			\$ 1,841,983
Mutual funds	9,963,435			9,963,435
Charitable multi-asset equity fund		\$ 102,653		102,653
Large cap equities - mutual funds	1,141,371			1,141,371
Small cap equities - mutual funds	2,433,912			2,433,912
Equities - common stock	2,285,394			2,285,394
International equities - mutual funds	3,363,125			3,363,125
Asset allocation - mutual funds	942,476			942,476
U.S. Government securities	644,511			644,511
Mortgage backed securities		159,826		159,826
Corporate bonds	1,571,799			1,571,799
Hedge funds			\$ 26,180	26,180
American Foundation		4,294,727		4,294,727
Investment in partnerships:				
Large cap equities		4,732,790		4,732,790
Mid cap equities		4,062,673		4,062,673
Small cap equities			1,885,138	1,885,138
Micro cap equities		2,178,433		2,178,433
International equities			1,797,244	1,797,244
Private equity			309,026	309,026
Other	78,731			78,731
	<u>24,266,737</u>	<u>15,531,102</u>	<u>4,017,588</u>	<u>43,815,427</u>
Funds held in trust (Note 10)			96,047,699	96,047,699
Total	<u>\$24,266,737</u>	<u>\$15,531,102</u>	<u>\$100,065,287</u>	<u>\$139,863,126</u>

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.

Fixed income – Fixed income securities consist of U.S. Government securities and corporate bonds. Quoted prices in active markets are used to value fixed income investments and, therefore, are classified as Level 1. Mortgage backed securities are valued at their net asset value based on the market value of the underlying assets and are classified as Level 2.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Fair Value of Financial Instruments (Continued)

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 fund – The charitable multi-asset 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.

Hedge funds – Hedge funds seek to reduce volatility by exploiting market inefficiencies. Returns are achieved using various strategies including long/short equity, credit, commodities and global strategies.

Alternative investments – The Organization holds investments in various limited partnerships, and considers these investments to be both Level 2 and 3. Periodically, the limited partnerships' holdings change, which can cause a change in the classification of levels. Any unfunded commitments related to these investments are to be satisfied through the redistribution of investment assets by the investment managers.

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 10. 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, 2017:

	Arboretum Endowment	The Holden Arboretum Trust	Corning Institute	Total
Balance at September 30, 2016	\$ 3,883,461	\$85,318,094	\$ 4,050,148	\$ 93,251,703
Endowment distributions to operations		(4,171,125)	(202,000)	(4,373,125)
Net realized and unrealized gains relating to instruments still held at the reporting date	571,714	10,620,262	432,320	11,624,296
Investment sales	(437,587)			(437,587)
Balance at September 30, 2017	<u>\$ 4,017,588</u>	<u>\$91,767,231</u>	<u>\$ 4,280,468</u>	<u>\$ 100,065,287</u>

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- J. 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.
- K. 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, 2017, the Organization's federal income taxes for years from September 30, 2013 and thereafter remain subject to examination by the Internal Revenue Service.

- L. Contingencies – The Garden is involved in two cases pending in the Common Pleas Court of Cuyahoga County 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. 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 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 case has been stayed pending the outcome of the declaratory judgment action.

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.

- M. Conditional Asset Retirement Obligations – The Organization has adopted an accounting policy which requires the Organization to recognize the costs associated with the retirement of assets, which primarily are for the future remediation and removal of asbestos from Organization-owned property. Such costs have not been determined.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- N. Reclassifications – Certain prior year balances have been reclassified to conform with current year presentation.
- O. Subsequent Events – The Organization has evaluated all events subsequent to the consolidated statement of financial position of September 30, 2017, through January 18, 2018, 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 amended its 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. In addition, the Arboretum has agreed to make funds available to the Garden for specific integration purposes, up to \$3,000,000. At September 30, 2017, 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, 2017, additional advances of \$2,975,000 were made from the Arboretum to the Garden. Due to the related party nature of this transaction, the note receivable by the Arboretum is eliminated for consolidated financial statements.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 4. Pledges Receivable, Net

The Arboretum recently completed its largest capital campaign, the "New Leaf" campaign, since its creation in 1931 that resulted in pledges of approximately \$8,845,000 toward the phase one goal of \$8,000,000. Projects completed during 2017 include the Gardner Lakeside Terrace, June Room and Holden Grove.

The Organization completed an integration campaign with a goal of \$5,500,000 to assist in the costs of integration.

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:

	<u>New Leaf</u>	<u>Integration</u>	<u>Other</u>	<u>Total</u>
Payable within one year	\$ 49,532	\$ 1,106,150	\$ 912,809	\$ 2,068,491
Payable one to five years		<u>140,000</u>		<u>140,000</u>
Total pledges receivable	<u>49,532</u>	<u>1,246,150</u>	<u>912,809</u>	<u>2,208,491</u>
Less allowance for doubtful accounts	(12,336)	(357,014)	(459,397)	(828,747)
Less discounts to net present value		<u>(18,081)</u>	<u>(3,229)</u>	<u>(21,310)</u>
Balance at September 30, 2017	<u>\$ 37,196</u>	<u>\$ 871,055</u>	<u>\$ 450,183</u>	<u>\$ 1,358,434</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.

Market values and cost of investments are as follows:

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 5. Investments (Continued)

	Market Value	Cost
The Holden Arboretum		
Cash and equivalents	\$ 1,625,285	\$ 1,625,285
Mutual funds	368,154	311,226
Large cap equities - mutual funds	1,141,371	791,678
Small cap equities - mutual funds	2,433,912	2,000,120
International equities - mutual funds	3,363,125	2,658,248
Asset allocation - mutual funds	942,476	811,929
U.S. Government securities	644,511	649,279
Mortgage backed securities	159,826	160,526
Corporate bonds	1,571,799	1,615,259
Hedge funds	26,180	25,091
American Foundation	4,294,727	856,087
Investment in partnerships:		
Large cap equities	4,732,790	1,680,000
Mid cap equities	4,062,673	1,500,000
Small cap equities	1,885,138	875,000
Micro cap equities	2,178,433	525,000
International equities	1,797,244	1,485,000
Private equity	309,026	228,673
Total The Holden Arboretum	<u>31,536,670</u>	<u>17,798,401</u>
Cleveland Botanical Garden		
Cash and equivalents	216,698	216,698
Equities - mutual funds	6,232,068	4,986,050
Fixed income - mutual funds	1,662,873	1,647,036
Alternative investments - mutual funds	1,700,340	1,707,480
Equities - common stock	2,285,394	1,590,499
Charitable multi-asset equity fund	102,653	95,076
Other	78,731	17,615
Total Cleveland Botanical Garden	<u>12,278,757</u>	<u>10,260,454</u>
 Total investments	 <u>\$43,815,427</u>	 <u>\$28,058,855</u>

Under the Organization's policy governing transfer of funds for operations for the year ended September 30, 2017, 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, 2017, \$1,314,000, approximately 3.5% of the prior sixteen quarters' market closing values, was distributed for current operations under this policy.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 5. Investments (Continued)

An analysis of investment activity is as follows for the year ended September 30, 2017:

Interest and dividends, net	\$ 400,814
Realized gain on investment	282,755
Unrealized appreciation on investments	<u>4,809,045</u>
	5,492,614
Less endowment income utilized for operations	1,314,000
Operating investment income	<u>199,204</u>
	<u>1,513,204</u>
Non-operating depreciation of investments	<u>\$ 3,979,410</u>

Included in interest and dividend income are investment expenses of \$138,221 for the year ended September 30, 2017.

Note 6. Property, Buildings and Equipment

Property, buildings and equipment, at September 30, 2017, net of elimination are as follows:

	<u>The Holden Arboretum</u>	<u>Cleveland Botanical Garden</u>	<u>Total</u>
Land and land improvements	\$22,158,112	\$ 3,201,729	\$25,359,841
Buildings and structures	11,466,226	39,007,357	50,473,583
Field operating and office equipment	2,881,169	432,404	3,313,573
Furnishings/other	1,685,242	2,111,910	3,797,152
Construction in process	<u>252,249</u>	<u>45,546</u>	<u>297,795</u>
	38,442,998	44,798,946	83,241,944
Less accumulated depreciation	<u>13,188,411</u>	<u>25,972,299</u>	<u>39,160,710</u>
Operating property, building and equipment	25,254,587	18,826,647	44,081,234
Assets held for sale	<u>526,563</u>	<u> </u>	<u>526,563</u>
Total property, building and equipment, net	<u>\$25,781,150</u>	<u>\$18,826,647</u>	<u>\$44,607,797</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.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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% (2.99% at September 30, 2017). There was no outstanding balance under this agreement at September 30, 2017. Interest expense of \$27,511 was incurred for the year ended September 30, 2017. The Arboretum Endowment Fund is the collateral for the line of credit.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	Beginning Balance	Additions	Releases and Transfers	Ending Balance
The Holden Arboretum				
Horticulture	\$ 115,139	\$ 30,117		\$ 145,256
Research	381,620	59,928	\$ (5,303)	436,245
Education	330,238	88,655	(50,000)	368,893
Capital projects	293,957	66,581	(35,840)	324,698
New Leaf Campaign	976,486	348,321	(309,239)	1,015,568
Integration	202,569	27,367		229,936
Woodlot management	258,248	40,133	(5,300)	293,081
Collections fund	216,095	31,888	(24,464)	223,519
Vibrant green communities	-	500,000	(61,659)	438,341
Summer concert series	-	180,761		180,761
Split-interest agreements	64,083	1,788		65,871
Other	63,246	4,335	(48,900)	18,681
	<u>\$2,901,681</u>	<u>\$1,379,874</u>	<u>\$ (540,705)</u>	<u>\$3,740,850</u>
Cleveland Botanical Garden				
Education	\$ 756,590	\$ 252,692	\$ (1,030)	\$1,008,252
School gardens	71,456		(909)	70,547
Green Corps	299,269	2,000	(69,145)	232,124
Integration	3,945,984		(626,895)	3,319,089
Capital projects	438,078	361,421	(90,287)	709,212
Charitable remainder trusts	232,969	(11,509)		221,460
Annuity trust agreements	45,226	(27,129)		18,097
	<u>\$5,789,572</u>	<u>\$ 577,475</u>	<u>\$ (788,266)</u>	<u>\$5,578,781</u>
Total temporarily restricted funds	<u>\$8,691,253</u>	<u>\$1,957,349</u>	<u>\$(1,328,971)</u>	<u>\$9,319,631</u>

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 9. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is to support:

	The Holden Arboretum	Cleveland Botanical Garden	Total
Horticulture	\$ 296,575	\$ 347,800	\$ 644,375
Research	782,795		782,795
Education	702,003	2,634,185	3,336,188
Canopy Walk and Emergent Tower	500,000		500,000
Glasshouse		94,020	94,020
Internships		250,000	250,000
Hershey Children's Garden		730,100	730,100
Terrace		1,000,000	1,000,000
Retail store		250,000	250,000
Library		21,486	21,486
Butterflies and birds		301,688	301,688
Green Corps		3,657,861	3,657,861
General operations	<u>1,184,031</u>	<u>1,086,876</u>	<u>2,270,907</u>
Total endowment funds	<u>\$ 3,465,404</u>	<u>\$ 10,374,016</u>	<u>\$ 13,839,420</u>
Funds held in trust by others	<u>\$ 96,047,699</u>	<u>\$ -</u>	<u>\$ 96,047,699</u>

Note 10. 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 permanent net assets. 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 fair market value of these funds at September 30 is as follows:

	2016	2017	2017
	Market Value	Market Value	Change in Funds Held in Trust by Others
Corning Institute for Education and Research	\$ 4,050,148	\$ 4,280,468	\$ 230,320
The Holden Arboretum Trust	<u>85,318,094</u>	<u>91,767,231</u>	<u>6,449,137</u>
	<u>\$ 89,368,242</u>	<u>\$ 96,047,699</u>	<u>\$ 6,679,457</u>

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 10. Funds Held in Trust by Others (Continued)

Because there is not an active market for the funds held in trust, they are considered Level 3 valuations. However, the Trust investments at September 30, 2017 consist of approximately 35.2% in equity and fixed income based mutual funds (Level 1), 19.0% in common/collective funds and mortgage backed securities (Level 2) and approximately 45.8% in alternative investments (Level 3).

The Trust has committed to make future additional investments totaling \$3,312,993. Any unfunded commitments related to these investments are to be satisfied through the redistribution of investment assets by the Trust.

Note 11. 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 income. Endowment funds are subject to the investment policy approved by the Board of Directors.

The Organization endowment consists of several permanently restricted funds established for a variety of purposes. The endowment funds are recorded at historic dollar value. Income and realized/unrealized gains/losses for some specific funds' income is to be recorded as temporarily restricted until spent for those specific purposes in accordance with the spending policy approved by the Board of Directors. In addition, earnings in excess of the spending policy are added to temporarily restricted net assets. Income from other funds is to be used for general operations, and is recorded as unrestricted.

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.

	The Holden Arboretum			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment investments, beginning of the year	\$ 21,335,680	\$ 2,106,695	\$ 3,464,904	\$ 26,907,279
Investment return:				
Investment income	292,638	39,091		331,729
Realized and unrealized gains	3,265,112	436,161		3,701,273
Total investment return	3,557,750	475,252		4,033,002
Contributions and transfers	1,439,043		500	1,439,543
Appropriations of net assets	(970,580)	(244,624)		(1,215,204)
Endowment investments, end of the year	<u>\$ 25,361,893</u>	<u>\$ 2,337,323</u>	<u>\$ 3,465,404</u>	<u>\$ 31,164,620</u>

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 11. UPMIFA and Endowment Funds (Continued)

	Cleveland Botanical Garden			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment investments, beginning of the year	\$ (702,994)	\$ 733,355	\$ 10,350,517	\$ 10,380,878
Investment return:				
Investment income	109,258	23,192		132,450
Realized and unrealized gains	<u>1,102,000</u>	<u>233,918</u>		<u>1,335,918</u>
Total investment return	1,211,258	257,110		1,468,368
Contributions and transfers	(216,624)	819,488		602,864
Appropriations of net assets		<u>(298,000)</u>		<u>(298,000)</u>
Endowment investments, end of the year	<u>\$ 291,640</u>	<u>\$ 1,511,953</u>	<u>\$ 10,350,517</u>	<u>\$ 12,154,110</u>
	Consolidated			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment investments, beginning of the year	\$ 20,632,686	\$ 2,840,050	\$ 13,815,421	\$ 37,288,157
Investment return:				
Investment income	401,896	62,283		464,179
Realized and unrealized gains	<u>4,367,112</u>	<u>670,079</u>		<u>5,037,191</u>
Total investment return	4,769,008	732,362		5,501,370
Contributions and transfers	1,222,419	819,488	500	2,042,407
Appropriations of net assets	<u>(970,580)</u>	<u>(542,624)</u>		<u>(1,513,204)</u>
Endowment investments, end of the year	<u>\$ 25,653,533</u>	<u>\$ 3,849,276</u>	<u>\$ 13,815,921</u>	<u>\$ 43,318,730</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 that are reported in unrestricted net assets were \$284,006 as of September 30, 2017. These deficiencies resulted from additional amounts appropriated for expenditure to fund operations of the Garden.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 12. Gift Annuities

The Organization is obligated under various annuity contracts, whereby donors have contributed cash to the Organization with the agreement that the donors shall be the sole recipients of aggregate annuity payments of \$68,153 per annum. Such payments are payable in equal quarterly installments of approximately \$17,038 and shall terminate on the last payment date preceding the death of the donor. Discount rates used to value the annuity obligations have various rates.

Note 13. 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 \$214,221 for 2017.

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 21 from October 1, 2016 through March 31, 2017. On April 1, 2017, the plan was amended and the coverage age was reduced to 18, among other changes. 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 \$182,007 for 2017.

Note 14. Functional Expenses

The following, which includes an allocation of depreciation, interest, New Leaf Campaign/site planning and integration, is a detail of expenses by function:

	The Holden Arboretum	Cleveland Botanical Garden	Eliminations	Total	%
Horticulture and conservation	\$ 2,768,425	\$ 1,566,295	\$ (95,948)	\$ 4,238,772	26.9
Research	1,364,964	288,920	(17,699)	1,636,185	10.4
Education and public programs	1,428,429	516,791	(31,658)	1,913,562	12.2
Guest relations	1,378,786	2,359,583	(144,543)	3,593,826	22.8
Green Corps		573,436	(35,127)	538,309	3.4
Management and administration	1,536,818	1,026,778	(62,898)	2,500,698	15.9
Advancement	624,221	722,449	(26,874)	1,319,796	8.4
	<u>\$ 9,101,643</u>	<u>\$ 7,054,252</u>	<u>\$ (414,747)</u>	<u>\$ 15,741,148</u>	<u>100.0</u>