

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

CONSOLIDATED FINANCIAL REPORT

SEPTEMBER 30, 2020

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

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of The Holden Arboretum and Affiliate, Cleveland Botanical Garden (a nonprofit organization), d.b.a. Holden Forests & Gardens, which comprise the consolidated statement of financial position as of September 30, 2020, 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, 2020, 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 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 8, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Meloney + Novotny LLC

Cleveland, Ohio
December 14, 2020

HOLDEN FORESTS AND GARDENS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2020

(With Comparative Totals at September 30, 2019)

	Current Year Total	Prior Year Total
	<u> </u>	<u> </u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 4,032,417	\$ 2,938,562
Inventory	160,737	214,256
Pledges receivable	229,487	296,285
Prepays and other assets	191,214	52,131
Total current assets	<u>4,613,855</u>	<u>3,501,234</u>
Pledges receivable	12,048	37,188
Property, buildings and equipment, net	41,346,537	41,944,907
Remainder trusts	201,700	229,322
Investments - gift annuities	354,098	386,276
Investments - endowment	46,337,552	44,905,446
Investments - funds held in trust by others	<u>95,013,320</u>	<u>94,528,687</u>
TOTAL ASSETS	<u>\$ 187,879,110</u>	<u>\$ 185,533,060</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 543,025	\$ 957,458
Split-interest agreements - current	67,525	69,525
Accrued expenses	683,004	729,982
Deferred revenue	336,510	200,928
Total current liabilities	<u>1,630,064</u>	<u>1,957,893</u>
Loans payable	1,406,000	-
Split-interest agreements liability	<u>165,910</u>	<u>186,554</u>
Total liabilities	3,201,974	2,144,447
NET ASSETS		
Without donor restrictions	62,873,454	63,328,886
With donor restrictions	<u>121,803,682</u>	<u>120,059,727</u>
Total net assets	<u>184,677,136</u>	<u>183,388,613</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 187,879,110</u>	<u>\$ 185,533,060</u>

The accompanying notes are an integral part of these financial statements

HOLDEN FORESTS AND GARDENS
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended September 30, 2020
(With Comparative Totals for Year Ended September 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	Current Year Total	Prior Year Total
OPERATING SUPPORT AND REVENUE				
Contributions	\$ 2,885,481	\$ 769,251	\$ 3,654,732	\$ 3,370,790
Government grants	195,077	157,918	352,995	298,773
Holden Arboretum Trust	4,529,543		4,529,543	4,709,400
Fundraising events	20,233		20,233	300,418
Admissions, education and ancillary services	1,974,958		1,974,958	3,152,771
Endowment income available for operations	1,614,249	101,544	1,715,793	1,436,756
Operating investment income	219,449		219,449	237,014
Net assets released from restrictions	<u>810,106</u>	<u>(810,106)</u>	<u>-</u>	<u>-</u>
Total operating support and revenue	12,249,096	218,607	12,467,703	13,505,922
OPERATING EXPENSES				
Program expenses:				
Horticulture and conservation	3,807,385		3,807,385	3,918,166
Research	1,981,938		1,981,938	1,464,183
Education	1,439,724		1,439,724	2,057,586
Guest relations	2,993,610		2,993,610	3,619,066
Green Corps	99,386		99,386	561,765
Total program expenses	<u>10,322,043</u>		<u>10,322,043</u>	<u>11,620,766</u>
Management and administration	2,895,423		2,895,423	3,142,418
Development	<u>924,269</u>		<u>924,269</u>	<u>1,158,591</u>
Total operating expenses	<u>14,141,735</u>		<u>14,141,735</u>	<u>15,921,775</u>
(DECREASE) INCREASE FROM OPERATING ACTIVITY	(1,892,639)	218,607	(1,674,032)	(2,415,853)
NON-OPERATING ACTIVITY				
Contributions - estate bequests	1,002,134		1,002,134	428,147
- other			-	5,095
Non-operating appreciation (depreciation) of investments	423,953	1,020,491	1,444,444	(1,204,580)
Change in funds held in trust by others		484,633	484,633	(4,024,312)
Gain on sale of property, building and equipment	11,120		11,120	1,364
New Leaf Campaign expenses			-	(20,564)
Integration expenses			-	(2,055)
Collection appreciation of investments		20,224	20,224	10,634
	<u>1,437,207</u>	<u>1,525,348</u>	<u>2,962,555</u>	<u>(4,806,271)</u>
CHANGE IN NET ASSETS	(455,432)	1,743,955	1,288,523	(7,222,124)
NET ASSETS – BEGINNING OF YEAR	<u>63,328,886</u>	<u>120,059,727</u>	<u>183,388,613</u>	<u>190,610,737</u>
NET ASSETS – END OF YEAR	<u>\$ 62,873,454</u>	<u>\$ 121,803,682</u>	<u>\$ 184,677,136</u>	<u>\$ 183,388,613</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, 2020
(With Comparative Totals for Year Ended September 30, 2019)

	Horticulture and Conservation	Research	Education	Guest Relations	Green Corps	Management and Administration	Development	Current Year Total	%	Prior Year Total	%
Compensation and benefits	\$2,140,717	\$1,498,697	\$ 798,976	\$1,431,930	\$ 59,493	\$1,748,493	\$ 417,130	\$ 8,095,436	57.2	\$ 8,739,412	54.8
Utilities	180,910	69,169	58,330	254,123	9,385	64,030	14,840	650,787	4.6	681,747	4.3
Professional and subcontract services	99,734	55,606	140,140	177,871	17,336	270,273	12,298	773,258	5.5	1,360,987	8.5
Building and equipment maintenance	121,205	41,493	34,895	248,542	4,895	65,916	8,846	525,792	3.7	540,625	3.4
Education and membership	37,932	24,227	64,527	110,241	6,049	76,782	94,421	414,179	2.9	882,971	5.5
Advertising		23,454	7,807	79,956		77,466	6,040	194,723	1.4	178,385	1.1
Landscape maintenance	103,413	15,405	2,754	117,790		290	6,486	246,138	1.7	363,839	2.3
Staff development and travel	37,167	20,208	20,726	25,373	649	75,140	5,496	184,759	1.3	238,572	1.5
Other	6,310	6,083	3,980	75,325	45	22,919	44,217	158,879	1.1	170,204	1.1
Office supplies	8,343	5,497	4,156	13,637	207	43,630	48,106	123,576	0.9	134,526	0.8
Technology	20,544	22,374	25,086	24,007	1,327	52,415	13,865	159,618	1.1	26,504	0.2
Insurance and real estate tax	43,782	30,695	28,098	27,584		59,066		189,225	1.3	159,435	1.0
Research expenses		<u>63,842</u>						<u>63,842</u>	<u>0.6</u>	<u>78,334</u>	<u>0.6</u>
Operating expenses before depreciation	2,800,057	1,876,750	1,189,475	2,586,379	99,386	2,556,420	671,745	11,780,212	83.3	13,555,541	85.1
Depreciation	<u>1,007,328</u>	<u>105,188</u>	<u>250,249</u>	<u>407,231</u>	<u>-</u>	<u>339,003</u>	<u>252,524</u>	<u>2,361,523</u>	<u>16.7</u>	<u>2,366,234</u>	<u>14.8</u>
Operating expenses	3,807,385	1,981,938	1,439,724	2,993,610	99,386	2,895,423	924,269	14,141,735	100.0	15,921,775	99.9
New Leaf Campaign/site planning Integration								-	-	20,564	0.1
								-	-	<u>2,055</u>	<u>-</u>
Total expenses	<u>\$3,807,385</u>	<u>\$1,981,938</u>	<u>\$1,439,724</u>	<u>\$2,993,610</u>	<u>\$ 99,386</u>	<u>\$2,895,423</u>	<u>\$ 924,269</u>	<u>\$14,141,735</u>	<u>100.0</u>	<u>\$15,944,394</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, 2020
(With Comparative Totals for Year Ended September 30, 2019)

	Current Year Total	Prior Year Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,288,523	\$ (7,222,124)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	2,361,523	2,366,234
Gain on sale of property, building and equipment	(11,120)	(1,364)
In-kind donation of property, building and equipment	-	(29,850)
Unrealized gains of investments	(2,643,370)	(176,623)
Realized losses (gains) of investments	64,911	(614,684)
Change in funds held in trust by others	(484,633)	4,024,312
Gifts restricted for permanent endowment	(287,870)	(5,660)
Decrease (increase) in inventory	53,519	(9,064)
Decrease (increase) in pledges receivable	91,938	(52,947)
Increase in prepaids and other assets	(139,083)	(5,968)
Decrease in charitable remainder trust	27,622	21,773
Decrease in accounts payable and accrued expenses	(461,411)	(101,331)
Increase in deferred revenue	135,582	18,605
Total adjustments	<u>(1,292,392)</u>	<u>5,433,433</u>
Net cash used by operating activities	(3,869)	(1,788,691)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,547,467)	(11,041,658)
Proceeds from sale of investments	3,725,998	12,893,478
Purchase of equipment and vehicles	(294,075)	(353,720)
Purchase of land, buildings and improvements	(1,472,109)	(505,448)
Proceeds from sale of property, building and equipment	14,151	1,552
Net cash (used) provided by investing activities	<u>(573,502)</u>	994,204
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	1,406,000	-
Gifts restricted for permanent endowment	287,870	5,660
Decrease in gift annuity liability	(22,644)	(6,945)
Net cash provided (used) by financing activities	<u>1,671,226</u>	<u>(1,285)</u>
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	1,093,855	(795,772)
CASH AND EQUIVALENTS – BEGINNING OF YEAR	<u>2,938,562</u>	<u>3,734,334</u>
CASH AND EQUIVALENTS – END OF YEAR	<u>\$ 4,032,417</u>	<u>\$ 2,938,562</u>

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

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

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

- B. Principles of Consolidation – The consolidated financial statements of the Organization are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. All significant intercompany activity was eliminated in consolidation.
- C. New Accounting Pronouncements – In 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance clarifies the definition of an exchange transaction and the criteria for evaluating whether contributions are unconditional or conditional. Effective October 1, 2019, the Organization adopted ASU 2018-08 using the modified prospective transition method. The adoption did not have a significant impact on the Organization's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance under accounting principles generally accepted in the United States of America. The standard provides a single comprehensive model for revenue recognition. The ASU also required expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The core principle of the standard is that the Organization shall recognize revenue at an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. The Organization adopted the new standard effective October 1, 2019 using the modified retrospective approach. The adoption had no cumulative effect on beginning net assets as of October 1, 2019 and did not impact net revenue for the year ending September 30, 2020.

- 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.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Accounting Method (Continued)

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.

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

- E. Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- F. Cash and Equivalents – The Organization maintains cash and equivalents at various financial institutions which, at times, may exceed federally insured amounts and may significantly exceed the consolidated statement of financial position amount due to outstanding checks. For purposes of the consolidated statement of cash flows, cash and equivalents include short-term highly liquid investments with original maturities of three months or less.
- G. Inventory – Inventories of retail shop merchandise are carried at lower of cost or net realizable value, using the first-in, first-out method.
- H. Revenue Recognition – The Organization derives its revenues from membership, admissions, education and ancillary services based on the satisfaction of performance obligations. Performance obligations are determined based on the service provided by the Organization. The following explains the performance obligations related to each revenue stream and how those are recognized. The revenue streams noted below do not include significant financing components as performance obligations are satisfied within a year of receipt of payments. In addition, there are no consideration amounts that are variable. Payments received in advance of the Organization satisfying its performance obligations are recorded as a liability (deferred revenue) in the consolidated statement of financial position.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Revenue Recognition (Continued)

Membership – The Organization receives revenue from various levels of membership. Membership benefits include free admission and the ability to attend certain special events before the general public. Payment for all membership levels is collected at the time of purchase.

Admissions – Revenue from ticket sales, events and group admissions is recognized on the dates of visit. Payment is collected at the time of purchase.

Education – Revenue generation from specific education courses is priced at market value and recognized at the end of the program.

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

- I. Contributions and Pledges Receivable – The Organization considers all contributions to be unrestricted unless specifically restricted by the donor. Donated items are reflected as contributions at their estimated fair market value at the time of donation. Unconditional pledges receivable are recognized as revenues in the period the promise is received. Conditional pledges receivable are recognized when the conditions upon which they depend are 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.

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

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

The Organization 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, 2020. 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.

	Assets at Market Value as of September 30, 2020			
	Level 1	Level 2	Level 3	Total
Cash and equivalents	\$ 423,479			\$ 423,479
Mutual funds	17,280,737			17,280,737
Charitable multi-asset equity fund		\$ 39,514		39,514
Equities - common stock	2,840,936			2,840,936
Corporate bonds	3,585,652			3,585,652
American Foundation		4,109,517		4,109,517
Other	44,641			44,641
Total investments in the fair value hierarchy	<u>\$24,175,445</u>	<u>\$ 4,149,031</u>		28,324,476
Investments measured at NAV				<u>18,367,174</u>
Total investments				46,691,650
Funds held in trust (Note 9):				
Holden Arboretum Trust			\$90,993,460	90,993,460
Corning Institute			4,019,860	4,019,860
			<u>\$95,013,320</u>	<u>95,013,320</u>
Total investments				<u>\$ 141,704,970</u>

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

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

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

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

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

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, 2020:

	The Holden Arboretum Trust	Corning Institute	Total
	<u> </u>	<u> </u>	<u> </u>
Balance at September 30, 2019	\$ 90,327,505	\$ 4,201,182	\$ 94,528,687
Endowment distributions to operations	(4,529,543)	(203,888)	(4,733,431)
Net realized and unrealized gains relating to instruments still held at the reporting date	<u>5,195,498</u>	<u>22,566</u>	<u>5,218,064</u>
Balance at September 30, 2020	<u>\$ 90,993,460</u>	<u>\$ 4,019,860</u>	<u>\$ 95,013,320</u>

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

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, 2020:

	Fair Value at June 30, 2020	Unfunded Commitments	Redemption Frequency	Redemption Period Notice
Investment in partnerships:				
Large cap equities	\$ 6,270,976	\$ -	Monthly	15 days
Mid cap equities	4,665,451	-	Monthly	15 days
Small cap equities	1,797,231	-	Monthly	15 days
Micro cap equities	1,901,078	-	Monthly	15 days
International equities	2,023,857	-	Monthly	15 days
Private equity	<u>1,708,581</u>	<u>115,580</u>	Illiquid	N/A
	<u>\$ 18,367,174</u>	<u>\$ 115,580</u>		

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

Partnership private equity investments – This class includes interest in partnerships that 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.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- L. Permanent Collections – The Organization’s permanent collections of accessioned and non-accessioned woody plants and herbaceous plants of conservation and horticultural significance, herbarium specimens, wood samples, tree artifacts, animals, birds, reptiles and insects, library and rare books and works of art that support the Organization's mission are protected and preserved for public exhibition, education, research and the furtherance of the public good. Accordingly, such collections are not recorded for financial statement purposes. Accessions and deaccessions to the permanent collections are made by the Curator of Living Collections and Land Assets per the guidelines established in the Organization's Collection Management policy which has been developed in accordance with the American Alliance of Museums Code of Ethics and American Public Gardens Association. Objects in the Organization's permanent collections are neither disposed of for financial gain nor encumbered in any manner.
- M. Income Taxes – The Organization has been ruled exempt from federal income tax pursuant to Internal Revenue Code Section 501(c)(3) and has been classified as a public charity under Section 509(a)(1).

As of September 30, 2020, the Organization's federal income taxes for years from September 30, 2017 and thereafter remain subject to examination by the Internal Revenue Service.

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

Second, 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.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

N. Contingencies (Continued)

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

The Garden cannot reasonably estimate a liability relating to these cases as of September 30, 2020. The Organization is periodically involved in litigation and is subject to certain claims that arise in the normal course of operations. In the opinion of management, the ultimate disposition of the litigation and claims will not have a material adverse effect on the Organization's operations or financial position.

- O. Conditional Asset Retirement Obligations – Management has considered accounting principles, specifically as they relate to its legal obligations to perform asset retirement activities on its existing properties, which primarily are for the future remediation and removal of asbestos from Organization-owned property. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the Organization may settle obligations is unknown and cannot be estimated. As a result, management cannot reasonably estimate the liability related to these asset retirement activities as of September 30, 2020.
- P. Reclassifications – Certain prior year balances have been reclassified to conform with current year presentation.
- Q. Subsequent Events – The Organization has evaluated all events subsequent to the consolidated statement of financial position of September 30, 2020, through December 14, 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, 2020, 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.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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, 2020, additional advances of \$2,975,000 were made from the Arboretum to the Garden as well as a \$647,050 endowment transfer. Due to the related party nature of this transaction, the note receivable and transfers by the Arboretum are eliminated for the consolidated financial statements.

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	\$229,487
Payable beyond one year	<u>20,000</u>
Total pledges receivable	249,487
Less allowance and discount	<u>(7,952)</u>
Balance at September 30, 2020	<u>\$241,535</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 partnerships and private equity funds are valued at market value from reports provided by the investment managers. Because of the inherent uncertainty of the value terms, the fair values may differ significantly from values that would have been used had a ready market for these investments existed.

Under the Organization's policy governing transfer of funds for operations for the year ended September 30, 2020, 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, 2020, \$1,715,793, approximately 4.5% of the prior sixteen quarters' market closing values, was distributed for current operations under this policy.

HOLDEN FORESTS & 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, 2020:

Interest and dividends, net	\$ 801,227
Realized loss on investment	(64,911)
Unrealized appreciation on investments	<u>2,643,370</u>
	3,379,686
Less: endowment income utilized for operations	1,715,793
operating investment income	<u>219,449</u>
	<u>1,935,242</u>
Non-operating appreciation of investments	<u>\$1,444,444</u>

Note 6. Property, Buildings and Equipment

Property, buildings and equipment, at September 30, 2020, net of elimination are as follows:

	<u>The Holden Arboretum</u>	<u>Cleveland Botanical Garden</u>	<u>Total</u>
Land and land improvements	\$24,911,153	\$ 3,536,813	\$28,447,966
Buildings and structures	11,168,404	41,420,382	52,588,786
Field operating and office equipment	4,572,256	2,458,935	7,031,191
Furnishings/other	334,187		334,187
Construction in process		17,789	17,789
	<u>40,986,000</u>	<u>47,433,919</u>	<u>88,419,919</u>
Less accumulated depreciation	<u>15,899,423</u>	<u>31,173,959</u>	<u>47,073,382</u>
Total property, building and equipment, net	<u>\$25,086,577</u>	<u>\$16,259,960</u>	<u>\$41,346,537</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% (2.11% at September 30, 2020). There was no outstanding balance under this agreement and no interest expense incurred for the year ended September 30, 2020. The board designated portion of the Arboretum Endowment Fund is the collateral for the line of credit.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8. Net Assets

Net assets with donor restrictions consisted of the following:

<u>Subject to expenditure for specified purpose:</u>	
Horticulture	\$ 162,444
Education	383,987
Capital projects	213,176
Vibrant green communities	25,418
Integration	20,000
Green Corps	367,562
Promises to give, the proceeds from which have been restricted by donors for:	
Research	64,175
Integration	37,000
Green Corps	95,000
	<u>1,368,762</u>
<u>Subject to the passage of time:</u>	
Split-interest agreements	139,721
Charitable remainder trusts	201,700
Annuity trust agreements	(15,760)
Promises to give not restricted by donors, but which are unavailable for expenditure until received	45,360
	<u>371,021</u>
<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	837,077
Research	782,795
Education	3,334,112
Canopy Walk and Emergent Tower	500,000
Lantern Court	100,119
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	2,276,033
Accumulated endowment gains	10,915,288
Total endowments	<u>25,050,579</u>
<u>Not subject to spending policy or appropriation:</u>	
Beneficial interest in funds held in Trust	<u>95,013,320</u>
Total net assets with donor restrictions	<u><u>\$ 121,803,682</u></u>

HOLDEN FORESTS & 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 \$4,416,894. 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 & 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	\$ 20,709,548	\$ 13,847,421	\$ 10,348,477	\$ 24,195,898	\$ 44,905,446
Investment return:					
Investment income	356,004		379,365	379,365	735,369
Realized and unrealized gains	<u>1,913,280</u>		<u>965,179</u>	<u>965,179</u>	<u>2,878,459</u>
Total investment return	2,269,284		1,344,544	1,344,544	3,613,828
Contributions and transfers	(1,268,481)	287,870	734,131	1,022,001	(246,480)
Appropriations of net assets	<u>(609,318)</u>		<u>(1,325,924)</u>	<u>(1,325,924)</u>	<u>(1,935,242)</u>
Endowment investments, end of the year	<u>\$ 21,101,033</u>	<u>\$ 14,135,291</u>	<u>\$ 11,101,228</u>	<u>\$ 25,236,519</u>	<u>\$ 46,337,552</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, 2020.

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 \$67,525 per annum. Such payments are payable in equal quarterly installments of approximately \$16,881 and shall terminate on the last payment date preceding the death of the donor. The trusts are recorded at present value of the future payments to be made to the beneficiaries. Discount rates used to value the annuity obligations have various rates.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 12. Loans Payable

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was signed into law by the U.S. Government. The CARES Act, among other things, created the Paycheck Protection Program ("PPP") to be administered by the U.S. Small Business Administration. In April 2020, the Organization received \$1,396,000 in unsecured loans under the PPP from a qualified lender. The PPP loans bear interest at a fixed rate of 1% per annum, with the first six months of interest deferred, have a term of five years, and are unsecured and guaranteed by the U.S. Small Business Administration. Provisions of the PPP allow for partial or full forgiveness of the loans provided the proceeds are used for covered expenditures and certain other requirements are satisfied. The loans are recorded as debt until forgiven. However, since the Organization expects all or nearly all the loans to be forgiven, the entire balance is recorded as noncurrent.

In addition, the Arboretum received a \$10,000 Economic Injury Disaster Loan advance in April 2020. The advance is to be repaid or deducted from forgiveness of the PPP loan. The Arboretum plans to repay the advance in the year ending September 20, 2021.

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. An additional 3% of the employee's compensation from the Arboretum is contributed. 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. The Arboretum has made contributions to the plan of \$190,772 for 2020.

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. An additional 3% of the employee's compensation is contributed by the Garden. 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. The Garden made plan contributions of \$88,463 for 2020.

Effective September 30, 2020, the Garden retirement plan was terminated with participants being rolled over into the Arboretum retirement plan. The plan name of the Arboretum plan was also amended to the Holden Forests & Gardens 403(b) Retirement Plan.

Note 14. 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 15. 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.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 15. Financial Assets and Liquidity (Continued)

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.

	<u>2020</u>
Financial assets:	
Cash and equivalents	\$ 4,032,417
Pledges receivable, payable within one year	<u>229,487</u>
Financial assets, at year-end	4,261,904
Less those not available for general expenditures within one year:	
Plus endowment spending rate appropriation for next year	<u>1,935,242</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,197,146</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments. The Organization has funds functioning as endowment of \$21,101,033 as of September 30, 2020. 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.

Note 16. COVID-19 Pandemic

On January 30, 2020, the World Health Organization declared the outbreak of the coronavirus disease 2019 ("COVID-19") a global health emergency and subsequently declared the COVID-19 outbreak a global pandemic in March 2020. The pandemic has adversely affected domestic and global economic activity and the full impact continues to evolve as of the date of this report.

The Organization's operations are heavily dependent on admissions and private and public donations from individuals, foundations and corporations. Access to donations and grants may decrease or may not be available depending on appropriations from other organizations. Accordingly, the pandemic is expected to affect the financial condition, results of operations and cash flows of the Organization during fiscal year 2021, but the extent is unknown at this time.