

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

CONSOLIDATED FINANCIAL REPORT

SEPTEMBER 30, 2018

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, 2018, 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, 2018, 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 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 18, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

A handwritten signature in black ink that reads "Meloney + Novotny LLC". The signature is written in a cursive, flowing style.

Cleveland, Ohio
December 18, 2018

HOLDEN FORESTS AND GARDENS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2018

(With Comparative Totals at September 30, 2017)

	Current Year Total	Prior Year Total
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 3,734,334	\$ 3,803,105
Inventory	205,192	216,548
Pledges receivable	200,186	1,279,338
Prepays and other assets	46,163	79,337
Total current assets	<u>4,185,875</u>	<u>5,378,328</u>
Pledges receivable	80,340	79,096
Property, buildings and equipment, net	43,422,311	44,607,797
Remainder trusts	251,095	221,460
Investments - gift annuities	459,676	496,697
Investments - endowment	45,892,559	43,318,730
Investments - funds held in trust by others	<u>98,552,999</u>	<u>96,047,699</u>
TOTAL ASSETS	<u><u>\$ 192,844,855</u></u>	<u><u>\$ 190,149,807</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 1,226,969	\$ 1,238,091
Split-interest agreements - current	69,069	68,916
Accrued expenses	561,802	645,911
Deferred revenue	182,323	155,304
Total current liabilities	<u>2,040,163</u>	<u>2,108,222</u>
Split-interest agreements liability	<u>193,955</u>	<u>204,819</u>
Total liabilities	2,234,118	2,313,041
NET ASSETS		
Unrestricted	69,535,256	68,630,016
Temporarily restricted	8,680,721	9,319,631
Permanently restricted		
Endowment funds	13,841,761	13,839,420
Funds held in trust by others	98,552,999	96,047,699
	<u>112,394,760</u>	<u>109,887,119</u>
Total net assets	<u>190,610,737</u>	<u>187,836,766</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 192,844,855</u></u>	<u><u>\$ 190,149,807</u></u>

The accompanying notes are an integral part of these financial statements

HOLDEN FORESTS AND GARDENS
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended September 30, 2018
(With Comparative Totals for Year Ended September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Current Year Total	Prior Year Total
OPERATING SUPPORT AND REVENUE					
Contributions	\$ 2,735,742	\$ 121,398	\$ 2,341	\$ 2,859,481	\$ 4,473,216
Government grants	239,395	1,253		240,648	520,951
Holden Arboretum Trust	4,703,457			4,703,457	4,171,125
Special events:					
Revenue	252,836			252,836	359,868
Expense	<u>(155,202)</u>			<u>(155,202)</u>	<u>(198,462)</u>
	97,634			97,634	161,406
Admissions, courses, parking, store and other	2,795,536			2,795,536	3,265,091
Endowment income available for operations	1,352,832	7,526		1,360,358	1,314,000
Operating investment income	197,196			197,196	199,204
Net assets released from restrictions	<u>506,131</u>	<u>(506,131)</u>		<u>-</u>	<u>-</u>
Total support and revenue	12,627,923	(375,954)	2,341	12,254,310	14,104,993
OPERATING EXPENSES					
Program expenses:					
Horticulture and conservation	3,961,491			3,961,491	4,234,840
Research	1,449,828			1,449,828	1,635,897
Education	2,064,996			2,064,996	1,912,971
Guest relations	3,452,403			3,452,403	3,598,415
Green Corps	564,978			564,978	538,309
Total program expenses	<u>11,493,696</u>			<u>11,493,696</u>	<u>11,920,432</u>
Management and administration	2,409,788			2,409,788	2,364,326
Advancement	<u>949,587</u>			<u>949,587</u>	<u>1,319,796</u>
Total expenses	<u>14,853,071</u>			<u>14,853,071</u>	<u>15,604,554</u>
(DECREASE) INCREASE FROM OPERATING ACTIVITY	(2,225,148)	(375,954)	2,341	(2,598,761)	(1,499,561)
NON-OPERATING ACTIVITY					
Contributions - estate bequests	15,000			15,000	1,300,403
- New Leaf Campaign		135,774		135,774	130,440
- other		5,002		5,002	5,000
Non-operating appreciation of investments	2,065,912	508,125		2,574,037	3,979,410
Change in funds held in trust by others			2,505,300	2,505,300	6,679,457
Gain on sale of property, building and equipment	214,272			214,272	2,007,501
Return of endowment funds to grantor (Shadybrook)				-	(30,757)
New Leaf Campaign expenses	(35,943)			(35,943)	(49,181)
Integration expenses	(65,578)			(65,578)	(62,840)
Collection appreciation of investments		24,868		24,868	31,888
Collection acquisitions				-	(24,464)
Net assets released from restrictions - Integration	604,473	(604,473)		-	-
Net assets released from restrictions - New Leaf	<u>332,252</u>	<u>(332,252)</u>		<u>-</u>	<u>-</u>
	<u>3,130,388</u>	<u>(262,956)</u>	<u>2,505,300</u>	<u>5,372,732</u>	<u>13,966,857</u>
CHANGE IN NET ASSETS	905,240	(638,910)	2,507,641	2,773,971	12,467,296
NET ASSETS – BEGINNING 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>
NET ASSETS – END OF YEAR	<u>\$ 69,535,256</u>	<u>\$ 8,680,721</u>	<u>\$ 112,394,760</u>	<u>\$ 190,610,737</u>	<u>\$ 187,836,766</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, 2018

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

	Current Year Total	Prior Year Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,773,971	\$ 12,467,296
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,496,659	2,486,687
Gain on disposal of assets	(214,272)	(2,007,501)
Proceeds from sale of property, building and equipment	415,210	2,126,165
In-kind donation of property, building and equipment	(59,850)	(475,000)
Unrealized gains of investments	(3,268,140)	(4,809,045)
Realized gains of investments	(324,135)	(282,755)
Change in funds held in trust by others	(2,505,300)	(6,679,457)
Gifts restricted for permanent endowment	(2,341)	(500)
Bad debt	40,000	283,740
Decrease (increase) in inventory	11,356	(163)
Decrease in pledges receivable	1,037,908	457,499
Decrease in prepaids and other assets	33,174	1,541
(Increase) decrease in charitable remainder trust	(29,635)	11,509
(Decrease) increase in accounts payable and accrued expenses	(95,231)	310,558
Increase (decrease) in deferred revenue	27,019	(5,061)
Total adjustments	<u>(2,437,578)</u>	<u>(8,581,783)</u>
Net cash provided by operating activities	336,393	3,885,513
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,464,115)	(3,288,455)
Proceeds from sale of investments	2,519,582	2,345,928
Purchase of equipment and vehicles	(856,668)	(410,857)
Purchase of land, buildings and improvements	<u>(595,593)</u>	<u>(812,649)</u>
Net cash used by investing activities	(396,794)	(2,166,033)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on draw on line of credit	-	(1,700,000)
Gifts restricted for permanent endowment	2,341	500
(Decrease) increase in gift annuity liability	<u>(10,711)</u>	<u>15,492</u>
Net cash used by financing activities	<u>(8,370)</u>	<u>(1,684,008)</u>
(DECREASE) INCREASE IN CASH AND EQUIVALENTS	(68,771)	35,472
CASH AND EQUIVALENTS – BEGINNING OF YEAR	<u>3,803,105</u>	<u>3,767,633</u>
CASH AND EQUIVALENTS – END OF YEAR	<u>\$ 3,734,334</u>	<u>\$ 3,803,105</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 Organization has adopted Accounting Standards Update No. 2015-07 which removes the requirement to include investments in private investment companies in the fair value hierarchy for which fair value is measured using the net asset value ("NAV") per share practical expedient under ASC 820.

The carrying values of cash and equivalents, receivables, accounts payable and line of credit approximate fair value because of the short-term maturity of these financial instruments.

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

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

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

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

The following table sets forth by level within the fair value hierarchy the Organization's financial assets and liabilities that were accounted for at a fair value on a recurring basis as of September 30, 2018. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Fair Value of Financial Instruments (Continued)

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

	Assets at Market Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash and equivalents	\$ 705,443			\$ 705,443
Mutual funds	10,412,484			10,412,484
Charitable multi-asset equity fund		\$ 95,608		95,608
Large cap equities - mutual funds	1,279,184			1,279,184
Small cap equities - mutual funds	2,826,622			2,826,622
Equities - common stock	2,608,684			2,608,684
International equities - mutual funds	3,408,274			3,408,274
Asset allocation - mutual funds	973,259			973,259
U.S. Government securities	793,547			793,547
Mortgage backed securities		158,732		158,732
Corporate bonds	1,480,939			1,480,939
American Foundation		4,289,396		4,289,396
Other	56,829			56,829
Total investments in the fair value hierarchy	24,545,265	4,543,736		29,089,001
Investments measured at NAV				17,263,234
Total investments				<u>\$ 46,352,235</u>
Funds held in trust (Note 10):				
Holden Arboretum Trust			\$ 94,285,667	94,285,667
Corning Institute			4,267,332	4,267,332
			<u>98,552,999</u>	<u>98,552,999</u>
Total assets in the fair value hierarchy	<u>\$ 24,545,265</u>	<u>\$ 4,543,736</u>	<u>\$ 98,552,999</u>	<u>\$ 127,642,000</u>

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

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)

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

Equities – Equities consist of investments in common stock of domestic and international corporations in a variety of industries that are valued based on quoted prices in active markets and are classified as Level 1. Partnerships whose underlying investments are equities are valued at market value of the underlying assets and are deemed to be Level 2.

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 by the Custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market rate assumptions and are classified as Level 2.

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, 2018:

	The Holden Arboretum Trust	Corning Institute	Total
	<u> </u>	<u> </u>	<u> </u>
Balance at September 30, 2017	\$91,767,231	\$ 4,280,468	\$96,047,699
Endowment distributions to operations	(4,703,457)	(184,652)	(4,888,109)
Net realized and unrealized gains relating to instruments still held at the reporting date	<u>7,221,893</u>	<u>171,516</u>	<u>7,393,409</u>
Balance at September 30, 2018	<u>\$94,285,667</u>	<u>\$ 4,267,332</u>	<u>\$98,552,999</u>

The Organization is required to disclose the nature and risk of the investments recorded at NAV. The following table and paragraphs summarize the nature and risk of these investments at September 30, 2018:

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)

	Fair Value at June 30, 2018	Unfunded Commitments	Redemption Frequency	Redemption Period Notice
Investment in partnerships:				
Large cap equities	\$ 5,591,716	\$ -	Monthly	15 days
Mid cap equities	4,955,011	-	Monthly	15 days
Small cap equities	2,092,950	-	Monthly	15 days
Micro cap equities	2,659,196	-	Monthly	15 days
International equities	1,709,856	-	Monthly	15 days
Private equity	<u>254,505</u>	<u>61,895</u>	Illiquid	N/A
	<u>\$17,263,234</u>	<u>\$ 61,895</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 have been estimated based on the net asset value of the Organization's proportionate partnership interest in capital. The partnerships may withhold up to 5% of members' redemptions until the partnership's net asset value per unit is finalized. Any withheld amount must be paid out to the redeeming member within 180 days of the redemption date.

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

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, 2018, the Organization's federal income taxes for years from September 30, 2014 and thereafter remain subject to examination by the Internal Revenue Service.

- L. Contingencies – The Garden is involved in three 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. Recently, the same descendant that commenced the foregoing 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 Garden has moved to stay this action pending the outcome of its declaratory judgment action, but the Court has not yet ruled on this issue and the case remains ongoing. The Garden cannot reasonably estimate a liability relating to these cases as of September 30, 2018.

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.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- M. 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, 2018.
- 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, 2018, through December 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 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, 2018, 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.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 3. Notes Receivable (Continued)

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, 2018, 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 the consolidated financial statements.

Note 4. Pledges Receivable, Net

The Arboretum completed a capital campaign in 2017. The "New Leaf" campaign, its largest since its creation in 1931, resulted in pledges of approximately \$8,845,000 toward the phase one goal of \$8,000,000. The final project of the campaign was the Fordham Island Bridges completed during 2018.

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	\$ 27,207	\$ 435,083	\$ 83,978	\$ 546,268
Payable one to five years		<u>60,000</u>	<u>10,000</u>	<u>70,000</u>
Total pledges receivable	27,207	495,083	93,978	616,268
Less allowance and discount	<u>(4,210)</u>	<u>(324,174)</u>	<u>(7,358)</u>	<u>(335,742)</u>
Balance at September 30, 2018	<u>\$ 22,997</u>	<u>\$ 170,909</u>	<u>\$ 86,620</u>	<u>\$ 280,526</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.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 5. Investments (Continued)

Market values and cost of investments are as follows:

	Market Value	Cost
The Holden Arboretum		
Cash and equivalents	\$ 617,737	\$ 617,737
Mutual funds	346,358	279,734
Large cap equities - mutual funds	1,279,184	809,283
Small cap equities - mutual funds	2,826,622	2,000,120
International equities - mutual funds	3,408,274	2,771,971
Asset allocation - mutual funds	973,259	849,238
U.S. Government securities	793,547	805,157
Mortgage backed securities	158,732	160,345
Corporate bonds	1,480,939	1,498,196
American Foundation	4,289,396	856,087
Investment in partnerships:		
Large cap equities	5,591,716	1,680,000
Mid cap equities	4,955,011	1,500,000
Small cap equities	2,092,950	875,000
Micro cap equities	2,659,196	525,000
International equities	1,709,856	1,485,000
Private equity	254,505	163,895
Total The Holden Arboretum	<u>33,437,282</u>	<u>16,876,763</u>
Cleveland Botanical Garden		
Cash and equivalents	87,706	87,706
Equities - mutual funds	6,763,017	5,075,392
Fixed income - mutual funds	1,577,080	1,592,117
Alternative investments - mutual funds	1,726,029	1,714,506
Equities - common stock	2,608,684	1,850,918
Charitable multi-asset equity fund	95,608	86,266
Other	56,829	13,754
Total Cleveland Botanical Garden	<u>12,914,953</u>	<u>10,420,659</u>
 Total investments	 <u>\$46,352,235</u>	 <u>\$27,297,422</u>

Under the Organization's policy governing transfer of funds for operations for the year ended September 30, 2018, 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, 2018, \$1,360,358, 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, 2018:

Interest and dividends, net	\$ 544,646
Realized gain on investment	324,135
Unrealized appreciation on investments	<u>3,262,810</u>
	4,131,591
Less endowment income utilized for operations	1,360,358
Operating investment income	<u>197,196</u>
	<u>1,557,554</u>
Non-operating appreciation of investments	<u>\$ 2,574,037</u>

Included in interest and dividend income are investment expenses of \$123,800 for the year ended September 30, 2018.

Note 6. Property, Buildings and Equipment

Property, buildings and equipment, at September 30, 2018, net of elimination are as follows:

	<u>The Holden Arboretum</u>	<u>Cleveland Botanical Garden</u>	<u>Total</u>
Land and land improvements	\$23,554,580	\$ 3,669,155	\$27,223,735
Buildings and structures	11,133,866	39,861,284	50,995,150
Field operating and office equipment	4,419,194	2,454,442	6,873,636
Furnishings/other	334,187		334,187
Construction in process	<u>35,839</u>		<u>35,839</u>
	39,477,666	45,984,881	85,462,547
Less accumulated depreciation	<u>14,181,484</u>	<u>27,858,752</u>	<u>42,040,236</u>
Total property, building and equipment, net	<u>\$25,296,182</u>	<u>\$ 18,126,129</u>	<u>\$43,422,311</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% (4.67% at September 30, 2018). There was no outstanding balance under this agreement and no interest expense incurred for the year ended September 30, 2018. 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 and Transfers	Releases and Transfers	Ending Balance
The Holden Arboretum				
Horticulture	\$ 145,256	\$ 33,350	\$ (57,537)	\$ 121,069
Research	436,245	42,503	(5,565)	473,183
Education	368,893	87,844	(15,793)	440,944
Capital projects	324,698	78,009		402,707
New Leaf Campaign	1,015,567	273,067	(1,000,085)	288,549
Integration	229,936	1,002		230,938
Woodlot management	293,081	25,994	4,798	323,873
Collections fund	223,519	24,868		248,387
Vibrant green communities	438,341		(209,060)	229,281
Summer concert series	180,761	16,035		196,796
CWET		649,750	490	650,240
Split-interest agreements	65,872	(10,974)		54,898
Other	18,681		(16,200)	2,481
	<u>\$3,740,850</u>	<u>\$1,221,448</u>	<u>\$(1,298,952)</u>	<u>\$3,663,346</u>
Cleveland Botanical Garden				
Education	\$1,008,251	\$ 219,238	\$ 23,848	\$1,251,337
School gardens	70,548		(21,334)	49,214
Green Corps	232,124	69,236	(234,495)	66,865
Integration	3,319,088	37,248	(583,895)	2,772,441
Capital projects	709,212	4,000	(86,789)	626,423
Charitable remainder trusts	221,460	29,635		251,095
Annuity trust agreements	18,098	(18,098)		-
	<u>\$5,578,781</u>	<u>\$ 341,259</u>	<u>\$ (902,665)</u>	<u>\$5,017,375</u>
Total temporarily restricted funds	<u>\$9,319,631</u>	<u>\$1,562,707</u>	<u>\$(2,201,617)</u>	<u>\$8,680,721</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	\$ 347,750	\$ 644,325
Research	782,795		782,795
Education	702,003	2,632,109	3,334,112
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>1,184,531</u>	<u>1,090,843</u>	<u>2,275,374</u>
Total endowment funds	<u>\$ 3,465,904</u>	<u>\$ 10,375,857</u>	<u>\$ 13,841,761</u>
Funds held in trust by others	<u>\$ 98,552,999</u>	<u>\$ -</u>	<u>\$ 98,552,999</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:

	<u>2017</u>	<u>2018</u>	<u>2018</u>
	Market Value	Market Value	Change in Funds Held in Trust by Others
Corning Institute for Education and Research	\$ 4,280,468	\$ 4,267,332	\$ (13,136)
The Holden Arboretum Trust	<u>91,767,231</u>	<u>94,285,667</u>	<u>2,518,436</u>
	<u>\$ 96,047,699</u>	<u>\$ 98,552,999</u>	<u>\$ 2,505,300</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, 2018 consist of approximately 36.6% in equity and fixed income based mutual funds (Level 1), 18.0% in common/collective funds and mortgage backed securities (Level 2) and approximately 45.4% in alternative investments (Level 3).

The Trust has committed to make future additional investments totaling \$4,260,360. Any unfunded commitments related to these investments are to be satisfied through the redistribution of investment assets by the Trust.

Note 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	\$25,361,893	\$ 2,337,323	\$ 3,465,404	\$31,164,620
Investment return:				
Investment income	269,159	22,932		292,091
Realized and unrealized gains	2,625,594	223,049		2,848,643
Total investment return	2,894,753	245,981		3,140,734
Contributions and transfers	5,488		500	5,988
Appropriations of net assets	(941,298)	(290,086)		(1,231,384)
Endowment investments, end of the year	<u>\$27,320,836</u>	<u>\$ 2,293,218</u>	<u>\$ 3,465,904</u>	<u>\$33,079,958</u>

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 11. UPMIFA and Endowment Funds (Continued)

	Cleveland Botanical Garden			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments, beginning of the year	\$ 291,640	\$ 1,511,953	\$ 10,350,517	\$ 12,154,110
Investment return:				
Investment income	202,258	72,760		275,018
Realized and unrealized gains	526,455	189,384		715,839
Total investment return	728,713	262,144		990,857
Contributions and transfers	(325,830)	314,634	5,000	(6,196)
Appropriations of net assets		(326,170)		(326,170)
Endowment investments, end of the year	<u>\$ 694,523</u>	<u>\$ 1,762,561</u>	<u>\$ 10,355,517</u>	<u>\$ 12,812,601</u>
	Consolidated			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments, beginning of the year	\$25,653,533	\$ 3,849,276	\$ 13,815,921	\$43,318,730
Investment return:				
Investment income	471,417	95,692		567,109
Realized and unrealized gains	3,152,049	412,433		3,564,482
Total investment return	3,623,466	508,125		4,131,591
Contributions and transfers	(320,342)	314,634	5,500	(208)
Appropriations of net assets	(941,298)	(616,256)		(1,557,554)
Endowment investments, end of the year	<u>\$28,015,359</u>	<u>\$ 4,055,779</u>	<u>\$ 13,821,421</u>	<u>\$45,892,559</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 \$73,252 as of September 30, 2018. These deficiencies resulted from additional amounts appropriated for expenditure to fund operations of the Garden. Underwater endowments were funded to their full value at October 31, 2018.

HOLDEN FORESTS AND GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 12. Split-Interest Agreements

The Organization is obligated under various charitable remainder trusts, whereby donors have contributed cash to the Organization with the agreement that the donors shall be the sole recipients of aggregate annuity payments of \$69,069 per annum. Such payments are payable in equal quarterly installments of approximately \$17,268 and shall terminate on the last payment date preceding the death of the donor. The trusts are recorded at present value of the future payments to be made to the beneficiaries. Discount rates used to value the annuity obligations have various rates.

Note 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 \$182,014 for 2018.

The Garden has a defined contribution retirement plan under section 403(b) of the Internal Revenue Code, which covers substantially all of its employees over the age of 18. Under this plan, employees may defer their wages in amounts up to federally imposed limits. After employees have completed one year of service, employee deferrals may be matched by the Garden up to the first 3% of the employee's compensation. An additional 3% of the employee's compensation is contributed by the Garden. The Garden made plan contributions of \$62,517 for 2018.

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	\$ 2,612,887	\$ 1,487,160	\$ (110,641)	\$ 3,989,406	26.7
Research	1,367,460	122,643	(40,211)	1,449,892	9.7
Education and public programs	1,489,470	633,246	(57,282)	2,065,434	13.8
Guest relations	1,470,208	2,078,696	(95,768)	3,453,136	23.1
Green Corps		580,647	(15,669)	564,978	3.8
Management and administration	1,170,555	1,380,444	(68,840)	2,482,159	16.6
Advancement	476,979	498,944	(26,336)	949,587	6.3
	<u>\$ 8,587,559</u>	<u>\$ 6,781,780</u>	<u>\$ (414,747)</u>	<u>\$ 14,954,592</u>	<u>100.0</u>