

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

CONSOLIDATED FINANCIAL REPORT

SEPTEMBER 30, 2022

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

Opinion

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, 2022, 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.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Holden Arboretum and Affiliate and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Holden Arboretum and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but it is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Holden Arboretum and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Holden Arboretum and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report of Summarized Comparative Information

We have previously audited The Holden Arboretum and Affiliate's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 16, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Meloney + Novotny LLC

Cleveland, Ohio
January 20, 2023

HOLDEN FORESTS AND GARDENS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2022

(With Comparative Totals at September 30, 2021)

	Current Year Total	Prior Year Total
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 5,637,838	\$ 6,269,592
Inventory	175,920	74,070
Pledges receivable	271,514	423,983
Prepays and other assets	<u>243,057</u>	<u>172,947</u>
Total current assets	6,328,329	6,940,592
Pledges receivable	19,524	9,070
Property, buildings and equipment, net	37,454,114	39,162,996
Remainder trusts	184,197	248,325
Investments - gift annuities	136,745	219,344
Investments - endowment	45,262,680	57,243,751
Investments - funds held in trust by others	<u>94,671,225</u>	<u>113,881,841</u>
TOTAL ASSETS	<u>\$ 184,056,814</u>	<u>\$ 217,705,919</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 353,227	\$ 728,741
Split-interest agreements - current	46,053	50,395
Accrued expenses	848,136	691,251
Deferred revenue	<u>357,225</u>	<u>350,662</u>
Total current liabilities	1,604,641	1,821,049
Loans payable	-	555,432
Split-interest agreements liability	<u>110,672</u>	<u>131,772</u>
Total liabilities	1,715,313	2,508,253
NET ASSETS		
Without donor restrictions	61,096,661	69,232,974
With donor restrictions	<u>121,244,840</u>	<u>145,964,692</u>
Total net assets	<u>182,341,501</u>	<u>215,197,666</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 184,056,814</u>	<u>\$ 217,705,919</u>

The accompanying notes are an integral part of these financial statements

HOLDEN FORESTS AND GARDENS
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended September 30, 2022
(With Comparative Totals for Year Ended September 30, 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Current Year Total</u>	<u>Prior Year Total</u>
OPERATING SUPPORT AND REVENUE				
Contributions	\$ 3,230,912	\$ 634,853	\$ 3,865,765	\$ 3,029,661
Membership	1,397,379		1,397,379	1,303,577
Government grants	215,024		215,024	425,409
In-kind donation	21,112		21,112	279,364
Holden Arboretum Trust	4,636,376		4,636,376	4,448,335
Fundraising events	197,554		197,554	118,688
Admissions, education and ancillary services	3,224,953		3,224,953	2,336,066
Endowment income available for operations	1,877,676	83,202	1,960,878	1,617,702
Operating investment income	212,953		212,953	212,953
Net assets released and reclassified from restrictions	<u>1,783,547</u>	<u>(1,783,547)</u>	<u>-</u>	<u>-</u>
Total operating support and revenue	16,797,486	(1,065,492)	15,731,994	13,771,755
OPERATING EXPENSES				
Program expenses:				
Horticulture	4,274,539		4,274,539	4,054,525
Research and conservation	2,468,191		2,468,191	2,244,304
Education	1,485,650		1,485,650	1,276,877
Guest relations	<u>4,056,086</u>		<u>4,056,086</u>	<u>3,326,304</u>
Total program expenses	12,284,466		12,284,466	10,902,010
Management and administration	3,347,224		3,347,224	2,622,322
Development	<u>912,687</u>		<u>912,687</u>	<u>803,221</u>
Total operating expenses	<u>16,544,377</u>		<u>16,544,377</u>	<u>14,327,553</u>
INCREASE (DECREASE) FROM OPERATING ACTIVITY	253,109	(1,065,492)	(812,383)	(555,798)
NON-OPERATING ACTIVITY				
Contributions - estate bequests	416,141		416,141	897,015
Master planning expenses	(197,298)		(197,298)	(253,196)
Loan forgiveness	555,432		555,432	1,406,000
Non-operating (depreciation) appreciation of investments	(8,749,410)	(4,925,008)	(13,674,418)	10,067,046
Change in funds held in trust by others		(18,729,352)	(18,729,352)	18,874,626
(Loss) gain on sale of property, building and equipment	<u>(414,287)</u>		<u>(414,287)</u>	<u>84,837</u>
	<u>(8,389,422)</u>	<u>(23,654,360)</u>	<u>(32,043,782)</u>	<u>31,076,328</u>
CHANGE IN NET ASSETS	(8,136,313)	(24,719,852)	(32,856,165)	30,520,530
NET ASSETS – BEGINNING OF YEAR	<u>69,232,974</u>	<u>145,964,692</u>	<u>215,197,666</u>	<u>184,677,136</u>
NET ASSETS – END OF YEAR	<u>\$ 61,096,661</u>	<u>\$ 121,244,840</u>	<u>\$ 182,341,501</u>	<u>\$ 215,197,666</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, 2022
(With Comparative Totals for Year Ended September 30, 2021)

	Horticulture	Research and Conservation	Education	Guest Relations	Management and Administration	Development	Current Year Total	%	Prior Year Total	%
Compensation and benefits	\$2,176,391	\$1,850,104	\$877,164	\$1,682,388	\$1,997,492	\$439,010	\$9,022,549	53.9	\$7,933,042	54.4
Utilities	163,752	54,343	52,227	249,758	86,571	9,940	616,591	3.7	657,267	4.5
Professional and subcontract services	119,640	134,790	143,373	305,464	416,498	72,923	1,192,688	7.1	694,770	4.8
Building and equipment maintenance	144,210	20,940	31,906	293,763	138,582	21,506	650,907	3.9	594,332	4.1
Education and membership	49,093	29,351	103,907	283,039	103,357	174,198	742,945	4.4	435,673	3.0
Advertising	50,698	24,461	20,684	86,287	46,739	12,157	241,026	1.4	160,011	1.1
Landscape maintenance	192,014	59,207	7,760	130,345	28,940	4,626	422,892	2.5	425,887	2.9
Staff development and travel	59,026	55,922	52,952	60,956	70,325	11,979	311,160	1.9	189,574	1.3
Other		1,511	2,986	98,317	39,306	63,993	206,113	1.2	161,326	1.1
Office supplies	20,491	7,316	8,577	28,419	37,380	43,686	145,869	0.9	138,424	0.9
Technology	36,256	33,196	22,563	47,173	124,642	14,082	277,912	1.7	314,547	2.2
Insurance and real estate tax	60,892	27,197	34,770	57,267	21,120	4,614	205,860	1.2	195,158	1.3
Research expenses		101,971					101,971	0.6	78,245	0.6
Operating expenses before depreciation	3,072,463	2,400,309	1,358,869	3,323,176	3,110,952	872,714	14,138,483	84.4	11,978,256	82.2
Depreciation	1,202,076	67,882	126,781	732,910	236,272	39,973	2,405,894	14.4	2,349,297	16.1
Operating expenses	4,274,539	2,468,191	1,485,650	4,056,086	3,347,224	912,687	16,544,377	98.8	14,327,553	98.3
Master planning					197,298		197,298	1.2	253,196	1.7
Total expenses	<u>\$4,274,539</u>	<u>\$2,468,191</u>	<u>\$1,485,650</u>	<u>\$4,056,086</u>	<u>\$3,544,522</u>	<u>\$912,687</u>	<u>\$16,741,675</u>	<u>100.0</u>	<u>\$14,580,749</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, 2022

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

	Current Year Total	Prior Year Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$(32,856,165)	\$ 30,520,530
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,405,894	2,349,297
Loss (gain) on sale of property, building and equipment	414,287	(84,837)
Unrealized losses (gains) of investments	15,289,852	(9,839,044)
Realized gains of investments	(3,149,545)	(1,457,491)
Change in funds held in trust by others	19,210,616	(18,868,521)
Gifts restricted for permanent endowment	(5,618)	(288,329)
Loan forgiveness	(555,432)	(1,406,000)
(Increase) decrease in inventory	(101,850)	86,667
Decrease (increase) in pledges receivable	142,015	(191,518)
(Increase) decrease in prepaids and other assets	(70,110)	18,267
Decrease (increase) in charitable remainder trust	64,128	(46,625)
(Decrease) increase in accounts payable and accrued expenses	(218,629)	193,963
Increase in deferred revenue	6,563	14,152
Total adjustments	<u>33,432,171</u>	<u>(29,520,019)</u>
Net cash provided by operating activities	576,006	1,000,511
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,692,622)	(2,257,730)
Proceeds from sale of investments	4,615,985	2,782,820
Purchase of property, buildings and equipment	(2,300,332)	(599,869)
Proceeds from sale of property, building and equipment	<u>1,189,033</u>	<u>518,950</u>
Net cash (used) provided by investing activities	(1,187,936)	444,171
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	-	555,432
Gifts restricted for permanent endowment	5,618	288,329
Decrease in gift annuity liability	<u>(25,442)</u>	<u>(51,268)</u>
Net cash (used) provided by financing activities	<u>(19,824)</u>	<u>792,493</u>
(DECREASE) INCREASE IN CASH AND EQUIVALENTS	(631,754)	2,237,175
CASH AND EQUIVALENTS – BEGINNING OF YEAR	<u>6,269,592</u>	<u>4,032,417</u>
CASH AND EQUIVALENTS – END OF YEAR	<u>\$ 5,637,838</u>	<u>\$ 6,269,592</u>

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

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

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

- B. Principles of Consolidation – The consolidated financial statements include the Arboretum, Garden and Land Holdings, LLC and 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 – The Organization adopted the guidance issued in Accounting Standards Update ("ASU") No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The main provisions of ASU 2020-07 require an organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the consolidated financial statements, with the exception of increased disclosure.
- D. Accounting Method – The Organization has reported information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net assets without donor restrictions represent net assets that are not subject to donor-imposed restrictions. Contributions are considered to be available for general use unless specifically restricted by the donor. Net assets without donor restrictions include board designated endowment funds of \$23,379,225 as of September 30, 2022 (Note 9). These designations are based on Board actions, which can be altered or revoked at a future time by the Board.

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

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Accounting Method (Continued)

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

E. Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

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

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

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Revenue Recognition (Continued)

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

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

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

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

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

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

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

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

The following table sets forth by level within the fair value hierarchy the Organization's financial assets and liabilities that were accounted for at a fair value on a recurring basis as of September 30, 2022. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

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

	Assets at Market Value as of September 30, 2022			
	Level 1	Level 2	Level 3	Total
Cash and equivalents	\$ 1,181,199			\$ 1,181,199
Mutual funds	10,167,136			10,167,136
Charitable multi-asset equity fund		\$ 16,080		16,080
Equities - common stock	10,612,574			10,612,574
Corporate bonds	2,916,083			2,916,083
American Foundation		3,962,771		3,962,771
Other	55,178			55,178
Total investments in the fair value hierarchy	<u>\$24,932,170</u>	<u>\$ 3,978,851</u>		28,911,021
Investments measured at NAV				<u>16,488,404</u>
Subtotal				45,399,425
Funds held in trust by others (Note 8):				
Holden Arboretum Trust			\$ 91,008,027	91,008,027
Corning Institute			3,663,198	3,663,198
			<u>\$ 94,671,225</u>	<u>94,671,225</u>
Total investments				<u>\$ 140,070,650</u>

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

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

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

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

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

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

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

The table below sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the year ended September 30, 2022:

	The Holden Arboretum Trust	Corning Institute	Total
Balance at September 30, 2021	\$ 109,252,681	\$ 4,629,160	\$ 113,881,841
Endowment distributions to operations	(4,636,376)	(327,162)	(4,963,538)
Net realized and unrealized losses relating to instruments still held at the reporting date	<u>(13,608,278)</u>	<u>(638,800)</u>	<u>(14,247,078)</u>
Balance at September 30, 2022	<u>\$ 91,008,027</u>	<u>\$ 3,663,198</u>	<u>\$ 94,671,225</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, 2022:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Period Notice
Investment in partnerships:				
Large cap equities	\$ 5,727,081	\$ -	Monthly	15 days
Mid cap equities	3,991,142	-	Monthly	15 days
Small cap equities	2,134,563	-	Monthly	15 days
Micro cap equities	2,306,406	-	Monthly	15 days
International equities	1,763,451	-	Monthly	15 days
Private equity	<u>565,761</u>	<u>1,052,863</u>	Illiquid	N/A
	<u>\$ 16,488,404</u>	<u>\$ 1,052,863</u>		

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

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

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

- L. Permanent Collections – The Organization's permanent collections of accessioned and non-accessioned woody plants and herbaceous plants of conservation and horticultural significance, herbarium specimens, wood samples, tree artifacts, animals, birds, reptiles and insects, library and rare books and works of art that support the Organization's mission are protected and preserved for public exhibition, education, research and the furtherance of the public good. Accordingly, such collections are not recorded for financial statement purposes. Accessions and deaccessions to the permanent collections are made by the Curator of Living Collections 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, 2022, the Organization's federal income taxes for years from September 30, 2019 and thereafter remain subject to examination by the Internal Revenue Service.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- N. Contingencies – The Garden is involved in two cases pending, in various stages, in the Common Pleas Court of Cuyahoga County, 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, including finding that the fence restriction is enforceable not only by the Garden's adjacent landowners, but also the Wade heirs. The Eighth District Court of Appeals decision was then appealed by both the Garden and the descendant defendants to the Supreme Court of Ohio. The Supreme Court of Ohio affirmed the Eighth District's decision in its entirety. The matter is now pending further proceedings in the Common Pleas Court consistent with the Supreme Court of Ohio's judgment.

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

Third, 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 January 20, 2022. 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 & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- 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, 2022.
- P. In-kind Donations – The Organization records in-kind donations at fair value of the assets received or if the services received (a) create or enhance a long-lived asset or (b) require specialized skills by individuals that would have been purchased if not donated. At September 30, 2022, the amounts reflected in the consolidated financial statements as in-kind donations related primarily to legal services.
- Q. Reclassifications – Certain prior year balances have been reclassified to conform with current year presentation.
- R. Comparative Information – The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended September 30, 2021, from which the summarized information was derived.
- S. Subsequent Events – The Organization has evaluated all events subsequent to the consolidated statement of financial position of September 30, 2022, through January 20, 2023, which is the date these consolidated financial statements were available to be issued. There were no subsequent events that require disclosure.

Note 2. Notes Receivable

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

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

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. 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, 2022, the Arboretum has made advances of \$2,975,000 to the Garden as well as a \$648,000 endowment transfer. Due to the related party nature of this transaction, the note receivable and transfers by the Arboretum are eliminated for the consolidated financial statements.

Note 3. Pledges Receivable, Net

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

Receivable within one year	\$ 272,654
Receivable beyond one year	20,000
Total pledges receivable	<u>292,654</u>
Less allowance and discount	<u>(1,616)</u>
Balance at September 30, 2022	<u>\$ 291,038</u>

Note 4. Investments

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

Under the Organization's policy governing transfer of funds for operations for the year ended September 30, 2022, 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, 2022, \$1,960,878, approximately 4.5% of the prior sixteen quarters' market closing values, was distributed for current operations under this policy.

An analysis of investment activity is as follows for the year ended September 30, 2022:

Interest and dividends, net of fees	\$ 639,720
Realized gain on investment	3,149,545
Unrealized depreciation on investments	<u>(15,289,852)</u>
	(11,500,587)
Less: endowment income utilized for operations	1,960,878
operating investment income	<u>212,953</u>
	<u>2,173,831</u>
Non-operating depreciation of investments	<u>\$(13,674,418)</u>

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 5. Property, Buildings and Equipment

Property, buildings and equipment, at September 30, 2022, net of elimination are as follows:

	The Holden Arboretum	Cleveland Botanical Garden	Total
Land and land improvements	\$25,074,489	\$ 3,544,216	\$28,618,705
Buildings and structures	9,212,495	42,356,247	51,568,742
Field operating and office equipment	3,586,625	3,013,876	6,600,501
Furnishings/other	334,187	-	334,187
Construction in process	28,715	4,280	32,995
	<u>38,236,511</u>	<u>48,918,619</u>	<u>87,155,130</u>
Less accumulated depreciation	<u>14,820,038</u>	<u>34,880,978</u>	<u>49,701,016</u>
Total property, building and equipment, net	<u>\$23,416,473</u>	<u>\$14,037,641</u>	<u>\$37,454,114</u>

The Arboretum has received contributions of development rights - via conservation easements - associated with approximately 1,728 acres of land. No value has been placed on these contributions and the easements are not reflected in the consolidated statement of financial position. However, the Arboretum is required to maintain the integrity of the easements and may incur legal and other costs to enforce the easements.

Note 6. Line of Credit

The Organization has entered into a demand line of credit arrangement with BNY Mellon National Association that carries a maximum possible balance of \$1,700,000. The line of credit has a variable interest rate that is the LIBOR rate plus 1.75% (6.27% at September 30, 2022). There was no outstanding balance under this agreement and no interest expense incurred for the year ended September 30, 2022. The board designated portion of the Arboretum Endowment Fund is the collateral for the line of credit. Effective February 1, 2023, the variable interest rate will be based on the adjusted 30-day Secured Overnight Financing Rate plus a credit spread adjustment of 10 basis points.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 7. Net Assets

Net assets with donor restrictions consisted of the following:

<u>Subject to expenditure for specified purpose:</u>	
Horticulture	\$ 305,750
Research	582,890
Education	325,501
Canopy Walk and Emergent Tower	55,657
Exhibition	172,658
Capital projects	1,561,940
Vibrant green communities	21,581
Woodlot management	255,708
Collections	278,458
Green Corps	485,407
Master planning	12,650
Promises to give, restricted by donors for:	
Horticulture	60,000
Research	156,474
Exhibition	5,300
Cuyahoga arts and culture	16,335
Other	1,385
	<u>4,297,694</u>
<u>Subject to the passage of time:</u>	
Split-interest agreements	156,725
Charitable remainder trusts	184,197
Promises to give not restricted by donors, but which are unavailable for expenditure until received	<u>51,544</u>
	392,466
<u>Endowments:</u>	
Subject to Arboretum's spending policy and appropriation:	
Original donor-restricted amount and amounts required to be maintained in perpetuity by donor:	
Horticulture	1,064,505
Research	832,795
Education	3,439,751
Canopy Walk and Emergent Tower	500,000
Glasshouse	94,020
Internships	250,000
Hershey Children's Garden	730,100
Terrace	1,000,000
Retail store	250,000
Library	21,486
Butterflies and birds	301,688
Green Corps	657,861
Community outreach	3,000,000
General operations	2,287,032
Accumulated endowment gains	<u>7,454,217</u>
Total endowments	21,883,455
<u>Not subject to spending policy or appropriation:</u>	
Beneficial interest in funds held in Trust	<u>94,671,225</u>
Total net assets with donor restrictions	<u>\$ 121,244,840</u>

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8. Funds Held in Trust by Others

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

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

The Trust has committed to make future additional investments totaling \$5,632,257. Any unfunded commitments related to these investments are to be satisfied through the redistribution of investment assets by the Trust.

Note 9. UPMIFA and Endowment Funds

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

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

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

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

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 9. UPMIFA and Endowment Funds (Continued)

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

	Without Donor Restrictions	With Donor Restrictions			Total Funds
		Original Gift Amount	Accumulated Gains (Losses)	Total With Donor Restrictions	
Endowment investments, beginning of the year, as reclassified	\$ 29,348,161	\$ 14,423,620	\$ 13,471,970	\$ 27,895,590	\$ 57,243,751
Investment return:					
Investment income	277,243		362,477	362,477	639,720
Realized and unrealized losses	(6,880,138)		(5,031,343)	(5,031,343)	(11,911,481)
Total investment return	(6,602,895)		(4,668,866)	(4,668,866)	(11,271,761)
Contributions and transfers	1,870,400	5,618	(411,497)	(405,879)	1,464,521
Appropriations of net assets	(1,236,441)		(937,390)	(937,390)	(2,173,831)
Endowment investments, end of the year	\$ 23,379,225	\$ 14,429,238	\$ 7,454,217	\$ 21,883,455	\$ 45,262,680

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. Funds with deficiencies totaled \$395,122 as of September 30, 2022.

Note 10. Split-Interest Agreements

The Organization is obligated under various charitable remainder trusts, whereby donors have contributed cash to the Organization with the agreement that the donors shall be the sole recipients of aggregate annuity payments of \$67,525 per annum. Such payments are payable in equal quarterly installments of approximately \$16,881 and shall terminate on the last payment date preceding the death of the donor. The trusts are recorded at present value of the future payments to be made to the beneficiaries which is estimated at \$161,649 as of September 30, 2022. Discount rates used to value the annuity obligations vary based on life expectancy factor and range between .77% and 9.01%.

Note 11. Loans Payable

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was signed into law by the U.S. Government. The CARES Act, among other things, created the Paycheck Protection Program ("PPP") to be administered by the U.S. Small Business Administration ("SBA"). In February 2021, the Organization received a \$555,432 unsecured loan under the PPP. The Organization initially recorded the loan as a debt in 2021 and subsequently recorded \$555,432 of non-operating income when the loan was forgiven by the SBA in April 2022.

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 12. Defined Contribution Plan

The Holden Forests & Gardens 403(b) Retirement Plan is a defined contribution retirement plan under section 403(b) of the Internal Revenue Code, which covers all eligible employees over the age of 18. Under this plan, employees may defer their wages in amounts up to federally imposed limits. After employees have completed one year of service, an additional 3% of the employee's compensation from the Organization is contributed to the plan. Additionally, employee deferrals are matched by the Organization up to the first 3% of the employee's compensation. The Organization has made contributions to the plan of \$335,008 for 2022.

Note 13. Functional Expenses

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

Note 14. Financial Assets and Liquidity

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

The Organization manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets and
- Maintaining sufficient reserves to provide reasonable assurance that long-term commitments and obligations will be met.

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

Financial assets:	
Cash and equivalents	\$5,637,838
Pledges receivable, payable within one year	<u>271,514</u>
Financial assets, at year-end	5,909,352
Plus endowment spending rate appropriation for next year	<u>2,077,166</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$7,986,518</u>

HOLDEN FORESTS & GARDENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 14. Financial Assets and Liquidity (Continued)

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments. The Organization has board designated endowment funds of \$23,379,225 as of September 30, 2022. Although the Organization does not intend to spend from these funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts could be made available if necessary. The Organization also has a \$1,700,000 line of credit that can be utilized for any operating shortfalls.