
The Morton Arboretum

**Financial Report
December 31, 2021**

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Independent Auditor's Report

To the Board of Trustees
The Morton Arboretum

Report on the Audits of the Financial Statements

Opinion

We have audited the financial statements of The Morton Arboretum (the "Arboretum"), which comprise the statement of financial position as of December 31, 2021 and 2020 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Arboretum as of December 31, 2021 and 2020 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of the Arboretum and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As described in Note 4 to the financial statements, the financial statements include investments valued at \$99,122,773 (31.3 percent of net assets) and \$69,140,555 (26.4 percent of net assets) as of December 31, 2021 and 2020, respectively, whose fair values have been estimated by management using the most recent available statement adjusted by subsequent contributions and distributions. Because of the inherent uncertainty of valuation, management's estimate of values may differ significantly from values that would have been used had a ready market existed for these securities, and the differences could be material. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

To the Board of Trustees
The Morton Arboretum

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for 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 financial statements.

In performing audits in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the 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 financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Arboretum'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arboretum'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2022 on our consideration of The Morton Arboretum's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Morton Arboretum's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Morton Arboretum's internal control over financial reporting and compliance.

Plante & Moran, PLLC

March 25, 2022

Statement of Financial Position

December 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 9,523,409	\$ 10,000,226
Accounts receivable:		
Accrued interest and dividends	91,811	82,860
Grants	397,871	330,451
Pledges - Net	2,899,904	1,685,716
Other	4,973,020	27,589
Investments	305,746,367	260,788,552
Other assets	720,282	797,702
Property and equipment - Net	49,770,244	47,416,813
Total assets	\$ 374,122,908	\$ 321,129,909
Liabilities and Net Assets		
Liabilities		
Accounts payable and other accrued liabilities	\$ 7,570,010	\$ 4,719,318
Loans payable	-	4,880,600
Bonds payable - Net	50,069,340	50,039,216
Total liabilities	57,639,350	59,639,134
Net Assets		
Without donor restrictions:		
Undesignated	265,471,893	224,961,245
Board designated	33,626,526	29,411,300
Total without donor restrictions	299,098,419	254,372,545
With donor restrictions	17,385,139	7,118,230
Total net assets	316,483,558	261,490,775
Total liabilities and net assets	\$ 374,122,908	\$ 321,129,909

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Retail services	\$ 8,149,527	\$ -	\$ 8,149,527	\$ 2,312,780	\$ -	\$ 2,312,780
Admissions	3,016,625	-	3,016,625	1,812,163	-	1,812,163
Education	921,885	-	921,885	499,440	-	499,440
Visitor events	5,604,835	-	5,604,835	2,951,739	-	2,951,739
Development	4,160,512	11,052,946	15,213,458	4,741,853	865,759	5,607,612
Governmental grants	6,219,318	-	6,219,318	1,474,272	-	1,474,272
Membership	6,075,221	-	6,075,221	4,789,675	-	4,789,675
Net assets released from restrictions	1,773,266	(1,773,266)	-	2,212,046	(2,212,046)	-
Gain on forgiveness of PPP loan	3,505,600	-	3,505,600	-	-	-
Total revenue, gains, and other support	39,426,789	9,279,680	48,706,469	20,793,968	(1,346,287)	19,447,681
Expenses						
Program services:						
Collections and facilities	10,148,558	-	10,148,558	8,585,293	-	8,585,293
Education	1,130,568	-	1,130,568	1,066,659	-	1,066,659
Science and conservation	4,432,250	-	4,432,250	4,402,229	-	4,402,229
Public programs	1,931,218	-	1,931,218	1,598,576	-	1,598,576
Retail services	6,355,596	-	6,355,596	3,450,326	-	3,450,326
Visitor services	3,989,175	-	3,989,175	3,093,735	-	3,093,735
Interest	1,593,069	-	1,593,069	1,535,940	-	1,535,940
Depreciation	3,277,923	-	3,277,923	3,280,379	-	3,280,379
Total program services	32,858,357	-	32,858,357	27,013,137	-	27,013,137
Support services:						
Management and general	6,743,581	-	6,743,581	6,293,705	-	6,293,705
Membership	1,396,883	-	1,396,883	1,305,344	-	1,305,344
Development	1,977,806	-	1,977,806	1,718,005	-	1,718,005
Total support services	10,118,270	-	10,118,270	9,317,054	-	9,317,054
Total expenses	42,976,627	-	42,976,627	36,330,191	-	36,330,191
(Decrease) Increase in Net Assets - Before other changes	(3,549,838)	9,279,680	5,729,842	(15,536,223)	(1,346,287)	(16,882,510)
Other Changes						
Investment income	48,275,712	987,229	49,262,941	25,898,927	440,196	26,339,123
Realized loss on interest rate swap	-	-	-	(715,861)	-	(715,861)
Increase (Decrease) in Net Assets	44,725,874	10,266,909	54,992,783	9,646,843	(906,091)	8,740,752
Net Assets - Beginning of year	254,372,545	7,118,230	261,490,775	244,725,702	8,024,321	252,750,023
Net Assets - End of year	\$ 299,098,419	\$ 17,385,139	\$ 316,483,558	\$ 254,372,545	\$ 7,118,230	\$ 261,490,775

Statement of Functional Expenses

Year Ended December 31, 2021

	Program Services	Management and General	Membership and Development	Total
Salaries and benefits	\$ 14,095,736	\$ 4,506,512	\$ 2,080,389	\$ 20,682,637
Supplies and travel	2,780,228	80,223	744,514	3,604,965
Services and professional fees	6,275,200	2,156,846	549,786	8,981,832
Cost of sales	2,335,620	-	-	2,335,620
Occupancy	2,500,581	-	-	2,500,581
Interest	1,593,069	-	-	1,593,069
Depreciation and amortizaion	3,277,923	-	-	3,277,923
Total functional expenses	\$ 32,858,357	\$ 6,743,581	\$ 3,374,689	\$ 42,976,627

Year Ended December 31, 2020

	Program Services	Management and General	Membership and Development	Total
Salaries and benefits	\$ 13,362,493	\$ 4,506,396	\$ 1,979,840	\$ 19,848,729
Supplies and travel	1,737,877	97,964	516,200	2,352,041
Services and professional fees	4,653,811	1,689,345	527,309	6,870,465
Cost of sales	867,581	-	-	867,581
Occupancy	1,575,056	-	-	1,575,056
Interest	1,535,940	-	-	1,535,940
Depreciation and amortizaion	3,280,379	-	-	3,280,379
Total functional expenses	\$ 27,013,137	\$ 6,293,705	\$ 3,023,349	\$ 36,330,191

Statement of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Increase in net assets	\$ 54,992,783	\$ 8,740,752
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	3,277,923	3,280,379
Realized loss on interest rate swap	-	715,861
Amortization of debt issuance costs	30,124	318,489
Contributions restricted for long-term purposes	(10,537,711)	(289,060)
Net realized and unrealized investment gains	(45,866,874)	(22,678,277)
Gain on disposal of property and equipment	(7,771)	(4,900)
Forgiveness of Payment Protection Program loan	(3,505,600)	-
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accrued interest and dividends receivable	(8,951)	(33,716)
Other receivables	(4,945,431)	28,011
Grants receivable	(67,420)	(19,961)
Pledges receivable	66,199	9,760
Other assets	77,420	(247,902)
Accounts payable and other accrued liabilities	376,592	1,212,085
Net cash and cash equivalents used in operating activities	(6,118,717)	(8,968,479)
Cash Flows from Investing Activities		
Acquisition of property and equipment	(335,274)	(678,511)
Proceeds from sale of property and equipment	7,771	4,900
Purchases of marketable securities	(77,587,442)	(139,729,177)
Proceeds from sales and maturities of marketable securities	78,496,501	152,506,592
Acquisition of property and equipment with proceeds from contributions restricted for long-term purposes	(2,821,980)	(207,730)
Net cash and cash equivalents (used in) provided by investing activities	(2,240,424)	11,896,074
Cash Flows from Financing Activities		
Cash proceeds from contributions of stock - Restricted for long-term purposes	214,590	-
Cash collections from contributions restricted for long-term purposes	9,042,734	1,210,751
Payments on loan payable	(1,375,000)	(1,375,000)
Payment of debt issuance costs	-	(340,009)
Proceeds from issuance of bonds	-	50,366,673
Payments on bonds	-	(49,000,000)
Proceeds from Paycheck Protection Program loan	-	3,505,600
Payment to terminate interest rate swap	-	(1,019,000)
Proceeds from line of credit	1,500,000	-
Payments on line of credit	(1,500,000)	-
Net cash and cash equivalents provided by financing activities	7,882,324	3,349,015
Net (Decrease) Increase in Cash and Cash Equivalents	(476,817)	6,276,610
Cash and Cash Equivalents - Beginning of year	10,000,226	3,723,616
Cash and Cash Equivalents - End of year	\$ 9,523,409	\$ 10,000,226

Statement of Cash Flows (Continued)

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Supplemental Cash Flow Information		
Cash paid for interest	\$ 1,558,832	\$ 1,072,271
Property and equipment additions included in accounts payable and other accrued liabilities	2,474,100	-

December 31, 2021 and 2020

Note 1 - Nature of the Organization

The Morton Arboretum (the "Arboretum") is an outdoor museum of living woody plants. The mission of The Morton Arboretum is to collect and study trees, shrubs, and other plants from around the world; display them across naturally beautiful landscapes for people to study and enjoy; and learn how to grow them in ways that enhance our environment. The Arboretum's goal is to encourage the planting and conservation of trees and other plants for a greener, healthier, and more beautiful world.

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with nonprofit reporting principles and practices.

Classification of Net Assets

Net assets of the Arboretum are classified as without donor restrictions or with donor restrictions depending on the presence and characteristics of donor-imposed restrictions limiting the Arboretum's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Accordingly, net assets of the Arboretum are reported as follows:

Funds without Donor Restrictions

Those resources over which the board of trustees has discretionary control. These include any designated amounts the board has set aside for a particular purpose. These funds are broken out by board designation into the following funds:

- Undesignated - Represents the portion of expendable funds available for support of the Arboretum's operations
- Board-designated fund - Those funds designated by the board of trustees to function as endowments are classified as board-designated net assets. These funds include the Infrastructure Fund, Suzette Morton Davidson Rare Book and Print Fund, the Capital Development Fund, and the Capital Campaign Estate Gifts Fund. The Infrastructure Fund is intended to support the repair and replacement of significant buildings or site facilities. The Suzette Morton Davidson Rare Book and Print Fund supports the acquisition and maintenance of the Arboretum's rare books and prints. The Capital Development Fund finances major additions and renovations to the Arboretum's facilities. The Capital Campaign Estate Gifts Fund is composed of estate gifts received during a fundraising period if there is no stated restriction. These designations are based on board actions, which can be altered or revoked at a future time by the board.

Funds with Donor Restrictions

Those resources subject to donor-imposed restrictions that will be satisfied either by actions of the Arboretum or the passage of time or that stipulate that the principal of these endowments can be permanently invested by the Arboretum.

Earnings, gains, and losses on restricted net assets are classified as without donor restrictions, unless specifically restricted by the donor or by applicable state law. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor-restricted net assets are released to net assets without donor restrictions.

December 31, 2021 and 2020

Note 2 - Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and all highly liquid investments with an original maturity of three months or less when purchased. The Arboretum maintains cash and cash equivalents in bank deposit accounts that at times may exceed federally insured limits. The Arboretum has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments are reported at fair value. Investment income, including realized and unrealized gains (losses), is reflected in the statement of activities and changes in net assets as an increase (decrease) in net assets. Interest and dividend income is recorded on the accrual basis. Realized gains and losses are determined based on specific identification of securities sold using the first-in, first-out (FIFO) accounting method.

The Arboretum's investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near future and will materially affect the amounts reported in the financial statements.

The Arboretum readily accepts marketable securities from donors, which may be delivered in certificate form or transferred to the Arboretum's brokerage account from the donor's brokerage account. The policy of the Arboretum is to sell all such securities as soon as possible after receipt.

Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. The Arboretum capitalizes additions of property and equipment in excess of \$25,000, with the exception of motor vehicles and attachments, which are capitalized regardless of cost. Costs of repairs and maintenance are charged to expense as incurred.

Revenue Recognition

The Arboretum derives exchange revenue from the following revenue streams:

- Retail services
- Admissions
- Education
- Visitor events
- Membership

Performance Obligations

The following explains the performance obligations related to each revenue stream and how those are recognized:

Retail Services

The Arboretum generates revenue from written or implied agreements for a specific exchange of merchandise, food, or facility rental priced at market value and recognized at time of performance.

Admissions

The Arboretum charges entrance to the grounds priced at market value and recognized at the date of admission.

December 31, 2021 and 2020

Note 2 - Significant Accounting Policies (Continued)

Education

The Arboretum generates revenue from written agreements identifying the specific education course priced at market value and recognized at the end of the program.

Visitor Events

The Arboretum generates revenue from written agreements or implied special event admission, annual plant sale, and miscellaneous visitor services priced at market value and recognized at the time of performance.

Membership

The Arboretum generates revenue from written agreements allowing free admission for a one- or two-year period priced at market value and recognized over the membership period, as applicable. There is a nominal value of privileges associated with membership.

Contract liabilities arising from revenue with customers had a beginning balance as of January 1, 2021 and 2020 of \$1,865,407 and \$1,549,290, respectively. The closing balances were \$2,108,627 and \$1,865,407 as of December 31, 2021 and 2020, respectively.

Development and Governmental Grants Revenue

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received and measured at fair value. Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Conditional promises to give (those with a measurable performance or other barrier and a right of return) are not recognized until the conditions on which they depend have been met. Conditional contributions that have been awarded but not yet recognized total \$590,000 and \$642,500 as of December 31, 2021 and 2020, respectively.

Pledges Receivable

The Arboretum's pledges receivable are primarily composed of promises made by donors for use in the Arboretum's activities. Unconditional promises expected to be collected within one year are recorded at fair value. Unconditional promises expected to be collected in future years are recorded as a receivable at the present value of expected future cash flows. The Arboretum has not recorded a provision for doubtful accounts since it is the opinion of management that those receivables are collectible in full.

Deferred Financing Costs

Bond issuance and discount costs are amortized using the straight-line method over the lives of the bonds, which is 27 years for the 2020 series bond. Amortization expense on the bond issuance and discount was \$30,124 and \$318,489 for the years ended December 31, 2021 and 2020, respectively. Unamortized bond issuance and discount costs of \$765,660 and \$795,784 as of December 31, 2021 and 2020, respectively, are included in bonds payable as a reduction of the liability on the statement of financial position.

Note 2 - Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the program and support services have been reported on a functional basis in the statements of activities and changes in net assets and functional expenses. Costs are charged to program and support services on an actual basis. Management has determined that allocations for certain indirect costs, such as depreciation and occupancy expenses, that could be allocated to support services based on relative square footage are not material to the financial statements as a whole and have not been allocated. Even though the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Donated Services and Assets

Certain donated services are recognized as support in the statement of activities and changes in net assets. The value of these services is determined based on estimated fair value if the services received create or enhance long-lived assets or require specialized skills and would need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. In-kind contributions that meet the criteria for recognition are included in the accompanying financial statements and are offset by like amounts as expenses or additions to property and equipment.

For the years ended December 31, 2021 and 2020, there were no donated services or assets. The value of services would be determined based on their estimated fair value. Other volunteer services are not reflected in the financial statements because the criteria for recognition of those services has not been met.

Collection Items

The Arboretum's rare books and print collections are not capitalized in the accompanying financial statements. Living woody plants are also not capitalized unless they are part of a major capital project. Purchases of collection items that are not capitalized are recorded as decreases in net assets without donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status

The Arboretum is a not-for-profit entity and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Arboretum and recognize a tax liability if the Arboretum has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS) or other applicable taxing authorities.

Related Party Transactions

The Arboretum received \$4,132,000 and \$290,000 in contributions from its board in 2021 and 2020, respectively. Of these amounts, \$1,791,700 and \$120,400 was not received in cash as of December 31, 2021 and 2020, respectively, and has been recognized as a pledge receivable on the statement of financial position.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which addresses the accounting consequences that could result from the global markets' anticipated transition away from the use of the London Interbank Offered Rate (LIBOR). The ASU provides optional expedients and exceptions to contracts, hedging relationships, and other transactions impacted by reference rate reform. The provisions of the ASU are effective upon issuance (March 2020) and generally can be applied through December 31, 2022. The Arboretum has been in contact with the bank regarding the interest rate in its line of credit agreement.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU provides for additional disclosures to support clearer financial information about important noncash contributions that charities and other not-for-profit organizations receive, known as gifts in kind (GIKs). Contributed nonfinancial assets will be reported by category within the financial statements, and there will be additional disclosures included for each category, including whether the nonfinancial assets were monetized or used during the reporting period, the policy for monetizing nonfinancial contributions, and a description of the fair value techniques used to arrive at a fair value measurement. The new guidance will be effective for the Arboretum's year ending December 31, 2022 and will be applied using the retrospective method.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including March 23, 2022, which is the date the financial statements were available to be issued.

On February 12, 2022, the Arboretum entered into a purchase agreement to purchase approximately 17 acres of land adjacent to the Arboretum for \$5,100,000. The purchase is set to finalize in the second quarter of 2022.

Note 3 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2021	2020	Depreciable Life - Years
Land	\$ 1,255,284	\$ 1,255,284	-
Land improvements	32,498,118	32,498,118	20
Buildings	54,079,128	54,079,128	30-45
Equipment and other property	9,804,904	9,126,696	2-10
Construction in progress	5,503,810	613,446	-
Total cost	103,141,244	97,572,672	
Accumulated depreciation	53,371,000	50,155,859	
Net property and equipment	<u>\$ 49,770,244</u>	<u>\$ 47,416,813</u>	

Depreciation expense for 2021 and 2020 was \$3,277,923 and \$3,280,379, respectively.

Construction in progress as of December 31, 2021 consists of expenditures associated for the construction of The Grand Garden. The Arboretum expects to incur an additional \$5,996,000 to finalize construction of The Grand Garden in 2022.

Note 4 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Arboretum's assets measured at fair value on a recurring basis at December 31, 2021 and 2020 and the valuation techniques used by the Arboretum to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Arboretum has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Arboretum's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Investments in Entities that Calculate Net Asset Value per Share

The Arboretum holds shares or interests in investment companies at year end where the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the investment company.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2021

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at December 31, 2021
Assets					
Investments:					
Common stock	\$ 117,023,350	\$ -	\$ -	\$ -	\$ 117,023,350
Fixed-income mutual funds -					
Corporate bonds	31,621,887	-	-	-	31,621,887
Real estate - Mutual fund	1,884,606	-	-	-	1,884,606
International equities	56,093,751	-	-	-	56,093,751
Partnership - Other	-	-	-	58,534,835	58,534,835
Hedge funds	-	-	-	40,587,938	40,587,938
Total investments	\$ 206,623,594	\$ -	\$ -	\$ 99,122,773	\$ 305,746,367

December 31, 2021 and 2020

Note 4 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2020						
	Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
	Net Asset Value					
Assets						
Investments:						
Common stock	\$ 71,878,658	\$ -	\$ -	\$ -	\$ -	\$ 71,878,658
Fixed-income mutual funds -						
Corporate bonds	73,577,675	-	-	-	-	73,577,675
Real estate - Mutual fund	1,134,717	-	-	-	-	1,134,717
International equities	45,056,947	-	-	-	-	45,056,947
Partnership - Other	-	-	-	-	43,264,020	43,264,020
Hedge funds	-	-	-	-	25,876,535	25,876,535
Total assets	<u>\$ 191,647,997</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,140,555</u>	<u>\$ 260,788,552</u>

Level 1 Inputs

The fair value of shares of common stock, fixed-income mutual funds, real estate mutual funds, and international equities is based on quoted market prices.

At year end, the fair value, unfunded commitments, and redemption rules of those investments valued at net asset value per share are as follows:

	2021	2020	2021		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Partnerships, other (a)	\$ 58,534,835	\$ 43,264,020	\$ 30,367,144	No redemption	N/A
Long-short equity portfolio funds (b)	11,157,231	7,758,737	-	Monthly to semiannual; direct hedge one-year lockup	10-90 days
Event-driven portfolio funds (c)	7,607,995	3,513,780	-	Annually - Rolling two- year	90 days
Relative value portfolio funds (d)	9,942,227	4,923,432	-	Monthly - Quarterly	15-90 days
Global Macro Strategy Portfolio Funds (e)	2,900,159	3,402,708	-	Monthly - Quarterly	5-90 days
Multistrategy portfolio funds (f)	8,980,326	3,459,178	-	Monthly to semiannual; direct hedge one-year lockup	30-90 days
Distressed credit portfolio funds (g)	-	2,818,700	-		
Total	<u>\$ 99,122,773</u>	<u>\$ 69,140,555</u>	<u>\$ 30,367,144</u>		

(a) Partnerships, other includes several equity funds that invest in a wide range of equity and equity-related securities of management buyout transactions and special equity transactions. Within this category, there are limited partnerships and closed-end limited partnerships. Limited partnerships may not be redeemed without the prior written consent of the general partner. Closed-end limited partnerships cannot be redeemed. Liquidation will coincide with the term of the partnership.

(b) Long-short equity strategies seek to profit by taking positions in equities and generally involve fundamental analysis in the investment decision process. Managers in these strategies tend to be "stock pickers" and typically manage market exposure by shifting allocations between long and short investments depending on market conditions and outlook. Long-short equity strategies may comprise investments in one or multiple countries, including emerging markets and one or multiple sectors.

December 31, 2021 and 2020

Note 4 - Fair Value Measurements (Continued)

(c) Event-driven strategies involve investing in opportunities created by significant transaction events, such as spin-offs, mergers and acquisitions, and reorganizations. These strategies include risk arbitrage, distressed situations investing, special situations, and opportunistic investing.

(d) Relative value strategies seek to profit by exploiting pricing inefficiencies between related instruments while remaining long-term neutral to directional price movements in any one market. These strategies include, but are not limited to: convertible bond arbitrage, fixed-income arbitrage, options arbitrage, pairs trading, managed futures, statistical arbitrage, commodity trading advisors (CTAs), and multiple market neutral strategies.

(e) Global macro strategy focuses on investing in instruments whose prices fluctuate based on the changes in economic policies, along with the flow of capital around the globe and are generally focused on financial instruments that are broad in scope and move based on systemic risk.

(f) Multistrategy managers employ a combination of any of the above-mentioned strategies.

(g) Distressed credit investment strategy focuses on debt securities originating from companies that are in the process of reorganization or liquidation and are purchased at a substantial discount to its intrinsic value.

Note 5 - Investment Income

Investment returns for 2021 and 2020 were as follows:

	2021	2020
Interest	\$ 472,152	\$ 1,036,584
Dividends	3,338,570	2,893,543
Investment expense	(386,474)	(264,283)
Tax expense	(28,181)	(4,998)
Net realized gain on sale of securities	14,903,733	6,440,377
Net unrealized gain on securities	30,963,141	16,237,900
Total	<u>\$ 49,262,941</u>	<u>\$ 26,339,123</u>

Note 6 - Pledges Receivable

Pledges receivable in excess of one year are adjusted to present value using discount rates ranging from 0.63 to 2.49 percent as of December 31, 2021 and 2020. In accordance with accounting principles generally accepted in the United States of America, the discount rate is determined when the pledge is initially recognized.

	2021	2020
Within one year	\$ 1,953,343	\$ 1,572,216
From one to five years	889,113	45,705
Thereafter	80,248	85,980
Less allowance for net present value discount	(22,800)	(18,185)
Net contributions receivable	<u>\$ 2,899,904</u>	<u>\$ 1,685,716</u>

Note 7 - Employee Benefit Plan

Effective July 1, 2005, the Arboretum established a defined contribution retirement plan operated under Section 401(k) of the Internal Revenue Code. The plan covers all employees who have attained the age of 21. Participants, upon qualification, are eligible for a matching contribution equal to 100 percent of elective deferrals, up to a maximum of 6 percent of compensation. The Arboretum shall also make a nonelective contribution on behalf of each participant who has attained age 50 and has completed 10 or more years of service on or before January 1, 2009 in the amount of 2 percent of the participant's contribution. In addition, the Arboretum, at its discretion, may make a qualified nonelective contribution. Contributions to the plan of \$876,185 and \$866,334 were charged against operations in 2021 and 2020, respectively.

Note 8 - Bonds Payable

The Arboretum was obligated to the County of DuPage, Illinois under a loan agreement for the issuance of \$29,000,000 in demand revenue bonds. The bonds were initially issued by the county for \$42,000,000 on December 17, 2003, and, effective with the issuance of the bond with Bank of America (described below), \$13,000,000 was repaid on May 15, 2017, leaving a balance of \$29,000,000. The bond was supported by an irrevocable letter of credit issued on August 20, 2015 by Northern Trust, which expired in 2021, with the repayment of bonds further described below.

The Arboretum was also obligated to Bank of America Public Capital Corp. under a loan agreement for the issuance of \$20,000,000 in a direct placement revenue bond on May 15, 2017. The direct placement revenue bond included an interest rate swap agreement maturing on May 1, 2024 in order to reduce its exposure to market risks from changes in interest rates. The Arboretum paid a fixed interest rate, and the counterparty paid the Arboretum a variable rate based on the one-month LIBOR. This interest rate swap agreement was terminated in 2020, with the repayment of bonds further described below.

On July 30, 2020, the above bonds were repaid in full under a loan agreement for the issuance of \$50,835,000 in revenue refunding bonds by the County of DuPage, Illinois. The issuance of the bond reimbursed the letter of credit associated with the demand revenue bonds and terminated the swap hedge agreement associated with the direct placement revenue bond. The swap termination fee incurred in 2020 was \$1,019,000. The revenue refunding bonds issued in 2020 bear an interest rate of 3.00 percent and mature on May 15, 2047. Interest is paid semiannually. Interest expense on the bonds amounted to \$1,539,589 and \$1,150,662 in 2021 and 2020, respectively.

	2021	2020
Bonds payable	\$ 50,835,000	\$ 50,835,000
Bond issuance costs	(500,347)	(520,033)
Bond discount	(265,313)	(275,751)
Total	<u>\$ 50,069,340</u>	<u>\$ 50,039,216</u>

Note 9 - Loans Payable

The Arboretum entered into a line of credit on February 10, 2017 that was converted to a term loan on February 8, 2018. The loan bears fixed interest at a rate of 3.10 percent. The Arboretum was required to make interest-only payments through the scheduled term loan conversion date, at which time the Arboretum was then required to make quarterly installment payments, which commenced on March 1, 2018, through the final principal payment on December 1, 2021. The term loan was repaid in full during 2021. The Arboretum had an outstanding balance of \$1,375,000 on the term loan as of December 31, 2020.

During 2020, the Arboretum was subject to a minimum liquidity ratio covenant under the term loan agreement.

December 31, 2021 and 2020

Note 9 - Loans Payable (Continued)

On March 18, 2021, the Arboretum entered into an agreement for a line of credit from PNC Bank. Under the terms of the agreement, the Arboretum has access to \$10,000,000, which expires on March 17, 2023. The line of credit will bear interest at the one-month LIBOR plus 0.90 percent, which is due the first day of each month after advances have been made. During 2021, the Arboretum made one draw on the line of credit for \$1,500,000, which was subsequently repaid in 2021. There is no outstanding balance on the line of credit as of December 31, 2021.

During the year ended December 31, 2020, the Arboretum received a Paycheck Protection Program (PPP) loan in the amount of \$3,505,600. The PPP loan program was created under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and is administered by the Small Business Administration (SBA). Under the terms of this program, the loan may be fully or partially forgiven if the loan proceeds are spent on qualifying expenses and if staffing level and salary maintenance requirements are met.

The Arboretum submitted a request for forgiveness of the entire loan balance in December 2020, which was forgiven in full on June 8, 2021.

The SBA has the ability to review the Arboretum's loan file for a period subsequent to the date the loan is forgiven or repaid in full and could request additional documentation to support the Arboretum's initial eligibility for the loan and request for loan forgiveness. In the event the SBA subsequently determines the Arboretum did not meet the initial eligibility requirements for the PPP loan, the Arboretum could be required to repay the PPP loan plus interest.

Loan forgiveness income has been recorded in revenue, gains, and other support on the statement of activities and changes in net assets.

Note 10 - Net Assets with Donor Restriction

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31:

	2021	2020
Time and purpose restrictions:		
Capital campaign - Growing Brilliantly	\$ -	\$ 840,974
Capital campaign - Second Century	8,329,016	-
Pledges receivable - Time restricted - Annual fund	8,972	43,382
Total time and purpose restrictions	8,337,988	884,356
Purpose restrictions:		
Endowment revenue - Science and conservation	2,167,878	1,869,705
Endowment revenue - New plant development	288,226	207,463
Endowment revenue - Library	422,003	288,096
Endowment revenue - The Grand Garden	171,184	-
Total purpose restrictions	3,049,291	2,365,264
Estate gifts - Library	14,465	30,224
Program grants:		
Center for tree science	249,610	29,804
Other	452,509	542,306
Total	12,103,863	3,851,952
Net assets to be maintained in perpetuity:		
Davis Chair program	766,276	766,276
Charles C. Haffner Trust	500,000	500,000
Haerther New Plant Development	2,000,000	2,000,000
The Grand Garden Endowment	2,015,000	-
Total	5,281,276	3,266,276
Total with donor restrictions	<u>\$ 17,385,139</u>	<u>\$ 7,118,230</u>

December 31, 2021 and 2020

Note 11 - Donor-restricted and Board-designated Endowments

The Arboretum's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Arboretum is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of trustees appropriates such amounts for expenditures. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of trustees of the Arboretum has interpreted SPMIFA as requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund unless a donor stipulates the contrary.

As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Arboretum considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Arboretum has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Arboretum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Arboretum and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Arboretum
- The investment policies of the Arboretum

	Endowment Net Asset Composition by Type of Fund as of December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 33,626,526	\$ -	\$ 33,626,526
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	4,781,276	4,781,276
Accumulated investment gains	-	3,049,291	3,049,291
Total donor-restricted endowment funds	-	7,830,567	7,830,567
Total	\$ 33,626,526	\$ 7,830,567	\$ 41,457,093

Notes to Financial Statements

December 31, 2021 and 2020

Note 11 - Donor-restricted and Board-designated Endowments (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 29,411,300	\$ 4,781,540	\$ 34,192,840
Investment return:			
Investment income	330,901	68,081	398,982
Realized gains	1,452,168	298,774	1,750,942
Unrealized gains	3,016,940	620,715	3,637,655
Total investment return	4,800,009	987,570	5,787,579
Contributions	-	2,365,000	2,365,000
Transfers	365,131	-	365,131
Amounts appropriated for expenditure	(949,914)	(303,543)	(1,253,457)
Endowment net assets - End of year	<u>\$ 33,626,526</u>	<u>\$ 7,830,567</u>	<u>\$ 41,457,093</u>

	Endowment Net Asset Composition by Type of Fund as of December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 29,411,300	\$ -	\$ 29,411,300
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	2,416,276	2,416,276
Accumulated investment gains	-	2,365,264	2,365,264
Total donor-restricted endowment funds	-	4,781,540	4,781,540
Total	<u>\$ 29,411,300</u>	<u>\$ 4,781,540</u>	<u>\$ 34,192,840</u>

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 24,845,127	\$ 4,345,702	\$ 29,190,829
Investment return:			
Investment income	376,287	61,182	437,469
Realized gains	661,987	107,635	769,622
Unrealized gains	1,669,044	271,376	1,940,420
Total investment return	2,707,318	440,193	3,147,511
Contributions	-	275,000	275,000
Transfers	2,367,664	-	2,367,664
Amount appropriated for expenditure	(508,809)	(279,355)	(788,164)
Endowment net assets - End of year	<u>\$ 29,411,300</u>	<u>\$ 4,781,540</u>	<u>\$ 34,192,840</u>

December 31, 2021 and 2020

Note 11 - Donor-restricted and Board-designated Endowments (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Arboretum to retain a fund of perpetual duration. As of December 31, 2021 and 2020, there were no funds with deficiencies.

Return Objectives and Risk Parameters

The Arboretum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Arboretum must hold in perpetuity or for a donor-specified period. The long-term investment objective for the endowment funds is to generate sufficient income to support its programs while preserving the related principal.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Arboretum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Arboretum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Through the combination of investment strategy and payout policy, the Arboretum strives to provide a reasonable and consistent payout from endowment funds to support operations, while preserving the purchasing power of the endowment adjusted for inflation. The annual and long-term spending rate is subject to approval by the board of trustees. For 2021 and 2020, the board approved a spending rate of 5.0 percent.

Note 12 - Liquidity and Availability of Resources

The following reflects the Arboretum's financial assets as of December 31, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date:

	2021	2020
Cash and cash equivalents	\$ 9,523,409	\$ 10,000,226
Investments	305,746,367	260,788,552
Receivables - Net	5,462,702	440,900
Pledge receivables - Net	2,899,904	1,685,716
Financial assets - At year end	323,632,382	272,915,394
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions - Net of appropriations	8,449,067	113,500
Unappropriated donor-restricted endowment earnings - Net of appropriations	2,731,033	2,181,890
Net assets to be maintained in perpetuity	5,279,161	3,266,276
Illiquid investments	58,534,835	43,190,618
Board-designated endowment funds - Net of appropriations	32,971,526	28,721,300
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 215,666,760</u>	<u>\$ 195,441,810</u>

December 31, 2021 and 2020

Note 12 - Liquidity and Availability of Resources (Continued)

As part of the Arboretum's liquidity management, financial assets are structured to be available as general expenditures, liabilities, and other obligations come due. In addition, the Arboretum invests cash in excess of daily requirements in short-term investments. Operating expenses are budgeted net of revenue and projected donor contributions. Any deficit is covered by a consistent payout from the endowment funds, as disclosed in Note 10.

The Arboretum has various sources of liquidity at its disposal, including cash and cash equivalents, marketable securities and the line of credit disclosed in Note 9.

Note 13 - Employee Retention Credit

The Coronavirus Aid, Relief, and Economic Security Act of 2020 introduced the Employee Retention Credit (ERC) as pandemic relief for eligible organizations. The ERC is a refundable credit against certain employment taxes and qualifies as a government grant. Under generally accepted accounting principles, government grants are recognized as revenue in the period in which an organization substantially overcomes all measurable barriers to be entitled to the funding. Management has determined that the measurable barriers that must be overcome for entitlement to the ERC funding are qualifying for the credits based on having operations suspended to comply with a government order related to COVID-19, meeting the threshold for gross receipts decline in 2021 compared to 2019, and incurring eligible payroll expenses. For the year ended December 31, 2021, the Arboretum determined these conditions have been met and recognized \$4,776,959 of ERC revenue within government grants on the statement of activities and changes in net assets and recognized a corresponding receivable within other receivables on the statement of financial position.

The Arboretum's ERC claim is subject to review by the Internal Revenue Service (IRS) within the applicable statute of limitations. If a portion or all of the ERC is determined to be ineligible upon IRS review, the Arboretum would be required to return the ineligible portion on demand and could potentially be subject to penalties and interest on unpaid employment taxes.