

---

# The Morton Arboretum

---

**Financial Report  
December 31, 2022**

<b>Independent Auditor's Report</b>	1-2
<b>Financial Statements</b>	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-20

## 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, 2022 and 2021 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, 2022 and 2021 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 \$111,767,947 (39.8 percent of net assets) and \$99,122,773 (31.3 percent of net assets) as of December 31, 2022 and 2021, 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 the 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 April 10, 2023 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*

April 10, 2023

Statement of Financial Position

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 5,838,248	\$ 9,523,409
Accounts receivable:		
Accrued interest and dividends	130,406	91,811
Grants	676,600	397,871
Pledges - Net	2,210,661	2,899,904
Other	5,393,909	4,973,020
Investments	264,022,799	305,746,367
Other assets	1,117,036	720,282
Property and equipment - Net	<u>59,932,572</u>	<u>49,770,244</u>
Total assets	<u><b>\$ 339,322,231</b></u>	<u><b>\$ 374,122,908</b></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and other accrued liabilities	\$ 7,436,836	\$ 7,570,010
Loan payable	1,000,000	-
Bonds payable - Net	<u>50,099,465</u>	<u>50,069,340</u>
Total liabilities	58,536,301	57,639,350
<b>Net Assets</b>		
Without donor restrictions:		
Undesignated	238,516,333	265,471,893
Board designated	<u>30,063,663</u>	<u>33,626,526</u>
Total without donor restrictions	268,579,996	299,098,419
With donor restrictions	<u>12,205,934</u>	<u>17,385,139</u>
Total net assets	<u>280,785,930</u>	<u>316,483,558</u>
Total liabilities and net assets	<u><b>\$ 339,322,231</b></u>	<u><b>\$ 374,122,908</b></u>

## Statement of Activities and Changes in Net Assets

Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Gains, and Other Support</b>						
Retail services	\$ 10,841,114	\$ -	\$ 10,841,114	\$ 8,149,527	\$ -	\$ 8,149,527
Admissions	2,457,800	-	2,457,800	3,016,625	-	3,016,625
Education	1,235,283	-	1,235,283	921,885	-	921,885
Visitor events	5,823,377	-	5,823,377	5,604,835	-	5,604,835
Development	5,348,997	6,256,952	11,605,949	4,160,512	11,052,946	15,213,458
Governmental grants	3,176,816	-	3,176,816	6,219,318	-	6,219,318
Membership	5,998,064	-	5,998,064	6,075,221	-	6,075,221
Net assets released from restrictions	10,823,752	(10,823,752)	-	1,773,266	(1,773,266)	-
Gain on forgiveness of PPP loan	-	-	-	3,505,600	-	3,505,600
Total revenue, gains, and other support	45,705,203	(4,566,800)	41,138,403	39,426,789	9,279,680	48,706,469
<b>Expenses</b>						
Program services:						
Collections and facilities	10,670,659	-	10,670,659	10,148,558	-	10,148,558
Education	1,290,977	-	1,290,977	1,130,568	-	1,130,568
Science and conservation	6,170,112	-	6,170,112	4,432,250	-	4,432,250
Public programs	2,105,248	-	2,105,248	1,931,218	-	1,931,218
Retail services	8,817,351	-	8,817,351	6,355,596	-	6,355,596
Visitor services	4,422,314	-	4,422,314	3,989,175	-	3,989,175
Interest	1,577,049	-	1,577,049	1,593,069	-	1,593,069
Depreciation	3,380,867	-	3,380,867	3,277,923	-	3,277,923
Total program services	38,434,577	-	38,434,577	32,858,357	-	32,858,357
Support services:						
Management and general	8,316,610	-	8,316,610	6,743,581	-	6,743,581
Membership	1,552,778	-	1,552,778	1,396,883	-	1,396,883
Development	2,284,249	-	2,284,249	1,977,806	-	1,977,806
Total support services	12,153,637	-	12,153,637	10,118,270	-	10,118,270
Total expenses	50,588,214	-	50,588,214	42,976,627	-	42,976,627
<b>(Decrease) Increase in Net Assets - Before other changes</b>	(4,883,011)	(4,566,800)	(9,449,811)	(3,549,838)	9,279,680	5,729,842
<b>Other Changes - Investment (loss) income</b>	(25,635,412)	(612,405)	(26,247,817)	48,275,712	987,229	49,262,941
<b>(Decrease) Increase in Net Assets</b>	(30,518,423)	(5,179,205)	(35,697,628)	44,725,874	10,266,909	54,992,783
<b>Net Assets - Beginning of year</b>	299,098,419	17,385,139	316,483,558	254,372,545	7,118,230	261,490,775
<b>Net Assets - End of year</b>	<b>\$ 268,579,996</b>	<b>\$ 12,205,934</b>	<b>\$ 280,785,930</b>	<b>\$ 299,098,419</b>	<b>\$ 17,385,139</b>	<b>\$ 316,483,558</b>

## Statement of Functional Expenses

	<b>Year Ended December 31, 2022</b>			
	Program Services	Management and General	Membership and Development	Total
Salaries and benefits	\$ 15,812,946	\$ 5,455,986	\$ 2,308,665	\$ 23,577,597
Supplies and travel	3,904,284	444,685	970,727	5,319,696
Services and professional fees	8,462,883	2,415,939	557,635	11,436,457
Cost of sales	3,032,407	-	-	3,032,407
Occupancy	2,264,141	-	-	2,264,141
Interest	1,577,049	-	-	1,577,049
Depreciation and amortizaion	3,380,867	-	-	3,380,867
Total functional expenses	<b><u>\$ 38,434,577</u></b>	<b><u>\$ 8,316,610</u></b>	<b><u>\$ 3,837,027</u></b>	<b><u>\$ 50,588,214</u></b>

	<b>Year Ended December 31, 2021</b>			
	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	<b><u>\$ 32,858,357</u></b>	<b><u>\$ 6,743,581</u></b>	<b><u>\$ 3,374,689</u></b>	<b><u>\$ 42,976,627</u></b>

Statement of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (35,697,628)	\$ 54,992,783
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	3,380,867	3,277,923
Amortization of debt issuance costs and bond discount	30,124	30,124
Contributions restricted for long-term purposes	(4,888,748)	(10,537,711)
Net realized and unrealized investment loss (gain)	29,482,238	(45,866,874)
Gain on disposal of property and equipment	(61,676)	(7,771)
Forgiveness of Paycheck Protection Program loan	-	(3,505,600)
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accrued interest and dividends receivable	(38,595)	(8,951)
Other receivables	(420,889)	(4,945,431)
Grants receivable	(278,729)	(67,420)
Pledges receivable	299,041	66,199
Other assets	(396,754)	77,420
Accounts payable and other accrued liabilities	(1,354,886)	376,592
Net cash and cash equivalents used in operating activities	(9,945,635)	(6,118,717)
<b>Cash Flows from Investing Activities</b>		
Acquisition of property and equipment	(7,682,846)	(335,274)
Proceeds from sale of property and equipment	28,957	7,771
Purchases of marketable securities	(43,651,578)	(77,587,442)
Proceeds from sales and maturities of marketable securities	55,892,908	78,496,501
Acquisition of property and equipment with proceeds from contributions restricted for long-term purposes	(4,605,918)	(2,821,980)
Net cash and cash equivalents used in investing activities	(18,477)	(2,240,424)
<b>Cash Flows from Financing Activities</b>		
Cash proceeds from contributions of stock - Restricted for long-term purposes	151,318	214,590
Cash collections from contributions restricted for long-term purposes	5,127,633	9,042,734
Payments on loan payable	-	(1,375,000)
Proceeds from line of credit	-	1,500,000
Payments on line of credit	-	(1,500,000)
Proceeds from loan payable	1,000,000	-
Net cash and cash equivalents provided by financing activities	6,278,951	7,882,324
<b>Net Decrease in Cash and Cash Equivalents</b>	(3,685,161)	(476,817)
<b>Cash and Cash Equivalents - Beginning of year</b>	9,523,409	10,000,226
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 5,838,248</b>	<b>\$ 9,523,409</b>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	\$ 1,546,925	\$ 1,558,832
Property and equipment additions included in accounts payable and other accrued liabilities	1,252,388	2,474,100



December 31, 2022 and 2021

### 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, 2022 and 2021

**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, 2022 and 2021

**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, 2022 and 2021 of \$2,108,627 and \$1,865,407, respectively. The closing balances were \$2,009,265 and \$2,108,627 as of December 31, 2022 and 2021, 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 \$1,488,766 and \$590,000 as of December 31, 2022 and 2021, 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 for the years ended December 31, 2022 and 2021. Unamortized bond issuance and discount costs of \$735,535 and \$765,660 as of December 31, 2022 and 2021, respectively, are included in bonds payable as a reduction of the liability on the statement of financial position.

December 31, 2022 and 2021

**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***

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 standard was adopted for the year ended December 31, 2022; was applied retrospectively; and did not result in a restatement of prior year amounts.

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, 2022 and 2021, 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.

December 31, 2022 and 2021

**Note 2 - Significant Accounting Policies (Continued)**

**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 \$3,537,510 and \$4,132,000 in contributions from its board in 2022 and 2021, respectively. Of these amounts, \$413,604 and \$1,791,640 was not received in cash as of December 31, 2022 and 2021, respectively, and has been recognized as a pledge receivable on the statement of financial position.

**Subsequent Events**

The financial statements and related disclosures include evaluation of events up through and including April 10, 2023, which is the date the financial statements were available to be issued.

**Note 3 - Property and Equipment**

The cost of property and equipment is summarized as follows:

	2022	2021	Depreciable Life - Years
Land	\$ 6,451,633	\$ 1,255,284	-
Land improvements	43,919,750	32,498,118	20
Buildings	54,011,102	54,079,128	30-45
Equipment and other property	10,053,526	9,804,904	2-10
Construction in progress	2,037,125	5,503,810	-
Total cost	116,473,136	103,141,244	
Accumulated depreciation	56,540,564	53,371,000	
Net property and equipment	<u>\$ 59,932,572</u>	<u>\$ 49,770,244</u>	

Depreciation expense for 2022 and 2021 was \$3,380,867 and \$3,277,923, respectively.

On May 19, 2022, the Arboretum purchased 17 acres of land adjacent to the Arboretum for \$5,100,000.

Construction in progress as of December 31, 2022 consists of expenditures associated for the construction and renovation of the Firefly Pavilion. The Arboretum expects to incur additional expenditures of \$6,451,000 to complete the renovation project, which is expected to finalize in September 2023. Additionally, the Arboretum completed The Grand Garden project in 2022, which was classified as construction in progress as of December 31, 2021.

**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.

December 31, 2022 and 2021

**Note 4 - Fair Value Measurements (Continued)**

The following tables present information about the Arboretum's assets measured at fair value on a recurring basis at December 31, 2022 and 2021 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, 2022

	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, 2022
<b>Assets</b>					
Investments:					
Common stock	\$ 86,879,842	\$ -	\$ -	\$ -	\$ 86,879,842
Fixed-income mutual funds -					
Corporate bonds	26,691,795	-	-	-	26,691,795
Real estate - Mutual fund	1,292,277	-	-	-	1,292,277
International equities	37,390,938	-	-	-	37,390,938
Partnership - Other	-	-	-	69,596,625	69,596,625
Hedge funds	-	-	-	42,171,322	42,171,322
<b>Total investments</b>	<b>\$ 152,254,852</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 111,767,947</b>	<b>\$ 264,022,799</b>

December 31, 2022 and 2021

**Note 4 - Fair Value Measurements (Continued)**

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
<b>Assets</b>							
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	
<b>Total assets</b>	<b>\$ 206,623,594</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 99,122,773</b>	<b>\$ 305,746,367</b>	

**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:

	2022	2021	2022		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Partnerships, other (a)	\$ 69,596,625	\$ 58,534,835	\$ 32,187,152	No redemption	N/A
Hedge funds, long-short equity portfolio funds (b)	12,991,245	11,157,231	-	Monthly to semiannual; direct hedge one-year lockup	10-90 days
Hedge funds, event-driven portfolio funds (c)	3,320,201	7,607,995	-	Annually - Rolling two year	90 days
Hedge funds, relative value portfolio funds (d)	9,393,079	9,942,227	-	Monthly - Quarterly	15-90 days
Hedge funds, global macro strategy portfolio funds (e)	5,773,599	2,900,159	-	Monthly - Quarterly	5-90 days
Hedge funds, multistrategy portfolio funds (f)	10,693,198	8,980,326	-	Monthly to semiannual; direct hedge one-year lockup	30-90 days
<b>Total</b>	<b>\$ 111,767,947</b>	<b>\$ 99,122,773</b>	<b>\$ 32,187,152</b>		

(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, 2022 and 2021

**Note 4 - Fair Value Measurements (Continued)**

(c) Event-driven strategies involve investing in opportunities created by significant transaction events, such as spinoffs, 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.

**Note 5 - Investment Income**

Investment returns for 2022 and 2021 were as follows:

	2022	2021
Interest	\$ 937,102	\$ 472,152
Dividends	2,718,026	3,338,570
Investment expense	(415,120)	(414,474)
Tax expense	(5,587)	(181)
Net realized gain on sale of securities	12,077,960	14,903,733
Net unrealized (loss) gain on securities	(41,560,198)	30,963,141
Total	<u>\$ (26,247,817)</u>	<u>\$ 49,262,941</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, 2022 and 2021. In accordance with accounting principles generally accepted in the United States of America, the discount rate is determined when the pledge is initially recognized.

	2022	2021
Within one year	\$ 1,278,056	\$ 1,953,343
From one to five years	902,702	889,113
Thereafter	74,515	80,248
Less allowance for net present value discount	(44,612)	(22,800)
Net contributions receivable	<u>\$ 2,210,661</u>	<u>\$ 2,899,904</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 \$1,016,943 and \$876,185 were charged against operations in 2022 and 2021, respectively.



December 31, 2022 and 2021

**Note 8 - Bonds Payable**

On July 30, 2020, in conjunction with a bond repayment the Arboretum entered into a loan agreement for the issuance of \$50,835,000 in revenue refunding bonds by the County of DuPage, Illinois. The revenue refunding bonds issued in 2020 bear an interest rate of 3.00 percent and mature on May 15, 2047, when full repayment of the principal balance is due. Interest is paid semiannually. Interest expense on the bonds amounted to \$1,546,925 and \$1,539,589 in 2022 and 2021, respectively.

	2022	2021
Bonds payable	\$ 50,835,000	\$ 50,835,000
Bond issuance costs	(480,661)	(500,347)
Bond discount	(254,874)	(265,313)
Total	\$ 50,099,465	\$ 50,069,340

**Note 9 - Loans Payable**

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 had access to \$10,000,000. On October 12, 2022, this line of credit was effectively terminated.

On July 15, 2022, the Arboretum entered into a non-interest-bearing loan agreement for \$1,000,000 with a third party in conjunction with construction of the new Firefly Pavilion. Payments are due in equitable monthly payments after construction is complete, which is expected to be in September 2023, until September 30, 2034.

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 was recorded in revenue, gains, and other support on the statement of activities and changes in net assets in 2021.

December 31, 2022 and 2021

**Note 10 - Net Assets with Donor Restrictions**

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

	2022	2021
Time and purpose restrictions:		
Capital campaign - Second Century	\$ 1,813,286	\$ 8,329,016
Pledges receivable - Time restricted - Annual fund	2,000	8,972
Total time and purpose restrictions	1,815,286	8,337,988
Purpose restrictions:		
Endowment revenue - Science and conservation	1,779,380	2,167,878
Endowment revenue - New plant development	-	288,226
Endowment revenue - Library	338,363	422,003
Endowment revenue - The Grand Garden	-	171,184
Total purpose restrictions	2,117,743	3,049,291
Estate gifts - Library	14,465	14,465
Program grants:		
Center for tree science	1,042,583	249,610
Other	485,968	452,509
Total	5,476,045	12,103,863
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	1,981,238	2,000,000
The Grand Garden Endowment	3,482,375	2,015,000
Total	6,729,889	5,281,276
Total with donor restrictions	\$ 12,205,934	\$ 17,385,139

**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.

December 31, 2022 and 2021

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

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, 2022			
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 30,063,663	\$ -	\$ 30,063,663
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	6,430,594	6,430,594
Accumulated investment gains	-	2,117,743	2,117,743
Total donor-restricted endowment funds	-	8,548,337	8,548,337
Total	\$ 30,063,663	\$ 8,548,337	\$ 38,612,000
Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2022			
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 33,626,526	\$ 7,830,567	\$ 41,457,093
Investment return:			
Investment income	367,053	75,464	442,517
Realized gains	1,370,650	281,799	1,652,449
Unrealized losses	(4,716,399)	(969,668)	(5,686,067)
Total investment return	(2,978,696)	(612,405)	(3,591,101)
Contributions	-	1,674,713	1,674,713
Transfers	2,162,875	-	2,162,875
Amounts appropriated for expenditure	(2,747,042)	(344,538)	(3,091,580)
Endowment net assets - End of year	\$ 30,063,663	\$ 8,548,337	\$ 38,612,000

Notes to Financial Statements

December 31, 2022 and 2021

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

	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
	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
Amount appropriated for expenditure	(949,914)	(303,543)	(1,253,457)
Endowment net assets - End of year	\$ 33,626,526	\$ 7,830,567	\$ 41,457,093

**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 as a fund of perpetual duration. Deficiencies of this nature exist in two donor-restricted endowment funds, which have an original gift value of \$5,189,714, a current fair value of \$5,164,318, and a deficiency of \$25,396 as of December 31, 2022. The deficiency resulted from continued appropriation for certain programs that was deemed prudent by the board of directors and unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds. Spending from the underwater endowment funds totaled \$216,404 as of December 31, 2022.

**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.

December 31, 2022 and 2021

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

***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 2022 and 2021, the board approved a spending rate of 4.9 and 5.0 percent, respectively. The Arboretum has a policy that permits prudent spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

**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:

	2022	2021
Cash and cash equivalents	\$ 5,838,249	\$ 9,523,409
Investments	264,022,799	305,746,367
Receivables - Net	6,200,915	5,462,702
Pledge receivables - Net	2,210,661	2,899,904
	<u>278,272,624</u>	<u>323,632,382</u>
Financial assets - At year end		
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	835,311	8,449,067
Unappropriated donor-restricted endowment earnings - Net of appropriations	1,746,364	2,731,033
Net assets to be maintained in perpetuity	6,729,889	5,279,161
Illiquid investments	69,596,625	58,534,835
Board-designated endowment funds - Net of appropriations	29,394,664	32,971,526
	<u>107,302,258</u>	<u>108,975,622</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 169,969,771</u>	<u>\$ 215,666,760</u>

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. Amounts not available due to internal board designations include amounts set aside for long-term investing in the endowment fund that could be drawn upon in the event of an unanticipated liquidity need, if the governing board approves that action. 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 and marketable securities.

December 31, 2022 and 2021

### 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 and 2020 compared to 2019, and incurring eligible payroll expenses. For the years ended December 31, 2022 and 2021, the Arboretum determined these conditions have been met and recognized \$349,954 and \$4,776,959, respectively, 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.

### Note 14 - Power Purchase Agreement

In October 2022, the Arboretum entered into a power purchase agreement (PPA) with an unrelated third party under which solar panels will be constructed on the Arboretum's campus. The power generated from these solar panels will be made available to the Arboretum at a price per megawatt hour, which is subject to the terms of the PPA over a 30-year period. The PPA is considered a lease arrangement and is classified as a finance lease since the lease term is for the major part of the solar panel's remaining economic life. Monthly lease payments begin after construction is completed and are variable, representing actual energy delivered charged at agreed-upon rates per megawatt hour; therefore, the payments are considered contingent. Monthly payments for power are expected to begin in October 2023 when the solar panel construction and testing phase is complete, which is defined as the commercial operation date. The design, permitting, and construction costs are covered by the third party and are not the Arboretum's financial obligation. Since there is no minimum or fixed lease payment, the Arboretum is not expecting to record an amount as a lease liability or right-of-use asset upon commencement of the commercial operation date. Contingent rent payments will be expensed as they become due.

The PPA also includes a purchase option each year beginning on the sixth anniversary of the commercial operation date, which is based on the greater of the fair market value or the book value of the solar panels. The calculations to determine the value are outlined within the agreement and are dependent upon which year the purchase option is initiated.

At this time, the Arboretum's future obligation under this arrangement cannot be estimated.