

ADKINS ARBORETUM, LTD.

FINANCIAL STATEMENTS

DECEMBER 31, 2019

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Accounting Strategies Group, LLC

Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Trustees
Adkins Arboretum, Ltd.
Ridgely, Maryland

We have reviewed the accompanying financial statements of Adkins Arboretum, Ltd. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Accounting Strategies Group, LLC

Preston, Maryland

September 17, 2020

ADKINS ARBORETUM, LTD.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Cash and cash equivalents	\$ 138,267	\$ 83,426
Prepaid Expenses	-	3,908
Dividends and interest receivable	7,420	3,063
Grants receivable	9,622	42,912
Inventory	41,230	35,490
Property and equipment, less accumulated depreciation 2019 \$1,108,489; 2018 \$984,022	2,137,203	1,824,115
Investments Held for Endowment	2,819,500	2,647,560
TOTAL ASSETS	\$ 5,153,242	\$ 4,640,474

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 16,670	\$ 23,829
Lines of credit	40,995	94,931
Deferred revenue	9,622	27,908
TOTAL LIABILITIES	67,287	146,668

NET ASSETS

Net Assets without Donor Restrictions	4,643,476	4,051,327
Net Assets with Donor Restrictions	442,479	442,479
TOTAL NET ASSETS	5,085,955	4,493,806
TOTAL LIABILITIES AND NET ASSETS	\$ 5,153,242	\$ 4,640,474

See Independent Accountants' Review Report
The Notes to Financial Statements are an integral part of these statements.

ADKINS ARBORETUM, LTD.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	With Donor Restrictions	Totals
SUPPORT AND REVENUES						
Dividends and Interest	\$ 163,585	\$ -	\$ 163,585	\$ 65,069	\$ -	\$ 65,069
Gains (Losses) on investments	291,155	-	291,155	(316,453)	-	(316,453)
Events and merchandise sales	168,642	-	168,642	184,834	-	184,834
Donations and program fees	275,285	-	275,285	205,950	-	205,950
Grant income	441,997	-	441,997	121,828	-	121,828
In-kind	47,913	-	47,913	18,230	-	18,230
Miscellaneous income	6,533	-	6,533	4,034	-	4,034
 Total Support and Revenues	 1,395,110	 -	 1,395,110	 283,492	 -	 283,492
Net assets released from restrictions	-	-	-	-	-	-
 TOTAL SUPPORT, REVENUES AND TRANSFERS	 1,395,110	 -	 1,395,110	 283,492	 -	 283,492
 EXPENSES						
Program services	513,485	-	513,485	686,028	-	686,028
Supporting services	169,412	-	169,412	128,963	-	128,963
Fundraising expenses	120,064	-	120,064	96,929	-	96,929
 TOTAL EXPENSES	 802,961	 -	 802,961	 911,920	 -	 911,920
 CHANGE IN NET ASSETS	 592,149	 -	 592,149	 (628,428)	 -	 (628,428)
 <u>NET ASSETS AT BEGINNING OF YEAR</u>	 <u>4,051,327</u>	 <u>442,479</u>	 <u>4,493,806</u>	 <u>4,679,755</u>	 <u>442,479</u>	 <u>5,122,234</u>
 <u>NET ASSETS AT END OF YEAR</u>	 <u>\$ 4,643,476</u>	 <u>\$ 442,479</u>	 <u>\$ 5,085,955</u>	 <u>\$ 4,051,327</u>	 <u>\$ 442,479</u>	 <u>\$ 4,493,806</u>

See Independent Accountants' Review Report
The Notes to Financial Statements are an integral part of these statements.

ADKINS ARBORETUM, LTD.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019				2018			
	Program Services	Supporting Services	Fundraising Expenses	Total	Program Services	Supporting Services	Fundraising Expenses	Total
PROGRAM SERVICES								
Advertising	\$ 1,529	\$ 50	\$ 518	\$ 2,097	\$ 4,676	\$ 1,237	\$ 1,290	\$ 7,203
Bank service charges	-	11,124	-	11,124	-	11,135	-	11,135
Building and grounds maintenance	22,583	-	-	22,583	22,165	280	-	22,445
Consultants	96,209	7,150	33,837	137,196	144,442	3,109	10,478	158,029
Cost of goods sold	75,312	-	-	75,312	88,508	-	-	88,508
Depreciation	87,127	37,340	-	124,467	81,433	34,900	-	116,333
Dues and subscriptions	1,398	738	-	2,136	1,003	2,060	230	3,293
Educational programs and publications	100	-	-	100	3,300	144	-	3,444
Equipment expenses	-	3,234	310	3,544	-	4,393	-	4,393
Insurance	14,089	5,310	-	19,399	13,196	5,484	-	18,680
Interest	-	4,191	-	4,191	-	1,237	-	1,237
Office expenses	1,283	3,149	6,929	11,361	532	9,379	6,390	16,301
Printing and postage	6,120	2,666	8,202	16,988	11,365	1,920	6,218	19,503
Professional development	1,130	3,994	-	5,124	259	3,062	-	3,321
Professional fees	-	18,795	-	18,795	-	23,874	-	23,874
Salaries and benefits	159,293	71,107	63,249	293,649	281,246	18,260	54,625	354,131
Supplies/Catering/Rentals	31,357	-	7,019	38,376	23,856	219	17,698	41,773
Telephone	3,989	433	-	4,422	780	4,936	-	5,716
Travel	3,414	131	-	3,545	1,046	1,822	-	2,868
Utilities	8,552	-	-	8,552	8,221	1,512	-	9,733
TOTAL	\$ 513,485	\$ 169,412	\$ 120,064	\$ 802,961	\$ 686,028	\$ 128,963	\$ 96,929	\$ 911,920

Review Report

The Notes to Financial Statements are an integral part of these statements.

ADKINS ARBORETUM, LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 592,149	\$ (628,428)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation	124,467	116,333
Net unrealized (gains) losses on securities	69,444	393,945
Net realized (gains) losses on securities	(382,102)	(100,109)
Changes in assets and liabilities:		
Dividends and interest receivable	(4,357)	1,059
Grants receivables	33,290	(42,431)
Inventory	(5,740)	3,411
Prepaid expenses	3,908	(3,908)
Accounts payable and accrued expenses	(7,159)	3,817
Deferred revenue	(18,286)	(4,381)
NET CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>405,614</u>	<u>(260,692)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of available for sale securities	(2,814,149)	(394,438)
Maturities and sales of available for sale securities	2,954,867	666,212
Acquisition of property and equipment	(437,555)	(29,029)
NET CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(296,837)</u>	<u>242,745</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Increase (Decrease) in short-term borrowings, net	(53,936)	54,931
NET CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(53,936)</u>	<u>54,931</u>
Net increase in cash and cash equivalents	54,841	36,984
Cash and cash equivalents, beginning of year	83,426	46,442
Cash and cash equivalents, end of year	<u>\$ 138,267</u>	<u>\$ 83,426</u>
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u>		
Cash Paid for Interest	<u>\$ 4,191</u>	<u>\$ 1,237</u>
Cash Paid for Income Taxes	<u>\$ -</u>	<u>\$ -</u>

See Independent Accountants' Review Report
The Notes to Financial Statements are an integral part of these statements.

ADKINS ARBORETUM, LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2019 AND 2018

NOTE A. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Adkins Arboretum, Ltd. (Organization) is a nonprofit organization, classified as an exempt non-private foundation. Its primary purpose is to support and maintain the Adkins Arboretum located at Tuckahoe State Park, Maryland. Adkins Arboretum, a 400-acre native garden and preserve, promotes the conservation and restoration of the Chesapeake Bay region's native landscapes.

Significant accounting policies not disclosed elsewhere in the financial statements are as follows:

BASIS OF ACCOUNTING

The financial statements of the Organization have been prepared on the accrual basis of accounting, which is U.S. Generally Accepted Accounting Principles. Under this method of accounting, revenue is recognized when amounts are earned and expenses are recognized when they are incurred.

BASIS OF PRESENTATION

The Organization implemented Financial Accounting Standards Board Accounting Standard Codification (FASB ASC) 958-210, *Presentation of Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-210, the Organization is required to report information regarding its financial position and activities according to two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) based on the existence or absence of donor-imposed restrictions:

A description of the two categories of net assets is as follows:

Net Assets without Donor Restrictions – are free from donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets are presently available for use by the Organization at the discretion of the Board of Directors.

Net Assets with Donor Restrictions – are subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Contributions with donor-imposed restrictions received and spent in the same year have been recorded as net assets without donor restrictions.

REVENUE RECOGNITION

The Organization adopted two Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASU) that will affect the Organization's revenue recognition.

The first, FASB ASU 2014-09, *Revenue from Contracts with Customers* requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On January 1, 2019, the Organization adopted ASU 2014-09 using the modified retrospective method. In addition, this standard requires enhanced qualitative and quantitative disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

See Independent Accountants' Review Report

ADKINS ARBORETUM, LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2019 AND 2018

NOTE A. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
CONTINUED

REVENUE RECOGNITION, CONTINUED

The second, FASB ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* establishes standards for characterizing grants and similar contracts with resource providers as either exchange transactions or conditional contributions.

Events and Merchandise Sales – Income is recognized when earned; therefore, over the period the service was provided.

Grant Income – Grants are awarded to support the Organization's activities that are conditioned on performing certain services or incurring certain reimbursable expenditures. Cost reimbursement grants are recognized as revenue in the period the qualifying expenditures are incurred. Grants receivable consist of outstanding amounts due for grants in which the allowable expenditures have been incurred but the funding has not been reimbursed to the Organization. Grant amounts collected in advance but unearned are reflected as unearned revenue. Unearned revenue applies to services to be rendered in future periods and revenue is recognized in the year when the services are earned. Certain unexpended grants could be required under the grant terms to be returned to the funding entity.

Contribution Revenue – The Organization records contributions (including pledges) when the contribution is deemed unconditional. Contributions are reflected in the financial statements at the earlier of the transfer of the asset or at the time an unconditional pledge is made.

Program Fees – Income is recognized when earned; therefore, over the period the service was provided.

Membership Dues

Membership dues are recognized as revenue when the money is received. Memberships therefore begin at any point during the year and renew on payment anniversary dates.

CASH AND CASH EQUIVALENTS

The Organization considers all highly liquid debt investments with an original maturity of three months or less to be cash equivalents.

INVESTMENTS IN MARKETABLE SECURITIES

The Organization follows FASB ASC 958-320, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Investments consist of equity securities, exchange-traded and closed-end funds, government securities and mutual fund shares with readily determinable fair values. Investments are reported at fair value based on quoted market prices in the Statements of Financial Position. Donated securities are also reported at fair market value as of the date of receipt. Unrealized gains and losses are recognized currently in the Statements of Activities. See Note H for further explanation of fair market value.

ADKINS ARBORETUM, LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2019 AND 2018

NOTE A. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
CONTINUED

DONATED MATERIALS AND SERVICES

The Organization records in-kind contributions of materials and services based on their estimated fair market value on the date of receipt. Contributed services are recognized if the services received either create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. These services are valued using an appropriate hourly rate depending on the expertise of the service provider and are reported as both support and expense. See Note B for additional details.

PROMISES TO GIVE

Pledges are recorded as contributions when management believes that the receivables are unconditional promises to give. The allowance for uncollectible accounts is based on management's assessment of the collectability of promises to give. No allowance was deemed necessary for the years ended December 31, 2019 and 2018.

INVENTORIES

The Organization states inventory at the lower of cost or market using the average cost method of accounting. Inventory consists of books, gift shop items as well as plant inventory.

CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at two financial institutions. These accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. These deposits were fully insured at December 31, 2019 and 2018.

The Organization also maintains accounts with a stock brokerage firm. These accounts consist of cash, money market funds, and debt and equity marketable securities, and are insured up to \$500,000 (with a limit of \$100,000 for cash) by the Securities Investor Protection Corporation. The brokerage firm maintains additional coverage for a customer's entire net equity. These deposits were fully insured at December 31, 2019 and 2018.

LONG-LIVED ASSETS

The carrying value of long-lived assets is reviewed by the Organization for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As of December 31, 2019, and 2018, no long-lived assets existed which the Organization considered impaired.

PROPERTY AND EQUIPMENT

If an expenditure results in an asset having an estimated useful life greater than one year and a value of at least \$1,000, the expenditure is capitalized. Property and equipment are recorded at cost, if purchased, or fair value, if donated. Depreciation is provided using the straight-line method over the estimated useful life of the asset: 5 to 20 years for furniture and equipment and 15 to 20 years for leasehold improvements.

The Organization's works of art consist of specimens and art objects. These items are utilized for public exhibition as well as for educational purposes and are to be preserved and protected. Each item is capitalized at cost, if the item was purchased or at its appraised or fair value on the date of acquisition, if the item was contributed. These assets are not depreciated since their estimated useful lives are extraordinarily long. The Organization reviews these assets for impairment on an annual basis.

ADKINS ARBORETUM, LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2019 AND 2018

NOTE A. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ALLOCATION OF FUNCTIONAL EXPENSES

Accounting principles generally accepted in the United States of America require all not-for-profit organizations to present their expenses on a functional basis, separating program services from management and general expenses and fundraising expenses. Functional expenses are either charged directly to program services as incurred or allocated based on usage for items such as occupancy, depreciation and administrative salaries.

SUBSEQUENT EVENTS EVALUATION

Subsequent events were evaluated through September 17, 2020, which is the date the financial statements were available to be issued.

NOTE B. CONTRIBUTED SERVICES

The Organization receives service contributions in the form of support from a nutritionist, librarian, floral designer, art curators, horticulturalist, graphic artist and an IT professional. The fair market value of these services for the years ended December 31, 2019 and 2018 was \$47,913 and \$18,230, respectively.

NOTE C. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2019 and 2018:

	<u>2019</u>		
	<u>Cost</u>	<u>Depreciation</u>	<u>Net</u>
Leasehold improvements	\$ 675,291	\$ 357,188	\$ 318,103
Land improvements	1,603,614	468,880	1,134,734
Machinery and equipment	291,221	282,421	8,800
Works of art	9,077	-	9,077
Construction in progress	666,489	-	666,489
Total	<u>\$ 3,245,692</u>	<u>\$ 1,108,489</u>	<u>\$ 2,137,203</u>
	<u>2018</u>		
	<u>Cost</u>	<u>Depreciation</u>	<u>Net</u>
Leasehold improvements	\$ 625,361	\$ 326,961	\$ 298,400
Land improvements	1,201,247	381,163	820,084
Machinery and equipment	291,221	275,898	15,323
Works of art	9,077	-	9,077
Construction in progress	681,231	-	681,231
Total	<u>\$ 2,808,137</u>	<u>\$ 984,022</u>	<u>\$ 1,824,115</u>

Construction in progress relates to the planning and site design for the Visitor Center Project as well as expenditures for other grant-funded projects not yet completed. See Note P. Depreciation expense totaled \$124,467 and \$116,333 for the years ended December 31, 2019 and 2018, respectively.

ADKINS ARBORETUM, LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2019 AND 2018

NOTE D. INVESTMENTS IN MARKETABLE SECURITIES

Investments in marketable securities consist of the following at December 31, 2019 and 2018:

	<u>2019</u>		Unrealized
	<u>Cost</u>	<u>Fair Value</u>	<u>Gains (Losses)</u>
Cash and Money Market Funds	\$ 145,984	\$ 145,984	\$ -
Corporate & Government Bonds	1,014,233	1,006,011	(8,222)
Equities, Exchange-Traded Funds & REITS	<u>1,536,681</u>	<u>1,667,505</u>	<u>130,824</u>
	<u>\$ 2,696,898</u>	<u>\$ 2,819,500</u>	<u>\$ 122,602</u>
	<u>2018</u>		Unrealized
	<u>Cost</u>	<u>Fair Value</u>	<u>Gains (Losses)</u>
Cash and Money Market Funds	\$ 37,887	\$ 37,887	\$ -
Corporate & Government Bonds	215,466	211,273	(4,193)
Mutual Funds, Closed-End Funds & Exchange-Traded Funds	<u>2,299,396</u>	<u>2,398,400</u>	<u>99,004</u>
	<u>\$ 2,552,749</u>	<u>\$ 2,647,560</u>	<u>\$ 94,811</u>

Investment returns and their classifications in the accompanying Statements of Activities for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Dividends	\$ 149,171	\$ 55,697
Interest	<u>14,414</u>	<u>9,372</u>
Total dividends and interest	<u>163,585</u>	<u>65,069</u>
Net realized gains (losses)	382,102	100,109
Net unrealized gains (losses)	<u>(69,444)</u>	<u>(393,945)</u>
Total gains (losses)	<u>312,658</u>	<u>(293,836)</u>
Investment expense	<u>(21,503)</u>	<u>(22,617)</u>
Total investment returns	<u>\$ 454,740</u>	<u>\$ (251,384)</u>

NOTE E. LINES OF CREDIT

The Organization has the following lines of credit with a local bank:

A revolving operating line of credit with a variable rate in the amount of \$300,000, payable on demand originated in February 2016. The line of credit is collateralized by certain investments and the variable rate of based on the prime rate, 4.75% and 5.50% at December 31, 2019 and 2018, respectively. The line of credit carried a balance of \$0 and \$50,000 at December 31, 2019 and 2018, respectively. Interest expense for the years ended December 31, 2019 and 2018 was \$967 and \$818, respectively.

A revolving construction line of credit with a variable rate in the amount of \$100,000, payable on demand originated in February 2016. The line of credit is collateralized by certain investments and the variable rate of based on the prime rate, 4.75% and 5.50% at December 31, 2019 and 2018, respectively. The line of credit carried a balance of \$40,995 and \$44,931 at December 31, 2019 and 2018, respectively. Interest expense for the years ended December 31, 2019 and 2018 was \$3,224 and \$419, respectively.

ADKINS ARBORETUM, LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2019 AND 2018

NOTE F. OPERATING LEASES

The Organization leases its facilities and 369 acres of land in Tuckahoe State Park from the State of Maryland Department of Natural Resources under a fifty-year lease agreement expiring January 2047. The agreement provided for an annual rental payment of \$1 for the first three years of the lease. The fair value of the use of these facilities is not reported in the accompanying financial statements.

The Organization has a non-cancelable operating lease for copy equipment which was signed in December 2016 for a period of 60 months with a minimum monthly lease payment of \$171. Future minimum lease payments for the succeeding five years are as follows:

Year Ended December 31,	
2020	\$ 2,055
2021	<u>2,055</u>
Total	<u>\$ 4,110</u>

Lease expense totaled approximately \$2,459 and \$3,452 for the years ended December 31, 2019 and 2018, respectively.

NOTE G. ENDOWMENT FUNDS

The Organization's endowment funds consist of both donor-restricted funds and funds designated by the Board of Trustees. As required by GAAP, 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.

The Organization's investment goal for endowment funds is to maintain the real purchasing power of the Funds after inflation, costs, and spending in order to provide a stable source of liquidity and financial support for the mission of Adkins Arboretum, Ltd. The account is to be managed as a balanced account with a target allocation consisting of 65% risk-based investments and 35% fixed income investments. It is the policy of the Organization to annually distribute up to 4.5% of the Funds' assets, based on a rolling 3-year average of the year-end total fund value, with the expectation that, over time, the total real return from investments will exceed the funds' pay-out rate, thus allowing for real growth of endowment assets. The Organization's current withdraw rate is above the optimum rate not to exceed 4.5%. The Board of Directors has designed a plan to reduce the withdraw rate to an acceptable level over the course of seven years. The complete investment policy statement is summarized in a document entitled *Adkins Arboretum Investment Policy Statement* with a current revision of July 19, 2013.

In 1991 and 1992, the Organization received contributions of \$2,370,000. These monies were designated by the Board of Trustees to be placed in an endowment. These endowment funds are classified as without donor restrictions endowment, with income from the funds being used to support operations.

Since 2003, the Organization has received several donor-restricted contributions to the endowment. These endowment funds are classified as with permanent donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to permanent endowment made in accordance with direction of applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds that are not classified as permanent are classified as temporary until those amounts are appropriated for expenditure by the Organization.

See Independent Accountants' Review Report

ADKINS ARBORETUM, LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2019 AND 2018

NOTE G. ENDOWMENT FUNDS, CONTINUED

Endowment composition by type of fund at December 31, 2019:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Donor-restricted Endowment funds	\$ -	\$ 314,964	\$ 314,964
Board-designated Endowment funds	<u>2,504,536</u>	<u>-</u>	<u>2,504,536</u>
Total Funds	<u>\$ 2,504,536</u>	<u>\$ 314,964</u>	<u>\$ 2,819,500</u>

Endowment composition by type of fund at December 31, 2018:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Donor-restricted Endowment funds	\$ -	\$ 314,964	\$ 314,964
Board-designated Endowment funds	<u>2,332,596</u>	<u>-</u>	<u>2,332,596</u>
Total Funds	<u>\$ 2,332,596</u>	<u>\$ 314,964</u>	<u>\$ 2,647,560</u>

Changes in Endowment Net Assets for the years ended December 31, 2019 and 2018 are as follows:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
January 1, 2018	\$ 2,898,206	\$ 314,964	\$ 3,213,170
Investment income	56,883	8,141	65,024
Net appreciation	(257,049)	(36,788)	(293,837)
Contributions	-	-	-
Appropriations	<u>(365,444)</u>	<u>28,647</u>	<u>(336,797)</u>
December 31, 2018	2,332,596	314,964	2,647,560
Investment income	123,131	14,509	137,640
Net appreciation	279,699	32,959	312,658
Contributions	9,016	-	9,016
Appropriations	<u>(239,906)</u>	<u>(47,468)</u>	<u>(287,374)</u>
December 31, 2019	<u>\$ 2,504,536</u>	<u>\$ 314,964</u>	<u>\$ 2,819,500</u>

The Board authorized additional appropriations from the endowment fund during the years ended December 31, 2019 and 2018 to pay-down debt outstanding on the Organization's lines of credit as well as to fund capital projects.

NOTE H. FAIR VALUE MEASUREMENTS

The Organization adopted FASB ASC 820, *Fair Value Measurements*, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. This hierarchy consists of three broad levels:

Level 1 – Inputs to the valuation methodology are unadjusted, quoted market prices for identical instruments in active markets.

Level 2 – Inputs to the valuation methodology include quoted market prices for similar instruments in active markets, and inputs that are observable for the instrument, either directly or indirectly, for substantially the full term of the financial instrument.

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NOTE H. FAIR VALUE MEASUREMENTS, CONTINUED

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Organization has determined the fair values of assets and liabilities measured on a recurring basis at December 31, 2018 and 2017, respectively are as follows:

	<u>Fair Value</u>	<u>Quoted Market Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
<u>2019</u>				
Marketable Securities/ Government Bonds	\$2,673,516	\$1,667,505	\$ 1,006,011	\$ -
<u>2018</u>				
Marketable Securities/ Government Bonds	\$2,609,673	\$2,398,400	\$ 211,273	\$ -

NOTE I. INCOME TAXES

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and deemed a public charity described in Section 509(a)(3). Contributions to the Organization are deductible under Section 170(c)(2) of the IRC. In accordance with FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, the Organization has assessed the likelihood that all tax positions are more likely than not to be sustained upon examination. The Organization's federal and state filings for 2016, 2017 and 2018 are subject to examination by the IRS and/or state authorities, generally, for the three years after have been filed. The 2019 returns will be filed in 2020.

NOTE J. SIMPLE IRA PLAN

The Organization has a SIMPLE IRA pension plan covering all employees. The Organization will contribute to each participating employee's Simple IRA an amount equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation for the year. The employer's contributions for the years ended December 31, 2019 and 2018 were \$6,011 and \$7,048, respectively.

NOTE K. COMPENSATED ABSENCES

Employees of the Organization are entitled to paid vacation, depending on the length of service and job classification. There was \$5,956 and \$5,991 of vacation benefits due to employees as of December 31, 2019 and 2018, respectively

NOTE L. ADVERTISING COSTS

Marketing and advertising costs related to fundraising and programs are expensed as incurred. For the years ended December 31, 2019 and 2018, costs were \$2,097 and \$7,203, respectively.

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NOTE M. NET ASSETS

The Organization reports its financial position according to two classes of net assets, which emphasizes the discretion which the Organization has as to the use of its resources.

The net assets of the Organization were comprised of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Without Donor Restrictions:		
Undesignated (deficit)	\$ 1,737	\$ (105,384)
Capital, Net of Related Debt	2,137,203	1,824,115
Board Designated Quasi-Endowment	<u>2,504,536</u>	<u>2,332,596</u>
	<u>\$ 4,643,476</u>	<u>\$ 4,051,327</u>
With Donor Restrictions:		
Art Gallery	\$ 127,515	\$ 127,515
Permanent Endowment	<u>314,964</u>	<u>314,964</u>
	<u>\$ 442,479</u>	<u>\$ 442,479</u>

NOTE N. COMPLIANCE WITH GRANT REQUIREMENTS

Grants to the Organization require the fulfillment of certain conditions as described in the grant agreements. Failure to meet these conditions could result in the return of funds to the grantors. However, management considers this contingency to be remote.

NOTE O. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's financial assets available within one year of the consolidated statements of financial position date for general expenditures are as follows as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 138,267	\$ 83,426
Investments	2,819,500	2,647,560
Prepaid Expenses	-	3,908
Dividends and Interest Receivable	7,420	3,063
Grants Receivable	<u>9,622</u>	<u>42,912</u>
Total financial assets available within one year	2,974,809	2,780,869
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	(127,515)	(127,515)
Restricted by donors in perpetuity	<u>(314,964)</u>	<u>(314,964)</u>
Total amounts unavailable for general expenditures within one year	<u>(442,479)</u>	<u>(442,479)</u>
Amounts unavailable to management without Board's approval		
Board Designated	<u>(2,503,418)</u>	<u>(2,332,596)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 28,912</u>	<u>\$ 5,794</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a committed line of credit of \$300,000 which it could draw upon. Additionally, the Organization has Board Designated net assets without donor restrictions that can be utilized with Board approval.

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NOTE P. VISITOR CENTER PROJECT

Since 2002, the Organization has been promoting a Capital Campaign to redesign the Visitor's Center at the Arboretum. The total cost of the redesigned center, which was anticipated to be completed and placed in service late 2015, was estimated at approximately \$4.8 million in planning, design, and construction costs, \$1.5 million in fundraising and operating expenses related to the project and \$1.1 million in endowment donations for sustainability.

At December 31, 2019 and 2018, \$666,489 in planning and design costs had been incurred and recorded to construction in process. An additional \$1,677,634 has been spent on land improvements, bridge renovations, and other capital projects already placed in service. A total of \$1,549,624 in cumulative costs incurred since 2002, related to fundraising and administration have also been recorded to the project. To date, the project has been funded through federal and private grants, state bond bills, and private donations to the Organization's Capital Campaign totaling approximately \$3,831,033.

In spring 2015, the Board of Trustees of Adkins Arboretum, Ltd. voted to pause the Capital Campaign. Funding for the new Visitor's Center project was cut from the state budget and the trustees felt it most important to focus the Organization's resources on its core services of youth and adult education, access to the grounds and native gardens, as well as the Native Plant Nursery.

NOTE Q. SUBSEQUENT EVENTS

In response to the COVID-19 pandemic, many non-essential businesses have closed and social distancing has been implemented. While the Arboretum grounds remain open, the Visitor's Center is closed to the public and all programming has been suspended. The potential exposure to the Organization in the short term as a result is unknown at this time. The Organization has applied for and received numerous grant and loan programs as outlined below. The long-term impacts of the COVID-19 pandemic on the Organization are unknown at this time.

Paycheck Protection Program Loan	\$52,300
COVID-19 Maryland Heritage Areas Authority Emergency Operating Grant	20,000
Smith Horticultural Trust COVID-19 Response Grant	5,000
Maryland Department of Labor COVID-19 Layoff Aversion Fund Grant	5,867
Maryland Small Business COVID-19 Emergency Relief Grant	10,000
Department of Housing and Community Development (DHCD) Nonprofit Recovery Initiative Grant	15,000