The Morton Arboretum

Financial Report

December 31, 2018

Contents

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Independent Auditor's Report

To the Board of Trustees
The Morton Arboretum

Report on the Financial Statements

We have audited the accompanying financial statements of The Morton Arboretum (the "Arboretum"), which comprise the statement of financial position as of December 31, 2018 and 2017 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.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Morton Arboretum as of December 31, 2018 and 2017 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.

Emphasis of Matter

As described in Note 2 to the financial statements, the Arboretum adopted the provisions of Accounting Standards Update (ASU) No. 2014-09, ASU No. 2016-14, and ASU No. 2018-08 as of December 31, 2018. Our opinion is not modified with respect to this matter.

To the Board of Trustees
The Morton Arboretum

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2019 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 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 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 19, 2019

Statement of Financial Position

December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 4,145,093	$ 3,731,027
Accounts receivable:		
Accrued interest and dividends	68,435	93,468
Grants	202,397	185,105
Pledges - Net	3,779,520	5,293,134
Other	89,838	60,493
Investments	227,724,071	244,328,228
Interest rate swap	252,428	-
Other assets	512,542	500,122
Property and equipment - Net	52,626,973	53,332,933
Total assets	**$ 289,401,297**	**$ 307,524,510**
Liabilities and Net Assets		
Liabilities		
Accounts payable and other accrued liabilities	$ 3,595,167	$ 4,329,826
Loan payable	4,125,000	5,500,000
Bonds payable - Net	48,680,572	48,667,082
Total liabilities	56,400,739	58,496,908
Net Assets		
Without donor restrictions:		
Undesignated	204,290,219	223,183,528
Board designated	20,456,768	17,569,835
Total without donor restrictions	224,746,987	240,753,363
Net assets with donor restrictions - End of year	8,253,571	8,274,239
Total net assets	233,000,558	249,027,602
Total liabilities and net assets	**$ 289,401,297**	**$ 307,524,510**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Retail services	$ 8,939,914	$ -	$ 8,939,914	$ 9,288,699	$ -	$ 9,288,699
Admissions	2,520,122	-	2,520,122	1,364,898	-	1,364,898
Education	1,143,321	-	1,143,321	986,598	-	986,598
Visitor events	4,227,957	-	4,227,957	3,699,514	-	3,699,514
Development	6,424,765	2,046,804	8,471,569	2,890,917	4,209,151	7,100,068
Governmental grants	1,350,589	-	1,350,589	1,101,469	-	1,101,469
Membership	5,394,063	-	5,394,063	4,495,191	-	4,495,191
Net assets released from restrictions	1,954,522	(1,954,522)	-	9,992,958	(9,992,958)	-
Total revenue, gains, and other support	31,955,253	92,282	32,047,535	33,820,244	(5,783,807)	28,036,437
Expenses						
Program services:						
Collections and facilities	9,064,205	-	9,064,205	8,827,713	-	8,827,713
Education	1,558,254	-	1,558,254	1,207,617	-	1,207,617
Science and conservation	4,091,626	-	4,091,626	3,670,414	-	3,670,414
Public programs	1,949,988	-	1,949,988	1,792,718	-	1,792,718
Retail services	7,216,185	-	7,216,185	7,169,459	-	7,169,459
Visitor services	3,602,066	-	3,602,066	3,533,121	-	3,533,121
Marketing	2,212,039	-	2,212,039	2,418,034	-	2,418,034
Interest	1,260,719	-	1,260,719	888,582	-	888,582
Depreciation and amortization	3,239,585	-	3,239,585	2,691,056	-	2,691,056
Total program services	34,194,667	-	34,194,667	32,198,714	-	32,198,714
Support services:						
Administration	3,778,426	-	3,778,426	3,711,703	-	3,711,703
Membership	1,314,965	-	1,314,965	1,213,060	-	1,213,060
Development	1,958,896	-	1,958,896	2,217,508	-	2,217,508
Total support services	7,052,287	-	7,052,287	7,142,271	-	7,142,271
Total expenses	41,246,954	-	41,246,954	39,340,985	-	39,340,985
(Decrease) Increase in Net Assets - Before other changes	(9,291,701)	92,282	(9,199,419)	(5,520,741)	(5,783,807)	(11,304,548)
Other Changes						
Investment (loss) income	(6,967,103)	(112,950)	(7,080,053)	26,741,043	851,241	27,592,284
Pension actuarial adjustment	-	-	-	2,526,834	-	2,526,834
Pension termination expense	-	-	-	(2,531,643)	-	(2,531,643)
Unrealized gain on interest rate swap	252,428	-	252,428	-	-	-
(Decrease) Increase in Net Assets	(16,006,376)	(20,668)	(16,027,044)	21,215,493	(4,932,566)	16,282,927
Net Assets - Beginning of year	240,753,363	8,274,239	249,027,602	219,537,870	13,206,805	232,744,675
Net Assets - End of year	**$ 224,746,987**	**$ 8,253,571**	**$ 233,000,558**	**$ 240,753,363**	**$ 8,274,239**	**$ 249,027,602**

See notes to financial statements.

Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services	Management and General	Membership and Development	Total
Salaries and benefits	$ 13,781,475	$ 2,629,498	$ 1,827,504	$ 18,238,477
Supplies and travel	3,280,101	158,997	842,882	4,281,980
Services and professional fees	7,876,716	989,931	603,475	9,470,122
Cost of sales	2,604,600	-	-	2,604,600
Occupancy	2,151,471	-	-	2,151,471
Interest	1,260,719	-	-	1,260,719
Depreciation and amortization	3,239,585	-	-	3,239,585
Total functional expenses	**$ 34,194,667**	**$ 3,778,426**	**$ 3,273,861**	**$ 41,246,954**

Year Ended December 31, 2017

	Program Services	Management and General	Membership and Development	Total
Salaries and benefits	$ 13,026,451	$ 2,675,367	$ 1,994,658	$ 17,696,476
Supplies and travel	3,333,494	143,342	825,211	4,302,047
Services and professional fees	7,927,953	892,994	610,699	9,431,646
Cost of sales	2,485,484	-	-	2,485,484
Occupancy	1,845,694	-	-	1,845,694
Interest	888,582	-	-	888,582
Depreciation and amortization	2,691,056	-	-	2,691,056
Total functional expenses	**$ 32,198,714**	**$ 3,711,703**	**$ 3,430,568**	**$ 39,340,985**

Statement of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (16,027,044)	$ 16,282,927
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	3,239,586	2,691,056
Amortization of debt issuance costs	13,490	85,063
Contributions restricted for long-term purposes	(1,795,868)	(4,028,302)
Net unrealized investment loss (gain)	33,000,861	(7,817,920)
Loss on disposal of property and equipment	2,694	93,314
Pension actuarial adjustment	-	(2,526,834)
Decrease in accrued interest and dividends receivable	25,033	60,650
(Increase) decrease in other receivables	(29,345)	93,184
(Increase) decrease in grants receivable	(17,292)	57,421
Decrease in pledges receivable	127,177	149,715
Increase in other assets	(264,848)	(34,650)
(Increase) decrease in accounts payable and other accrued liabilities	(374,939)	441,485
Increase in accrued pension obligation	-	(1,217,168)
Net cash and cash equivalents provided by operating activities	17,899,505	4,329,941
Cash Flows from Investing Activities		
Acquisition of property and equipment	(1,235,352)	(2,272,799)
Proceeds from sale of property and equipment	62,210	15,300
Purchases of marketable securities	(69,230,242)	(99,395,903)
Proceeds from sales and maturities of marketable securities	52,833,538	90,987,754
Acquisition of property and equipment with proceeds from contributions restricted for long-term purposes	(1,722,898)	(8,406,293)
Net cash and cash equivalents used in investing activities	(19,292,744)	(19,071,941)
Cash Flows from Financing Activities		
Cash proceeds from contributions of stock - Restricted for long-term purposes	255,764	301,262
Cash collections from contributions restricted for long-term purposes	2,926,541	3,318,566
Payments on debt	(1,375,000)	(13,000,000)
Proceeds from issuance of bonds	-	20,000,000
Proceeds from issuance of line of credit	-	5,500,000
Payments for debt issuance costs	-	(178,790)
Net cash and cash equivalents provided by financing activities	1,807,305	15,941,038
Net Increase in Cash and Cash Equivalents	414,066	1,199,038
Cash and Cash Equivalents - Beginning of year	3,731,027	2,531,989
Cash and Cash Equivalents - End of year	**$ 4,145,093**	**$ 3,731,027**
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,244,361	$ 811,341
Noncash property and equipment additions	-	359,720

See notes to financial statements.

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 restriction, or with donor restriction 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, 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 restriction, 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 restriction.

Note 2 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Arboretum adopted the ASU effective January 1, 2018, using the modified retrospective method. The adoption of the ASU did not result in any restatement to net assets or changes in net assets.

As of December 31, 2018, the Arboretum adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The standard requires net assets to be classified into two categories: net assets with donor restrictions and net assets without donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Arboretum, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general. The adoption of the ASU did not result in any restatements to net assets or changes in net assets.

Upcoming Accounting Pronouncement

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Arboretum's year ending December 31, 2019 and will be applied on a modified prospective basis. The Arboretum does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Revenue Recognition

The following revenue streams are included in the new revenue standard, ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*:

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

Note 2 - Significant Accounting Policies (Continued)

Performance Obligations

The following explains the performance obligations related to each revenue stream under the new standard 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 a market value and recognized at time of performance.

Admissions

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

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 a market value and recognized at 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 two years, as applicable. There is a nominal value of privileges associated with membership.

Other Revenue and Support

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 restriction or with donor restriction, 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 restriction and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and all highly liquid investments purchased with an original maturity of three months or less. The Arboretum maintains cash and cash equivalents in bank deposit accounts, which 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 a (decrease) increase 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.

Note 2 - Significant Accounting Policies (Continued)

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.

Pledges Receivable

The Arboretum's pledges receivable are composed primarily 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.

Property and Equipment

Property and equipment are recorded at cost and depreciated over 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.

Deferred Financing Costs

Bond issuance costs are amortized using the straight-line method over the lives of the bonds, which are 35 years for the 2003 series bond and 30 years for the 2017 series bond. Amortization expense was $13,490 and $85,063 for the years ended December 31, 2018 and 2017, respectively. Unamortized bond issuance costs of $319,428 and $332,918 as of December 31, 2018 and 2017, respectively, are included in bonds payable as a reduction of the liability on the statement of financial position.

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. Although 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.

Donated services for the years ended December 31, 2018 and 2017 of $4,870 and $16,656, respectively, have been included in the statement of activities and changes in net assets. The value of services was 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.

Note 2 - Significant Accounting Policies (Continued)

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 unrestricted net assets.

Pension Plan

The Arboretum's accounting for the pension plan reflects the accounting standards on employers' accounting for a defined benefit pension and other postretirement plans. These standards require employers to recognize the overfunded or underfunded positions (the difference between the fair value of the plan assets and the projected benefit obligation) of defined benefit pension plans as an asset or liability in the statement of financial position and to recognize changes in that funded status in changes in unrestricted net assets in the year in which the changes occur. The pension plan was terminated in 2016 and liquidated in 2017.

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 IRS or other applicable taxing authorities.

Reclassification

The dividend and interest, net of $4,602,532 and realized gains on investments of $15,171,832, previously reported in revenue, gains, and other support in the statement of activities and changes in net assets for the year ended December 31, 2017, have now been included in investment (loss) income in the other changes section. This reclassification did not have an impact on the change in net assets for the year ended December 31, 2017.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including April 19, 2019, 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:

		2018		2017	Depreciable Life - Years
Land	$	1,255,284	$	1,255,284	-
Land improvements		31,870,346		29,946,856	20
Buildings		54,326,040		53,256,926	30-45
Equipment and other property		9,903,027		9,535,514	2-10
Construction in progress		535,408		1,623,935	-
Total cost		97,890,105		95,618,515	
Accumulated depreciation		45,263,132		42,285,582	
Net property and equipment	$	52,626,973	$	53,332,933	

Depreciation expense for 2018 and 2017 was $3,239,586 and $2,691,056, respectively.

Construction in progress as of December 31, 2018 and 2017 consists of expenditures associated primarily with the construction of the new facilities at South Farm, Thornhill, and the Children's Garden.

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, 2018 and 2017 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 whereby 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 whereby the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the investment company.

Note 4 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018				
	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, 2018
Investments:					
Common stock	$ 54,487,002	$ -	$ -	$ -	$ 54,487,002
Fixed-income mutual funds:					
Government bonds	7,573,512	-	-	-	7,573,512
Government agencies	3,953,128	-	-	-	3,953,128
Corporate bonds	68,033,772	-	-	-	68,033,772
Real estate, mutual fund	3,790,358	-	-	-	3,790,358
Commodities fund	6,853,980	-	-	-	6,853,980
International equities	27,016,371	-	-	-	27,016,371
Partnership, other	-	-	-	29,224,099	29,224,099
Hedge fund	-	-	-	26,791,849	26,791,849
Total investments	$ 171,708,123	$ -	$ -	$ 56,015,948	$ 227,724,071

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2017				
	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, 2017
Investments:					
Common stock	$ 37,731,517	$ -	$ -	$ -	$ 37,731,517
Northern Trust Stock Index Fund	-	-	-	37,387,090	37,387,090
Fixed-income mutual funds:					
Government bonds	10,736,350	-	-	-	10,736,350
Government agencies	2,659,078	-	-	-	2,659,078
Corporate bonds	66,478,750	-	-	-	66,478,750
Real estate, mutual fund	7,589,867	-	-	-	7,589,867
Commodities fund	5,386,386	-	-	-	5,386,386
International equities	32,279,818	-	-	-	32,279,818
Partnerships, other	-	-	-	17,446,213	17,446,213
Hedge funds	-	-	-	26,633,159	26,633,159
Total investments	$ 162,861,766	$ -	$ -	$ 81,466,462	$ 244,328,228

Level 1 Inputs

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

The Arboretum's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event or change in circumstances that caused the transfer. During the years ended December 31, 2018 and 2017, there were no such transfers.

Note 4 - Fair Value Measurements (Continued)

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

	2018	2017	2018		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
U.S. equity (a)	$ -	$ 37,387,090	$ -	Daily	One day
Partnerships, other (b)	29,224,099	17,446,213	20,962,854	No redemption	N/A
Long-short equity portfolio funds (c)	7,823,639	8,151,779	-	Monthly to semiannual	10 - 90 days
Event-driven portfolio funds (d)	3,960,034	3,966,339	-	Annually - Rolling two-year	90 days
Relative value portfolio funds (e)	4,451,394	4,276,938	-	Monthly - Quarterly	15 - 90 days
Global Macro Strategy Portfolio Funds (f)	3,712,881	3,644,656	-	Monthly - Quarterly	5 - 90 days
Multistrategy portfolio funds (g)	3,272,172	3,104,692	-	Monthly to semiannual	30 - 90 days
Distressed credit portfolio funds (h)	3,571,729	3,488,755	-		
Total	$ 56,015,948	$ 81,466,462	$ 20,962,854		

(a) The bank common trust funds, which are held at The Northern Trust Company, are the NTGI-QM Common Daily S&P 500 Equity Index Fund - Non Lending. The primary objective of this fund is to approximate the risk and return characteristics of the S&P 500 index. This index is commonly used to represent the large cap segment of the U.S. equity market.

(b) 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.

(c) 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.

(d) 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.

(e) 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.

(f) Global asset allocation strategies seek to exploit opportunities in various global markets. Portfolio managers employing these strategies have a broad mandate to invest in those markets and instruments that they believe provide the best opportunity. A portfolio manager employing a global macro strategy may take positions in currencies, sovereign bonds, global equities and equity indices, or commodities.

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

(h) 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 - Investments

Investment returns for 2018 and 2017 were as follows:

	2018	2017
Interest	$ 731,503	$ 575,519
Dividends	5,076,631	4,636,705
Investment expense	(291,320)	(270,174)
Tax refund (expense)	15,859	(339,518)
Net realized gain on sale of securities	20,388,135	15,171,832
Net unrealized (loss) gain on securities	(33,000,861)	7,817,920
Total	$ (7,080,053)	$ 27,592,284

As disclosed in Note 2, *Reclassification*, the Arboretum elected to net all investment activities in the other changes section of the statement of activities and changes in net assets.

Note 6 - Pledges Receivable

Pledges in excess of one year are adjusted to present value using discount rates ranging from 0.38 to 2.50 percent as of December 31, 2018 and 2017. In accordance with accounting principles generally accepted in the United States of America, the discount rate is determined when the pledge is initially recognized.

	2018	2017
Within one year	$ 1,170,385	$ 1,522,070
From one to five years	2,571,058	3,759,857
Thereafter	97,445	103,176
Less allowance for net present value discount	(59,368)	(91,969)
Net contributions receivable	$ 3,779,520	$ 5,293,134

Note 7 - Postretirement Benefit Plans

The Arboretum had a pension plan for all retired and fully vested employees eligible for benefits. Prior to December 31, 2008, eligible employees earned benefits under the Arboretum's defined benefit plan. The plan was noncontributory. Effective December 31, 2008, all benefits under the plan were frozen. Effective December 31, 2016, this pension plan was terminated. During 2017, the termination was fully executed, and benefits were paid in full through the purchase of annuity contracts and lump-sum distributions for the participants. The settlement of the plan obligation totaled approximately $8,380,000, which included an additional contribution from the Arboretum totaling approximately $3,700,000.

In addition to pension benefits, through 1994, the Arboretum provided certain healthcare benefits to retired employees. The cost of retiree healthcare benefits has been accrued in the financial statements.

The projected unit credit cost method was used to calculate the plan's net pension cost. The benefits under the plan were based primarily on years of service and compensation levels.

Note 7 - Postretirement Benefit Plans (Continued)

Obligations and Funded Status

Components of net periodic benefit cost and other amounts recognized in other comprehensive income are as follows:

	Pension Benefits	
	2018	2017
Net Periodic Benefit Cost, Employer Contributions, Participant Contributions, and Benefits Paid		
Net periodic benefit cost	$ -	$ 2,531,643
Employer contributions	-	3,745,383
Net periodic benefit cost	$ -	$ 6,277,026
Amounts Recognized in the Statement of Activities - Pension-related Changes Other than Net Periodic Benefit Cost		
Net gain	$ -	$ (96,949)
Amortization of net loss	-	(250,620)
Amortization of prior service credit	-	21,935
Amount recognized due to final settlement	-	(2,201,200)
Net pension-related changes other than net periodic benefit cost	$ -	$ (2,526,834)

Note 8 - 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 with one year of service 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 $712,262 and $694,337 were charged against operations in 2018 and 2017, respectively.

Note 9 - Bonds Payable

The Arboretum is 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 in May 15, 2017, leaving a balance of $29,000,000 as of December 31, 2018 and 2017. The bonds mature on October 15, 2038. The bond is supported by an irrevocable letter of credit issued on August 20, 2015 by Northern Trust, which expires on August 20, 2021. In the event that the remarketing agent is unable to remarket any portion of the bonds, a drawing will be made on the letter of credit to purchase the unremarketed bonds, which become pledged bonds. Any pledged bonds not subsequently remarketed, redeemed, canceled, or made subject to an alternate credit facility shall bear interest monthly at a variable rate and be repaid in eight equal quarterly installments of principal, commencing on the first day of the calendar quarter following the day 12 months after the date on which the letter of credit drawing was made.

Note 9 - Bonds Payable (Continued)

The Arboretum is 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 bonds mature on May 15, 2047. Interest, at a variable rate, is paid monthly. The bond is hedged by a swap, as further described below.

The Arboretum is subject to a certain covenant for both bonds, including the maintenance of a minimum liquidity ratio.

	2018	2017
Bonds payable	$ 49,000,000	$ 49,000,000
Debt issuance costs	(319,428)	(332,918)
Total	$ 48,680,572	$ 48,667,082

The Arboretum has entered into 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 pays a fixed interest rate, and the counterparty pays the Arboretum a variable rate based on one-month LIBOR. This interest rate swap represents an asset with a fair value of $252,428 and $72,032 as of December 31, 2018 and 2017, and is not recognized in the accompanying statement of financial position for 2017.

Note 10 - Note Payable and Line of Credit

On February 10, 2017, the Arboretum entered into a line of credit agreement with The Northern Trust Company (the "Bank") and had available borrowings of $5,500,000. The Arboretum had an outstanding balance of $5,500,000 on the line of credit as of December 31, 2017. Borrowings bear interest at either the Bank's prime rate or LIBOR (one, two, or three months) plus a margin of 0.75 percent. The Arboretum selects its interest rate for each draw. The effective interest rate at December 31, 2017 was 2.18 percent.

The line of credit was converted to a term loan on February 8, 2018 and bears fixed interest at a rate of 3.10 percent. The Arboretum is required to make interest-only payments through the scheduled term loan conversion date, at which time the Arboretum is required to make quarterly installment payments, which commenced on March 1, 2018 through the scheduled maturity date of February 10, 2022. The Arboretum had an outstanding balance of $4,125,000 on the term loan as of December 31, 2018.

The balance of the above debt matures as follows:

Years Ending	Amount
2019	$ 1,375,000
2020	1,375,000
2021	1,375,000
Total	$ 4,125,000

Note 11 - Net Assets with Donor Restriction

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

	2018	2017
Time and purpose restrictions:		
Endowment revenue - Science and conservation	$ 1,582,376	$ 1,786,320
Capital campaign	2,319,848	1,410,523
Endowment revenue - New plant development	126,075	282,246
Pledges receivable - Time restricted - Annual fund	66,938	194,115
Endowment revenue - Library	129,735	148,959
Estate gifts - Library	111,298	180,620
Program grants:		
School programs	103,982	480,041
Center for tree science	92,695	124,214
Other	461,613	411,731
Total	4,994,560	5,018,769
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	1,992,735	1,989,194
Total	3,259,011	3,255,470
Total with donor restriction	$ 8,253,571	$ 8,274,239

Note 12 - 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 also are 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.

Note 12 - 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, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 20,456,768	$ -	$ 20,456,768
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	1,866,276	1,866,276
Accumulated investment gains	-	1,838,186	1,838,186
Total donor-restricted endowment funds	-	3,704,462	3,704,462
Total	$ 20,456,768	$ 3,704,462	$ 24,161,230

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ 17,569,835	$ 3,808,800	$ 21,378,635
Investment return:			
Investment income	437,966	88,264	526,230
Realized gains	1,613,927	325,258	1,939,185
Unrealized gains	(2,612,350)	(526,472)	(3,138,822)
Total investment return	(560,457)	(112,950)	(673,407)
Contributions	-	275,000	275,000
Estate gift transfer to endowment	3,260,083	-	3,260,083
Transfers	1,858,479	-	1,858,479
Amounts appropriated for expenditure	(1,671,172)	(266,388)	(1,937,560)
Endowment net assets - End of year	$ 20,456,768	$ 3,704,462	$ 24,161,230

Note 12 - Donor-restricted and Board-designated Endowments (Continued)

	Endowment Net Asset Composition by Type of Fund as of December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 17,569,835	$ -	$ 17,569,835
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	1,591,276	1,591,276
Accumulated investment gains	-	2,217,524	2,217,524
Total donor-restricted endowment funds	-	3,808,800	3,808,800
Total	$ 17,569,835	$ 3,808,800	$ 21,378,635

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ 13,514,705	$ 7,663,503	$ 21,178,208
Investment return:			
Investment income	291,433	126,725	418,158
Realized gains	960,683	417,738	1,378,421
Unrealized gains	495,032	215,256	710,288
Total investment return	1,747,148	759,719	2,506,867
Contributions	-	3,530,403	3,530,403
Estate gift transfer to endowment	49,425	-	49,425
Other changes - Funding for board-designated funds	2,916,245	-	2,916,245
Amount appropriated for expenditure	(657,688)	(8,144,825)	(8,802,513)
Amounts appropriated for expenditure	$ 17,569,835	$ 3,808,800	$ 21,378,635

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, 2018 and 2017, 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.

Note 12 - 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 is striving 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 2018 and 2017, the board approved a spending rate of 5.0 percent.

Note 13 - Liquidity

The following reflects the Arboretum's financial assets as of the statement of financial position date, 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.

	2018	2017
Cash and cash equivalents	$ 4,145,093	$ 3,731,027
Investments	227,724,071	244,328,228
Receivables - Net	360,670	339,066
Pledge receivables - Net	3,779,520	5,293,134
Financial assets - At year end	236,009,354	253,691,455
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	1,830,369	907,638
Unappropriated donor-restricted endowment earnings - Net	1,691,364	1,963,469
Net assets to be maintained in perpetuity	3,259,011	3,255,470
Illiquid investments	29,224,099	29,242,648
Board-designated endowment funds - Net	20,056,768	16,579,835
Financial assets available to meet cash needs for general expenditures within one year	$ 179,947,743	$ 201,742,395

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 revenues and projected donor contributions. Any deficit is covered by a consistent payout from the endowment funds, as disclosed in Note 12.

The Arboretum has various sources of liquidity at its disposal, including cash and cash equivalents and marketable securities.