The Morton Arboretum

Financial Report

December 31, 2017

Contents

Plante & Moran, PLLC
10 South Riverside Plaza
9th floor
Chicago, IL 60606
Tel: 312.207.1040
Fax: 312.207.1066
plantemoran.com

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, 2017 and 2016 and the related statements of activities and changes in net assets 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, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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 24, 2018 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 24, 2018

Statement of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 3,731,027	$ 2,531,989
Accounts receivable:		
Accrued interest and dividends	93,468	154,118
Grants	185,105	242,526
Pledges - Net	5,293,134	5,034,375
Other	60,493	153,677
Investments	244,328,228	228,102,159
Other assets	500,122	465,472
Property and equipment - Net	53,332,933	45,284,229
Total assets	**$ 307,524,510**	**$ 281,968,545**
Liabilities and Net Assets		
Liabilities		
Accounts payable and other accrued liabilities	$ 4,329,826	$ 3,719,059
Accrued pension obligation	-	3,744,002
Loan payable	5,500,000	-
Bonds payable - Net	48,667,082	41,760,809
Total liabilities	58,496,908	49,223,870
Net Assets		
Unrestricted:		
Undesignated	223,929,380	206,023,164
Board designated	16,823,983	13,514,706
Temporarily restricted	5,018,769	9,956,628
Permanently restricted	3,255,470	3,250,177
Total net assets	249,027,602	232,744,675
Total liabilities and net assets	**$ 307,524,510**	**$ 281,968,545**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support								
Retail services	$ 9,288,699	$ -	$ -	$ 9,288,699	$ 8,430,012	$ -	$ -	$ 8,430,012
Admissions	1,364,898	-	-	1,364,898	1,388,914	-	-	1,388,914
Education	986,598	-	-	986,598	931,049	-	-	931,049
Visitor events	3,699,514	-	-	3,699,514	3,201,435	-	-	3,201,435
Development	3,992,386	4,203,858	5,293	8,201,537	3,611,041	4,458,192	8,440	8,077,673
Membership	4,495,191	-	-	4,495,191	4,284,897	-	-	4,284,897
Net assets released from restrictions	9,992,958	(9,992,958)	-	-	11,203,498	(11,203,498)	-	-
Investment income (loss):								
Dividend and interest income - Net	4,460,541	141,991	-	4,602,532	4,154,284	179,353	-	4,333,637
Realized gains (losses) on investments	14,703,770	468,062	-	15,171,832	(9,779,143)	(422,195)	-	(10,201,338)
Total revenue, gains, and other support	52,984,555	(5,179,047)	5,293	47,810,801	27,425,987	(6,988,148)	8,440	20,446,279
Expenses								
Program services:								
Collections and facilities	8,827,713	-	-	8,827,713	8,315,268	-	-	8,315,268
Education	1,207,617	-	-	1,207,617	1,138,427	-	-	1,138,427
Science and conservation	3,670,414	-	-	3,670,414	2,862,965	-	-	2,862,965
Public programs	1,792,718	-	-	1,792,718	1,818,818	-	-	1,818,818
Retail services	7,169,459	-	-	7,169,459	6,872,164	-	-	6,872,164
Visitor services	3,533,121	-	-	3,533,121	3,387,180	-	-	3,387,180
Marketing	2,418,034	-	-	2,418,034	2,044,903	-	-	2,044,903
Interest	888,582	-	-	888,582	487,488	-	-	487,488
Support services:								
Administration	3,711,703	-	-	3,711,703	3,840,334	-	-	3,840,334
Membership	1,213,060	-	-	1,213,060	1,275,311	-	-	1,275,311
Development	2,217,508	-	-	2,217,508	2,039,538	-	-	2,039,538
Depreciation and amortization	2,691,056	-	-	2,691,056	2,619,088	-	-	2,619,088
Total expenses	39,340,985	-	-	39,340,985	36,701,484	-	-	36,701,484
Increase (Decrease) in Net Assets - Before other changes	13,643,570	(5,179,047)	5,293	8,469,816	(9,275,497)	(6,988,148)	8,440	(16,255,205)
Other Changes								
Pension actuarial adjustment	2,526,834	-	-	2,526,834	(271,101)	-	-	(271,101)
Pension termination expense	(2,531,643)	-	-	(2,531,643)	-	-	-	-
Increase (Decrease) in Net Assets - Before unrealized investment gains	13,638,761	(5,179,047)	5,293	8,465,007	(9,546,598)	(6,988,148)	8,440	(16,526,306)
Unrealized Investment Gains	7,576,732	241,188	-	7,817,920	22,690,910	979,635	-	23,670,545
Increase (Decrease) in Net Assets	21,215,493	(4,937,859)	5,293	16,282,927	13,144,312	(6,008,513)	8,440	7,144,239
Net Assets - Beginning of year	219,537,870	9,956,628	3,250,177	232,744,675	206,393,558	15,965,141	3,241,737	225,600,436
Net Assets - End of year	**$ 240,753,363**	**$ 5,018,769**	**$ 3,255,470**	**$ 249,027,602**	**$ 219,537,870**	**$ 9,956,628**	**$ 3,250,177**	**$ 232,744,675**

See notes to financial statements.

Statement of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Increase in net assets	$ 16,282,927	$ 7,144,239
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	2,691,056	2,619,088
Amortization of debt issuance costs	85,063	10,896
Contributions restricted for long-term purposes	(4,028,302)	(4,203,011)
Net unrealized investment gain	(7,817,920)	(23,670,545)
Loss (gain) on disposal of property and equipment	93,314	(32,669)
Pension actuarial adjustment	(2,526,834)	271,101
Decrease in accrued interest and dividends receivable	60,650	649,041
Decrease (increase) in other receivables	93,184	(3,077)
Decrease (increase) in grants receivable	57,421	(158,047)
Decrease in pledges receivable	149,715	117,386
Increase in other assets	(34,650)	(46,394)
Increase in accounts payable and other accrued liabilities	441,485	487,400
(Decrease) increase in accrued pension obligation	(1,217,168)	147,815
Net cash and cash equivalents provided by (used in) operating activities	4,329,941	(16,666,777)
Cash Flows from Investing Activities		
Acquisition of property and equipment	(2,272,799)	(994,158)
Proceeds from sale of property and equipment	15,300	38,869
Purchases of marketable securities	(99,395,903)	(58,999,318)
Proceeds from sales and maturities of marketable securities	90,987,754	80,101,742
Acquisition of property and equipment with proceeds from contributions restricted for long-term purposes	(8,406,293)	(9,786,093)
Net cash and cash equivalents (used in) provided by investing activities	(19,071,941)	10,361,042
Cash Flows from Financing Activities		
Cash proceeds from contributions of stock - Restricted for long-term purposes	301,262	580,010
Cash collections from contributions restricted for long-term purposes	3,318,566	5,141,270
Payments on bonds	(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	15,941,038	5,721,280
Net Increase (Decrease) in Cash and Cash Equivalents	1,199,038	(584,455)
Cash and Cash Equivalents - Beginning of year	2,531,989	3,116,444
Cash and Cash Equivalents - End of year	**$ 3,731,027**	**$ 2,531,989**
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 811,341	$ 463,072
Noncash property and equipment additions	359,720	190,438

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 unrestricted, temporarily restricted, or permanently restricted 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.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity.

Board-designated Net Assets

Funds designated by the board of trustees to function as endowments are classified as board-designated net assets. These funds include the Capital Repair and Replacement Fund, Suzette Morton Davidson Rare Book and Print Fund, the Capital Development Fund, and the Capital Campaign Estate Gifts Fund. The Capital Repair and Replacement 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.

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 unrestricted, temporarily restricted, or permanently restricted support, 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), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Multi-year membership dues are recorded as deferred revenue and are recognized ratably over the membership period. Education and other programs are recognized as revenue in the period in which such programs occur. Admission charges are recognized in the period received. Revenue from visitor events includes income from shows and private and special events. Revenue is recognized when services are provided. Retail services revenue includes food and retail operations as well as catered events. Revenue is recognized for these activities when the service is delivered.

Note 2 - Significant Accounting Policies (Continued)

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 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.

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 $85,063 and $10,896 for the years ended December 31, 2017 and 2016, respectively. Unamortized bond issuance costs of $332,918 and $239,191 as of December 31, 2017 and 2016, 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 statement of activities and changes in net assets. Certain indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Note 2 - Significant Accounting Policies (Continued)

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, 2017 and 2016 of $16,656 and $31,677, 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.

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. Management has analyzed the tax positions taken by the Arboretum and has concluded that as of December 31, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

Note 2 - Significant Accounting Policies (Continued)

Upcoming 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 new guidance will be effective for the Arboretum's year ending December 31, 2018. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Arboretum plans to apply the standard using the modified retrospective method. The Arboretum's primary revenue stream is not expected to be significantly impacted by the ASU.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Arboretum's year ending December 31, 2019.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Arboretum’s year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Arboretum has determined that the standard will have an impact on its financial statements, specifically on the classifications of net assets, the addition of the statement of functional expenses, and the addition of liquidity and availability disclosures. The Arboretum is currently gathering the appropriate information to implement these changes in a timely manner.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including April 24, 2018, 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:

	2017	2016	Depreciable Life - Years
Land	$ 1,255,284	$ 1,255,284	-
Land improvements	29,946,856	32,336,511	20
Buildings	53,256,926	32,830,601	30-45
Equipment and other property	9,535,514	9,295,019	2-10
Construction in progress	1,623,935	11,837,462	-
	95,618,515	87,554,877	
Accumulated depreciation	42,285,582	42,270,648	
Net property and equipment	$ 53,332,933	$ 45,284,229	

Depreciation expense for 2017 and 2016 was $2,691,056 and $2,619,088, respectively.

Construction in progress as of December 31, 2017 and 2016 consists of expenditures associated primarily with the construction of the new facilities at South Farm, Thornhill, and the Children's Garden. As of December 31, 2017, the Arboretum has agreements with several contractors for approximately $2.5 million to complete the facilities.

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, 2017 and 2016 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 the 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, 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

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2016				
	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, 2016
Investments:					
Common stock	$ 42,039,015	$ -	$ -	$ -	$ 42,039,015
Northern Trust Stock Index Fund	-	-	-	33,995,948	33,995,948
Fixed-income mutual funds:					
Government bonds	11,723,497	-	-	-	11,723,497
Government agencies	5,768,659	-	-	-	5,768,659
Corporate bonds	46,871,920	-	-	-	46,871,920
Real estate limited partnership	-	-	-	5,445,620	5,445,620
Commodities fund	4,806,416	-	-	-	4,806,416
International equities	26,398,600	-	-	-	26,398,600
Partnerships, other	-	-	-	14,767,833	14,767,833
Hedge funds	-	-	-	36,284,651	36,284,651
Total investments	$ 137,608,107	$ -	$ -	$ 90,494,052	$ 228,102,159

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, 2017 and 2016, there were no such transfers.

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

Note 4 - Fair Value Measurements (Continued)

	December 31, 2017	December 31, 2016	December 31, 2017		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
U.S. equity (a)	$ 37,387,090	$ 33,995,948	$ -	Daily	One day
Real estate limited partnership (b)	-	5,445,620	-	Quarterly	Open end
Partnerships, other (c)	17,446,213	14,767,833	21,530,961	No redemption	N/A
Long-short equity portfolio funds (d)	8,151,779	13,791,492	-	Monthly to semiannual: Direct Hedge One-year Lockup	10-90 days
Event-driven portfolio funds (e)	3,966,339	3,695,684	-	Annually - Rolling Two-year	90 days
Relative value portfolio funds (f)	4,276,938	6,635,746	-	Monthly - Quarterly	15-90 days
Global asset allocation portfolio funds (g)	3,644,656	3,080,273	-	Monthly - Quarterly	5-90 days
Multistrategy portfolio funds (h)	3,104,692	9,081,456	-	Monthly to semiannual: Direct Hedge One-year Lockup	30-90 days
Distressed credit portfolio funds (i)	3,488,755	-	-	Quarterly - Annually	45-90 days
Total	$ 81,466,462	$ 90,494,052	$ 21,530,961		

(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) Real estate limited partnership includes publicly traded real estate securities, generally private real estate partnerships, and privately held REITs. Open-end real estate limited partnership - partners may make a redemption request quarterly. The fund manager has sole discretion as to when and how the request may be funded.

(c) 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.

(d) 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.

(e) 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.

(f) 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.

Note 4 - Fair Value Measurements (Continued)

(g) 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 which 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.

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

(i) 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 2017 and 2016 were as follows:

	2017	2016
Interest	$ 575,519	$ 26,758
Dividends	4,636,705	4,578,492
Investment expense	(270,174)	(271,613)
Tax expense	(339,518)	-
Net realized gain (loss) on sale of securities	15,171,832	(10,201,338)
Net unrealized gain on securities	7,817,920	23,670,545
Total	$ 27,592,284	$ 17,802,844

Note 6 - Pledges Receivable

Pledges in excess of one year are adjusted to present value using an average risk-free market rate. In accordance with accounting principles generally accepted in the United States of America, the discount rate is determined when the pledge is initially recognized. This discount rate used in determining the fair value of pledges ranged from 0.38 to 1.87 percent as of December 31, 2017 and 2016.

	2017	2016
Within one year	$ 1,522,070	$ 1,297,518
From one to five years	3,759,857	3,786,752
Thereafter	103,176	-
Less allowance for net present value discount	(91,969)	(49,895)
Net contributions receivable	$ 5,293,134	$ 5,034,375

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

	Pension Benefits	
	2017	2016
Projected benefit obligation	$ -	$ 8,031,593
Fair value of plan	-	4,291,020
Funded status at end of year	$ -	$ (3,740,573)

Amounts recognized in the statement of financial position consist of the following:

	2017	2016
Noncurrent liabilities	$ -	$ (3,740,573)
Supplemental pension liability	-	(3,429)
Total	$ -	$ (3,744,002)

Amounts in unrestricted net assets not yet recognized as a component of net periodic benefit cost are as follows:

	2017	2016
Net loss	$ -	$ 2,617,648
Prior service credit	-	(90,815)
Total recognized in other comprehensive income	$ -	$ 2,526,833

The accumulated benefit obligation for the defined benefit pension plan was $0 and $8,031,593 at December 31, 2017 and 2016, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets is as follows:

	2017	2016
Projected benefit obligation	$ -	$ 8,031,593
Accumulated benefit obligation	-	8,031,593
Fair value of plan assets	-	4,291,020

	2017	2016
Net Periodic Benefit Cost, Employer Contributions, Participant Contributions, and Benefits Paid		
Net periodic benefit cost	$ 2,531,643	$ 391,737
Employer contributions	3,745,383	243,902
Amounts Recognized in the Statement of Activities - Pension-related Changes Other Than Net Periodic Benefit Cost		
Net (gain) loss	(96,949)	581,095
Amortization of net loss	(250,620)	(215,741)
Amount recognized due to settlement	-	(116,188)
Amortization of prior service credit	21,935	21,935
Amount recognized due to final settlement	(2,201,200)	-
Net pension-related changes other than net periodic benefit cost	$ (2,526,834)	$ 271,101

The total recognized in net periodic benefit cost and other comprehensive income for 2016 was $662,838.

Note 7 - Postretirement Benefit Plans (Continued)

The estimated net loss and prior service credit for the defined benefit pension plans that was amortized from accumulated other comprehensive income into net periodic benefit cost during fiscal year 2016 were $250,620 and $(21,935), respectively.

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	2017	2016
Discount rate	0.0%	4.14%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31 are as follows:

	Pension Benefits	
	2017	2016
Discount rate	0.0%	4.45%
Expected long-term return on plan assets	0	6.00

The expected rate of return on plan assets is determined by those assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class. The Arboretum's investment strategy is to provide enough short-term income to meet current liabilities while maintaining a moderate risk tolerance to provide growth to achieve the expected long-term rate of return on the plan's assets. The plan's assets were 100 percent invested in a fixed dollar account with Prudential Insurance Company of America (Prudential). The fair value of assets is determined by applying a market value adjustment percentage to the book value of assets reported by Prudential. For December 31, 2017, the estimated market value adjustment is 0 percent. For December 31, 2016, the amount was 8.3 percent. The fixed dollar account consisted of public and private fixed maturity securities, commercial mortgage and other loans, equity securities, and other investment assets. The composition of the general account reflected, within the discipline provided by its risk management approach, the need for competitive results and the selection of diverse investment alternatives.

The fair values of the Arboretum's pension plan assets at December 31, by major asset classes, are as follows:

	Fair Value Measurements 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)	Total
Asset class - Prudential fixed dollar account	$ -	$ -	$ -	$ -

	Fair Value Measurements at December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset class - Prudential fixed dollar account	$ -	$ 4,291,020	$ -	$ 4,291,020

The tables above present information about the pension plan assets measured at fair value at December 31, 2017 and 2016 and the valuation techniques used by the Arboretum to determine those fair values.

Note 7 - Postretirement Benefit Plans (Continued)

The fair value of the plan's fixed dollar account was estimated utilizing current rates of return available for similar contracts, with comparative credit risk and liquidity, as of the respective financial statement date (Level 2 inputs).

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 $694,337 and $632,882 were charged against operations in 2017 and 2016, 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, 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.

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 certain covenants for both bonds, including the maintenance of a minimum liquidity ratio.

	2017	2016
Bonds payable	$ 49,000,000	$ 42,000,000
Debt issuance costs	(332,918)	(239,191)
Net bonds payable	$ 48,667,082	$ 41,760,809

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 $72,032 as of December 31, 2017 and is not recognized in the accompanying statement of financial position.

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 the Bank's prime rate or LIBOR (one, two, or three months) plus a margin of .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 will be required to make quarterly installment payments commencing on March 1, 2018 through the scheduled maturity date of February 10, 2022.

The balance of the above debt matures as follows:

Years Ending	Amount
2018	$ 1,375,000
2019	1,375,000
2020	1,375,000
2021	1,375,000
Total	$ 5,500,000

Note 11 - Net Assets

Temporarily restricted net assets as of December 31 are available for the following purposes:

	2017	2016
Purpose restrictions:		
Endowment revenue - Science and conservation	$ 1,786,320	$ 1,643,354
Capital campaign	1,410,523	6,185,159
Endowment revenue - New plant endowment	282,246	216,537
Pledges receivable - Time restricted	194,115	343,830
Endowment revenue - Library	148,959	81,795
Estate gifts:		
Garden sitting area	-	45,787
Library	180,620	209,802
Program grants:		
School programs	480,041	613,647
Center for tree science	124,214	152,446
Other	411,731	464,271
Total temporarily restricted net assets	$ 5,018,769	$ 9,956,628

Permanently restricted net assets consist of the three endowments recorded as separate permanently restricted funds as follows:

	2017	2016
Davis Chair program	$ 766,276	$ 766,276
Charles C. Haffner Trust	500,000	500,000
Haerther New Plant Development	1,989,194	1,983,901
Total	$ 3,255,470	$ 3,250,177

Note 11 - Net Assets (Continued)

The Arboretum has identified research projects to be performed within the original Davis Chair program guideline. The Haffner Trust specifically provides funding for the purpose of purchasing books and prints for the Suzette Morton Davidson collection of rare and botanical prints. The Haerther New Plant Development provides funding for the development of trees in the urban environment. Income generated from the permanently restricted funds is allocated to temporarily restricted funds in support of these projects.

Note 12 - Donor-restricted and Board-designated Endowments

The Arboretum's endowments include permanently restricted endowment funds, term endowment funds, and unrestricted 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 board of trustees of the Arboretum has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Arboretum classifies as permanently restricted net assets (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 the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Arboretum in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, 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, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 2,217,524	$ 1,591,276	$ 3,808,800
Board-designated endowment funds	17,569,835	-	-	17,569,835
Total	$ 17,569,835	$ 2,217,524	$ 1,591,276	$ 21,378,635

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

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 13,514,705	$ 6,247,227	$ 1,416,276	$ 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	-	3,355,403	175,000	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
Amounts appropriated for expenditure	(657,688)	(8,144,825)	-	(8,802,513)
Endowment net assets - End of year	$ 17,569,835	$ 2,217,524	$ 1,591,276	$ 21,378,635

	Endowment Net Asset Composition by Type of Fund as of December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 2,555,334	$ 1,416,276	$ 3,971,610
Board-designated endowment funds	13,514,705	3,691,893	-	17,206,598
Total	$ 13,514,705	$ 6,247,227	$ 1,416,276	$ 21,178,208

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

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 10,216,154	$ 10,718,164	$ 1,341,276	$ 22,275,594
Investment return:				
Investment income	215,799	179,353	-	395,152
Realized losses	(507,990)	(422,195)	-	(930,185)
Unrealized gains	1,178,707	979,635	-	2,158,342
Total investment return	886,516	736,793	-	1,623,309
Contributions	-	5,473,784	75,000	5,548,784
Estate gift transfer to endowment	172,496	-	-	172,496
Amounts appropriated for expenditures	(1,010,461)	(10,681,514)	-	(11,691,975)
Other changes - Funding for board-designated funds	3,250,000	-	-	3,250,000
Endowment net assets - End of year	$ 13,514,705	$ 6,247,227	$ 1,416,276	$ 21,178,208

The tables above do not include endowment pledge receivable balances. The discounted pledge receivable balances are $1,664,194 and $1,833,901 as of December 31, 2017 and 2016, respectively.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

Through the combination of investment strategy and payout policy, the Arboretum 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 2017 and 2016, the board approved a spending rate of 5.0 percent.