The Morton Arboretum

Financial Report
December 31, 2016

Contents

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Independent Auditor's Report

To the Board of Trustees
The Morton Arboretum

We have audited the accompanying financial statements of The Morton Arboretum (the "Arboretum"), which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 opinions.

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, 2016 and 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

April 6, 2017

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

The Morton Arboretum

Statement of Financial Position

	December 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 2,531,989	$ 3,116,444
Accounts receivable:		
Accrued interest and dividends	154,118	803,159
Grants	242,526	84,479
Pledges - Net	5,034,375	6,670,030
Other	153,677	150,600
Investments	228,102,159	225,534,038
Property and equipment - Net	45,284,229	36,938,828
Other assets	465,472	419,078
Total assets	**$ 281,968,545**	**$ 273,716,656**
Liabilities and Net Assets		
Liabilities		
Accounts payable and other accrued liabilities	$ 3,719,059	$ 3,041,221
Accrued pension obligation	3,744,002	3,325,086
Bonds payable	41,760,809	41,749,913
Total liabilities	49,223,870	48,116,220
Net Assets		
Unrestricted:		
Undesignated	206,023,164	196,177,404
Board designated	13,514,706	10,216,154
Temporarily restricted	9,956,628	15,965,141
Permanently restricted	3,250,177	3,241,737
Total net assets	232,744,675	225,600,436
Total liabilities and net assets	**$ 281,968,545**	**$ 273,716,656**

The Morton Arboretum

Statement of Activities and Changes in Net Assets

	Year Ended							
	December 31, 2016				December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support								
Retail services	$ 8,430,012	$ -	$ -	$ 8,430,012	$ 8,336,204	$ -	$ -	$ 8,336,204
Education	931,049	-	-	931,049	972,052	-	-	972,052
Admissions	1,388,914	-	-	1,388,914	1,501,790	-	-	1,501,790
Visitor events	3,201,435	-	-	3,201,435	2,947,454	-	-	2,947,454
Development	3,611,041	4,458,192	8,440	8,077,673	3,618,250	4,448,593	1,975,461	10,042,304
Membership	4,284,897	-	-	4,284,897	4,217,344	-	-	4,217,344
Net assets released from restrictions	11,203,498	(11,203,498)	-	-	2,034,697	(2,034,697)	-	-
Endowment:								
Dividend and interest income - Net	4,154,284	179,353	-	4,333,637	4,897,890	255,389	-	5,153,279
Realized (losses) gains on investments	(9,779,143)	(422,195)	-	(10,201,338)	883,430	45,093	-	928,523
Total revenue and support	27,425,987	(6,988,148)	8,440	20,446,279	29,409,111	2,714,378	1,975,461	34,098,950
Expenses								
Program services:								
Collections and facilities	8,315,268	-	-	8,315,268	8,316,906	-	-	8,316,906
Education	1,138,427	-	-	1,138,427	1,090,999	-	-	1,090,999
Science and conservation	2,862,965	-	-	2,862,965	2,375,391	-	-	2,375,391
Public programs	1,818,818	-	-	1,818,818	1,579,861	-	-	1,579,861
Retail services	6,872,164	-	-	6,872,164	6,697,818	-	-	6,697,818
Visitor services	3,387,180	-	-	3,387,180	3,254,545	-	-	3,254,545
Marketing	2,044,903	-	-	2,044,903	2,192,307	-	-	2,192,307
Interest	487,488	-	-	487,488	281,062	-	-	281,062
Depreciation and amortization	2,619,088	-	-	2,619,088	2,587,320	-	-	2,587,320
Development	2,039,538	-	-	2,039,538	2,019,908	-	-	2,019,908
Membership	1,275,311	-	-	1,275,311	1,210,195	-	-	1,210,195
Administration	3,840,334	-	-	3,840,334	3,655,893	-	-	3,655,893
Total expenses	36,701,484	-	-	36,701,484	35,262,205	-	-	35,262,205
(Decrease) Increase in Net Assets Before Other Changes	(9,275,497)	(6,988,148)	8,440	(16,255,205)	(5,853,094)	2,714,378	1,975,461	(1,163,255)
Unrealized Investment Gains (Losses)	22,690,910	979,635	-	23,670,545	(15,063,778)	(768,903)	-	(15,832,681)
Pension Actuarial Adjustment	(271,101)	-	-	(271,101)	303,887	-	-	303,887
Net Increase (Decrease) in Net Assets	13,144,312	(6,008,513)	8,440	7,144,239	(20,612,985)	1,945,475	1,975,461	(16,692,049)
Net Assets - Beginning of year	206,393,558	15,965,141	3,241,737	225,600,436	227,006,543	14,019,666	1,266,276	242,292,485
Net Assets - End 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**

See Notes to Financial Statements.

Statement of Cash Flows

	Year Ended December 31, 2016	Year Ended December 31, 2015
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 7,144,239	$ (16,692,049)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	2,619,088	2,587,320
Amortization of debt issuance costs	10,896	10,896
Contributions restricted for long-term purposes	(4,203,011)	(6,116,384)
Net unrealized investment (gain) loss	(23,670,545)	15,832,681
(Gain) loss on disposal of property and equipment	(32,669)	11,634
Pension actuarial adjustment	271,101	(303,887)
Decrease (increase) in accrued interest and dividends receivable	649,041	(563,559)
(Increase) decrease in other receivables	(3,077)	29,867
Increase in grants receivable	(158,047)	(8,186)
Decrease in pledges receivable	117,386	162,858
(Increase) decrease in other assets	(46,394)	43,644
Increase in accounts payable and other accrued liabilities	487,400	202,395
Increase in accrued pension obligation	147,815	307,186
Net cash used in operating activities	(16,666,777)	(4,495,584)
Cash Flows from Investing Activities		
Acquisition of property and equipment	(994,158)	(917,268)
Proceeds from sale of property and equipment	38,869	10,451
Purchases of marketable securities	(58,999,318)	(68,466,831)
Proceeds from sales and maturities of marketable securities	80,101,742	70,364,587
Acquisition of property and equipment with proceeds from contributions restricted for long-term purposes	(9,786,093)	(953,345)
Net cash provided by investing activities	10,361,042	37,594
Cash Flows from Financing Activities		
Cash proceeds from contributions of stock - Restricted for long-term purposes	580,010	450,558
Cash collections from contributions restricted for long-term purposes	5,141,270	2,800,852
Net cash provided by financing activities	5,721,280	3,251,410
Net Decrease in Cash and Cash Equivalents	(584,455)	(1,206,580)
Cash and Cash Equivalents - Beginning of year	3,116,444	4,323,024
Cash and Cash Equivalents - End of year	**$ 2,531,989**	**$ 3,116,444**
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 463,072	$ 292,406
Noncash property and equipment additions	190,438	-

Note 1 - Nature of Business and Significant Accounting Policies

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, to display them across naturally beautiful landscapes for people to study and enjoy, and to 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.

Significant accounting policies are as follows:

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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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.

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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Pledges Receivable - The Arboretum's pledges receivable are comprised 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 life of the bonds, which is 35 years. Amortization expense was $10,896 for the years ended December 31, 2016 and 2015. Unamortized bond issuance costs of $239,191 and $250,087 as of December 31, 2016 and 2015, respectively, are included in bonds payable as a reduction of the liability on the statement of financial position.

Change in Accounting Principle - As of January 1, 2016, the Arboretum adopted new guidance related to the presentation of debt issuance costs in its statement of financial position. Under the new guidance, debt issuance costs are reported as a direct deduction from the carrying amount of the related debt. Previously, debt issuance costs were presented as an asset. The new presentation requirements have been applied restrospectively and amounts reported in the 2015 statement of financial position have been restated as follows:

	As Previously Reported	As Restated	Effect of Change
Assets - Other assets	$ 669,165	$ 419,078	$ (250,087)
Liabilities - Bonds payable	$ 42,000,000	$ 41,749,913	$ (250,087)

The new guidance does not affect how the debt issuance costs are accounted for after initial recognition, and these amounts continue to be amortized over the term of the related debt and reported as a component of interest expense.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Functional Allocation of Expenses - The costs of providing the program and support services have been reported on a functional basis in the 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.

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, 2016 and 2015 of $31,677 and $19,250, 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 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.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Tax Status - The Arboretum is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. No provision has been made for federal and state income taxes in the accompanying financial statements.

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, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

Upcoming Accounting Change

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*, in August 2016. 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 Arboretum, 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 is currently gathering the appropriate information to implement these disclosure changes in a timely manner.

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, 2019. The ASU permits the new revenue recognition guidance to be applied using one of two retrospective application methods. The Arboretum's primary revenue stream is not expected to be significantly impacted by the ASU.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-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 guidance will be effective for the Arboretum's year ending December 31, 2020.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including April 6, 2017, which is the date the financial statements were available to be issued.

Note 2 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2016	2015	Depreciable Life - Years
Land	$ 1,255,284	$ 1,255,284	-
Land improvements	32,336,511	32,336,511	20
Buildings	32,830,601	32,120,481	30 - 45
Equipment and other property	9,295,019	9,008,169	2-10
Construction in progress	11,837,462	1,989,548	
Total cost	87,554,877	76,709,993	
Less accumulated depreciation	(42,270,648)	(39,771,165)	
Net carrying amount	$ 45,284,229	$ 36,938,828	

Depreciation expense was $2,619,088 for 2016 and $2,587,320 for 2015.

Construction in progress as of December 31, 2016 and 2015 consists of expenditures associated primarily with the construction of the new facilities at South Farm. As of December 31, 2016, the Arboretum has agreements with several contractors for approximately $19.3 million to complete the facilities.

Note 3 - 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, 2016 and 2015, 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.

Note 3 - Fair Value Measurements (Continued)

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

Assets Measured at Fair Value on a Recurring Basis at December 31, 2015

	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, 2015
Investments:					
Common stock	$ 45,757,043	$ -	$ -	$ -	$ 45,757,043
Northern Trust Stock Index Fund	-	-	-	23,683,817	23,683,817
Fixed-income mutual funds:					
Government bonds	11,762,634	-	-	-	11,762,634
Government agencies	12,093,511	-	-	-	12,093,511
Corporate bonds	26,353,606	-	-	-	26,353,606
Other fixed income	12,035,045	-	-	-	12,035,045
Real estate limited partnership	-	-	-	9,905,835	9,905,835
Commodities fund	10,325,332	-	-	-	10,325,332
International equities	23,323,078	-	-	-	23,323,078
Partnerships, other	-	-	-	14,010,554	14,010,554
Hedge funds	-	-	-	36,283,583	36,283,583
Total investments	$ 141,650,249	$ -	$ -	$ 83,883,789	$ 225,534,038

Level 1 Inputs - The fair value of shares of common stock, fixed-income mutual funds, international equities, and commodities funds is based on quoted market prices.

Note 3 - Fair Value Measurements (Continued)

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 of change in circumstances that caused the transfer. During the years ended December 31, 2016 and 2015, there were no such transfers.

Investments in Entities that Calculate Net Asset Value per Share

The Arboretum holds shares or interests in investment companies whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

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

	December 31, 2016	December 31, 2015	December 31, 2016		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
U.S. equity (a)	$ 33,995,948	$ 23,683,817	$ -	Daily	1 Day
Real estate limited partnership (b)	5,445,620	9,905,835	-	Quarterly	Open End
Partnerships, other (c)	14,767,833	14,010,554	14,014,710	No redemption	N/A
Long-short equity portfolio funds (d)	13,791,492	16,971,422	-	Monthly to Semi-Annual: Direct Hedge 1 Year Lockup	10-90 days
Event driven portfolio funds (e)	3,695,684	2,672,023	-	Annually - Rolling 2 Year	90 days
Relative value portfolio funds (f)	6,635,746	3,517,717	-	Monthly - Quarterly	15-90 days
Global asset allocation portfolio funds (g)	3,080,273	2,007,871	-	Monthly - Quarterly	5-90 days
Multi-strategy portfolio funds (h)	9,081,456	11,114,550	-	Monthly to Semi-Annual; Direct Hedge 1 Year Lockup	30-90 days
Total	$ 90,494,052	$ 83,883,789	$ 14,014,710		

(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 private 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.

Note 3 - Fair Value Measurements (Continued)

(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.

(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) Multi-strategy managers employ a combination of any of the above-mentioned strategies.

Note 4 - Investments

Investment returns for 2016 and 2015 were as follows:

	2016	2015
Interest	$ 26,758	$ 932,617
Dividends	4,578,492	4,545,447
Investment expense	(271,613)	(324,785)
Net realized (loss) gain on sales of securities	(10,201,338)	928,523
Net unrealized gain (loss) on securities	23,670,545	(15,832,681)
Total	$ 17,802,844	$ (9,750,879)

Note 5 - 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 percent to 1.28 percent as of December 31, 2016 and 2015.

	2016	2015
Within one year	$ 1,297,518	$ 2,201,898
From one to five years	3,786,752	4,521,036
Less allowance for net present value discount	(49,895)	(52,904)
Net contributions receivable	$ 5,034,375	$ 6,670,030

Note 6 - Postretirement Benefit Plans

Effective October 1, 1976, with the adoption of a formal pension plan, the Arboretum purchased annuity contracts for all retired and fully vested employees eligible for benefits. For those employees who were employed prior to but not fully vested at October 1, 1976, the Arboretum will purchase annuity contracts when they retire at age 60 or later. The related liability has been accrued in the financial statements.

Note 6 - Postretirement Benefit Plans (Continued)

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.

Prior to December 31, 2008, eligible employees earned benefits under the Arboretum's defined benefit plan, and those benefits are being funded currently. The plan is noncontributory. Effective December 31, 2008, all benefits under the plan were frozen. The Arboretum is in the process of terminating the pension plan. Due to large lump-sum distribution amounts, the plan years ended December 31, 2016 and 2015 have reflected plan settlements.

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

Obligations and Funded Status

	2016	2015
Accumulated benefit obligation	$ 8,031,593	$ 7,806,292
Pension benefit obligation	$ (8,031,593)	$ (7,806,292)
Fair value of plan assets	4,291,020	4,484,655
Excess of benefit obligation over plan assets (funded status)	$ (3,740,573)	$ (3,321,637)
Employer contributions	$ 243,902	$ 69,489
Effect of settlement	$ (356,705)	$ (719,436)
Amounts recognized in the statement of financial position - Accrued pension obligation	$ (3,744,002)	$ (3,325,086)

Note 6 - Postretirement Benefit Plans (Continued)

	2016	2015
Amounts recognized in the statement of activities - Pension-related changes other than net periodic benefit cost:		
Net loss	$ 581,095	$ 91,549
Amortization of net loss	(215,741)	(199,044)
Amortization of prior service credits	21,935	21,935
Amount recognized due to lump-sum settlements	(116,188)	(218,327)
Net pension-related changes other than net periodic benefit cost	271,101	(303,887)
Net periodic benefit cost:		
Interest cost	310,445	332,203
Expected return on plan assets	(228,702)	(359,583)
Amortization of net loss	215,741	199,044
Amortization of prior service credit	(21,935)	(21,935)
Effect of settlements	116,188	218,327
Total net periodic benefit cost	391,737	368,056
Total	$ 662,838	$ 64,169

Other changes in plan assets and benefit obligations previously recognized in changes in unrestricted net assets not yet recognized as periodic benefit cost are as follows:

	2016	2015
Net loss	$ 2,617,648	$ 2,368,482
Prior service credit	(90,815)	(112,750)
Total	$ 2,526,833	$ 2,255,732

Items included in net assets expected to be recognized as components of net periodic pension costs in the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Amortization of net loss	$ 250,620	$ 215,741
Amortization of prior service cost (credit)	(21,935)	(21,935)
Total	$ 228,685	$ 193,806

Note 6 - Postretirement Benefit Plans (Continued)

Assumptions

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

	2016	2015
Discount rate	4.14 %	4.45 %

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

	2016	2015
Discount rate	4.45 %	3.94 %
Expected long-term return on plan assets	6.00	7.00

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 are 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, 2016, the estimated market value adjustment is 8.3 percent. For December 31, 2015, the amount was 8.9 percent. The fixed dollar account consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities, and other investment assets. The composition of the general account reflects, 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, 2016 by major asset classes are as follows:

Fair Value Measurements at December 31, 2016

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

Note 6 - Postretirement Benefit Plans (Continued)

Fair Value Measurements at December 31, 2015

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset class - Prudential fixed dollar account	$ 4,484,655	$ -	$ 4,484,655	$ -

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

The fair value of the plan's fixed dollar account has been 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).

The Arboretum has terminated the pension plan on December 31, 2016 and future benefits would be expected to be paid in full during 2017.

Note 7 - Employee Benefit Plan

Effective July 1, 2005, the Arboretum established a defined contribution retirement plan operated under Section 401(k) of the Internal Revenue Code. The plan covers all employees who have attained the age of 21. Participants 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 $632,882 and $588,008 were charged against operations in 2016 and 2015, respectively.

Note 8 - Bonds Payable

The Arboretum is obligated to the County of DuPage, Illinois, under a loan agreement for the issuance of $42,000,000 in demand revenue bonds issued by the county for the Arboretum's expansion project. The bonds were issued on December 17, 2003 and are due on demand. Interest, at a variable rate, is payable monthly. The bonds mature on October 15, 2038. The Arboretum is subject to certain covenants, including the maintenance of a minimum liquidity ratio. The bond is supported by an irrevocable letter of credit issued on August 20, 2015 by Northern Trust, which expires on August 20, 2021. Previously, the bond was supported by an irrevocable letter of credit issued on November 1, 2012 by PNC Bank, which expired on October 31, 2015. 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.

	2016	2015
Bonds payable	$ 42,000,000	$ 42,000,000
Debt issuance costs	(239,191)	(250,087)
Net bonds payable	$ 41,760,809	$ 41,749,913

Note 9 - Line of Credit

On February 10, 2017, the Arboretum entered into a line of credit agreement with The Northern Trust Company (the "Bank"), and has available borrowings of $5,500,000 (the Arboretum may increase maximum borrowings to $6,000,000 by written request provided the Bank is willing at the time of request). As of the report date, the Arboretum had not drawn on the line of credit. 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 line of credit is converted to a term loan on February 8, 2018 and will bear 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. Until the loan is converted into a term loan, the Arboretum must pay an unused funds fee equal to 0.10 percent of the undrawn balance. The Arboretum is subject to certain covenants, including the maintenance of a minimum liquidity ratio.

Note 10 - Temporarily Restricted Net Assets

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

	2016	2015
Pledges receivable - Time restricted	$ 343,830	$ 462,863
Pledges receivable - Capital campaign	2,856,644	4,306,707
Science and conservation	1,643,354	1,588,802
Capital campaign	3,545,052	8,017,297
Estate gifts:		
Garden sitting area	45,787	43,277
Library	291,597	291,318
Program grants:		
School programs	613,647	782,788
Center for tree science	152,446	171,761
Other	464,271	300,328
Total	$ 9,956,628	$ 15,965,141

Note 11 - Permanently Restricted Net Assets

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

	2016	2015
Davis Chair program	$ 766,276	$ 766,276
Charles C. Haffner Trust	500,000	500,000
Haerther New Plant Development	1,983,901	1,975,461
Total	$ 3,250,177	$ 3,241,737

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 - Net Assets Released from Restrictions

Net assets of $11,203,498 and $2,034,697 for the years ended December 31, 2016 and 2015, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Note 13 - Donor-restricted and Board-designated Endowments

The Arboretum endowments include permanently restricted endowment funds and unrestricted and temporarily restricted 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:

(1) The duration and preservation of the fund
(2) The purposes of the Arboretum and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Arboretum
(7) The investment policies of the Arboretum

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 funds	$ 13,514,705	$ 6,247,227	$ 1,416,276	$ 21,178,208

Note 13 - 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

Endowment Net Asset Composition by Type of Fund as of December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 2,381,356	$ 1,341,276	$ 3,722,632
Board-designated endowment funds	10,216,154	8,336,808	-	18,552,962
Total funds	$ 10,216,154	$ 10,718,164	$ 1,341,276	$ 22,275,594

Note 13 - Donor-restricted and Board-designated Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 9,469,262	$ 9,478,549	$ 1,266,276	$ 20,214,087
Investment return:				
Investment income	216,037	250,265	-	466,302
Realized gains	38,926	45,093	-	84,019
Unrealized losses	(663,744)	(768,903)	-	(1,432,647)
Total investment return	(408,781)	(473,545)	-	(882,326)
Contributions	-	3,132,912	75,000	3,207,912
Estate gift transfer to endowment	713,498	-	-	713,498
Amounts appropriated for expenditures	(607,825)	(1,419,752)	-	(2,027,577)
Other changes - Funding for board-designated funds	1,050,000	-	-	1,050,000
Endowment net assets - End of year	$ 10,216,154	$ 10,718,164	$ 1,341,276	$ 22,275,594

The tables above do not include endowment pledge receivable balances. The discounted pledge receivable balances are $1,833,901 and $1,900,461 as of December 31, 2016 and 2015, 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.

Note 13 - Donor-restricted and Board-designated Endowments (Continued)

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 2016 and 2015, the board approved a spending rate of 5.0 percent.