

The Morton Arboretum

**Financial Report
December 31, 2014**

The Morton Arboretum

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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, 2014, 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 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, 2014, 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.

The financial statements of The Morton Arboretum as of December 31, 2013 were audited by other auditors, whose report dated April 15, 2014 expressed an unmodified opinion on those statements.

To the Board of Trustees
The Morton Arboretum

Emphasis of Matter

As described in Note 13 to the financial statements, \$7,976,586 of realized gain was reclassified from nonoperating to operating revenue and support on the 2013 statement of activities and changes in net assets. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

May 20, 2015

The Morton Arboretum

Statement of Financial Position

	December 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	\$ 4,323,024	\$ 4,075,596
Accounts receivable:		
Accrued interest and dividends	239,600	218,481
Grants	76,293	110,503
Pledges, net	3,967,914	451,045
Other	180,467	161,738
Investments	243,264,475	246,080,014
Property and equipment, net	37,677,619	38,889,199
Other assets	723,706	676,475
	<u>\$ 290,453,098</u>	<u>\$ 290,663,051</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and other accrued liabilities	\$ 2,838,826	\$ 2,069,025
Accrued pension obligation	3,321,787	2,159,014
Bonds payable	42,000,000	42,000,000
	<u>48,160,613</u>	<u>46,228,039</u>
Net Assets		
Unrestricted:		
Undesignated	217,537,281	226,142,450
Board designated	9,469,262	9,208,405
Temporarily restricted	14,019,666	7,817,881
Permanently restricted	1,266,276	1,266,276
	<u>242,292,485</u>	<u>244,435,012</u>
	<u>\$ 290,453,098</u>	<u>\$ 290,663,051</u>

The Morton Arboretum

Statement of Activities and Changes in Net Assets

	Year Ended							
	December 31, 2014				December 31, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support								
Retail services	\$ 7,335,537	\$ -	\$ -	\$ 7,335,537	\$ 6,602,693	\$ -	\$ -	\$ 6,602,693
Education	857,280	-	-	857,280	842,776	-	-	842,776
Admissions	1,139,319	-	-	1,139,319	1,092,474	-	-	1,092,474
Visitor events	2,565,264	-	-	2,565,264	1,739,638	-	-	1,739,638
Development	2,744,021	8,349,061	-	11,093,082	2,478,558	4,661,541	500,000	7,640,099
Membership	3,634,215	-	-	3,634,215	3,413,989	-	-	3,413,989
Net assets released from restrictions	2,351,727	(2,351,727)	-	-	1,438,771	(1,438,771)	-	-
Endowment:								
Dividend and interest income, net	6,044,090	250,381	-	6,294,471	4,724,995	126,731	-	4,851,726
Realized gain on investments	22,649,991	909,255	-	23,559,246	7,789,784	186,802	-	7,976,586
Total revenue and support	49,321,444	7,156,970	-	56,478,414	30,123,678	3,536,303	500,000	34,159,981
Expenses								
Program services:								
Collections and facilities	7,897,987	-	-	7,897,987	7,599,938	-	-	7,599,938
Education	1,059,963	-	-	1,059,963	968,053	-	-	968,053
Science and conservation	2,256,302	-	-	2,256,302	2,323,442	-	-	2,323,442
Public programs	1,299,438	-	-	1,299,438	1,303,259	-	-	1,303,259
Retail services	6,024,110	-	-	6,024,110	5,284,373	-	-	5,284,373
Visitor services	3,225,325	-	-	3,225,325	2,419,164	-	-	2,419,164
Marketing	1,687,594	-	-	1,687,594	1,668,823	-	-	1,668,823
Interest	262,033	-	-	262,033	281,967	-	-	281,967
Depreciation and amortization	2,655,800	-	-	2,655,800	2,688,980	-	-	2,688,980
Development	2,144,028	-	-	2,144,028	1,742,515	-	-	1,742,515
Membership	1,100,987	-	-	1,100,987	1,086,623	-	-	1,086,623
Administration	3,118,851	-	-	3,118,851	2,601,857	-	-	2,601,857
Total expenses	32,732,418	-	-	32,732,418	29,968,994	-	-	29,968,994
Increase (Decrease) in Net Assets								
Before other changes	16,589,026	7,156,970	-	23,745,996	154,684	3,536,303	500,000	4,190,987
Unrealized investment (losses) gains	(23,790,105)	(955,185)	-	(24,745,290)	7,004,859	167,978	-	7,172,837
Pension actuarial adjustment	(1,143,233)	-	-	(1,143,233)	732,146	-	-	732,146
Net (decrease) increase in net assets	(8,344,312)	6,201,785	-	(2,142,527)	7,891,689	3,704,281	500,000	12,095,970
Net Assets - Beginning of year	235,350,855	7,817,881	1,266,276	244,435,012	227,459,166	4,113,600	766,276	232,339,042
Net Assets - End of year	\$ 227,006,543	\$ 14,019,666	\$ 1,266,276	\$ 242,292,485	\$ 235,350,855	\$ 7,817,881	\$ 1,266,276	\$ 244,435,012

The Morton Arboretum

Statement of Cash Flows

	Year Ended	
	December 31, 2014	December 31, 2013
Cash Flows from Operating Activities		
(Decrease) Increase in net assets	\$ (2,142,527)	\$ 12,095,970
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	2,655,800	2,688,980
Donations of marketable securities	-	(261,618)
Contributions restricted for long term purposes	(7,232,220)	-
Net unrealized investment loss (gain)	24,745,290	(7,172,837)
Gain on disposal of property and equipment	(10,682)	(34,634)
Pension actuarial adjustment	1,143,233	(732,146)
(Increase) decrease in accrued interest and dividends receivable	(21,119)	122,878
Increase in other receivables	(18,729)	(106,179)
Decrease (increase) in grants receivable	34,210	(12,178)
Decrease in pledges receivable	(160,759)	93,702
Increase in other assets	(58,127)	(14,973)
Increase in accounts payable and other accrued liabilities	769,801	65,873
Increase in accrued pension obligation	19,540	65,347
Net cash provided by operating activities	19,723,711	6,798,185
Cash Flows from Investing Activities		
Acquisition of property and equipment	(419,369)	(725,748)
Proceeds from sale of property and equipment	22,008	68,312
Purchases of marketable securities	(58,911,094)	(42,624,558)
Proceeds from sales and maturities of marketable securities	36,981,343	37,218,098
Acquisition of property and equipment with proceeds from contributions restricted for long-term purposes	(1,025,281)	-
Net cash used in investing activities	(23,352,393)	(6,063,896)
Cash Flows from Financing Activities		
Cash proceeds from contributions of stock - restricted for long-term purposes	1,779,040	-
Cash collections from contributions restricted for long-term purposes	2,097,070	-
Net cash provided by financing activities	3,876,110	-
Net Increase in Cash and Cash Equivalents	247,428	734,289
Cash and Cash Equivalents - Beginning of year	4,075,596	3,341,307
Cash and Cash Equivalents - End of year	\$ 4,323,024	\$ 4,075,596
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	\$ 204,766	\$ 261,161

The Morton Arboretum

Notes to Financial Statements December 31, 2014 and 2013

Note I - 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, and the Capital Development 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. 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 as net assets released from restrictions.

The Morton Arboretum

Notes to Financial Statements December 31, 2014 and 2013

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

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 include income from shows, 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 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, 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, 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 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.

The Morton Arboretum

Notes to Financial Statements December 31, 2014 and 2013

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

Property and Equipment - Property and equipment are recorded at cost and depreciated over estimated useful lives using 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 is 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 year ended December 31, 2014 and 2013, respectively. Unamortized bond issuance costs of \$260,983 and \$271,879 as of December 31, 2014 and 2013, respectively are included in other assets 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.

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. Contribution 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, 2014 and 2013 of \$6,650 and \$12,100, respectively have been included in the statement of activities. 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.

The Morton Arboretum

Notes to Financial Statements December 31, 2014 and 2013

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

Pension Plan - The Arboretum's accounting for the pension plan reflects the accounting standards on employer's 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.

Financial Instruments - The Arboretum's financial instruments consist of cash, pledges and other accounts receivables, investments, accounts payable, accrued expenses, and bonds payable.

The carrying value of bonds payable approximates fair value because the interest fluctuates with market interest rates. For the remaining financial instruments other than pledges receivable, the carrying value is a reasonable estimate of fair value because of the short-term nature of the financial instruments. The carrying value of pledges receivable approximate fair value based on the current interest rates and the period of collectability.

Investments are carried at fair value as disclosed in Note 3.

The remaining financial instruments would have been classified as a Level 2 input if they had been included in the fair value measurements table in Note 3.

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.

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.

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Notes to Financial Statements December 31, 2014 and 2013

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

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, 2014 and 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Arboretum is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Arboretum believes it is no longer subject to income tax examinations for years prior to 2011.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including May 20, 2015, 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:

	2014	2013	Depreciable Life - Years
Land	\$ 1,255,284	\$ 1,255,284	20
Land improvements	31,890,738	31,890,738	20
Buildings	32,120,482	32,120,482	30 - 45
Equipment and other property	8,654,371	8,472,098	2-10
Construction in progress	1,068,434	-	
Total cost	74,989,309	73,738,602	
Less Accumulated depreciation	(37,311,690)	(34,849,403)	
Net carrying amount	\$ 37,677,619	\$ 38,889,199	

Depreciation expense was \$2,644,904 for 2014 and \$2,678,084 for 2013.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provides 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, 2014 and 2013, and the valuation techniques used by the Arboretum to determine those fair values.

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Notes to Financial Statements December 31, 2014 and 2013

Note 3 - Fair Value Measurements (Continued)

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.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2014

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
Investments:				
Common stock	\$ 54,356,014	\$ -	\$ -	\$ 54,356,014
Northern Trust Stock Index Fund	28,707,151	-	-	28,707,151
Fixed income mutual funds:				
Government bonds	13,933,993	-	-	13,933,993
Government agencies	11,861,559	-	-	11,861,559
Corporate bonds	32,788,152	-	-	32,788,152
Other fixed income	12,436,258	-	-	12,436,258
Real estate limited partnership	-	-	8,698,783	8,698,783
Commodities fund	18,664,888	-	-	18,664,888
International equities	23,493,735	-	-	23,493,735
Partnerships, other	-	-	10,801,521	10,801,521
Hedge fund	-	27,522,421	-	27,522,421
Total investments	<u>\$ 196,241,750</u>	<u>\$ 27,522,421</u>	<u>\$ 19,500,304</u>	<u>\$ 243,264,475</u>

The Morton Arboretum

Notes to Financial Statements December 31, 2014 and 2013

Note 3 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2013

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2013
Investments:				
Common stock	\$ 55,286,666	\$ -	\$ -	\$ 55,286,666
Northern Trust Stock Index Fund	27,545,206	-	-	27,545,206
Fixed income mutual funds:				
Government bonds	6,717,190	-	-	6,717,190
Government agencies	10,671,983	-	-	10,671,983
Corporate bonds	39,006,564	-	-	39,006,564
Other fixed income	11,634,444	-	-	11,634,444
Real estate limited partnership	-	-	7,757,966	7,757,966
Commodities fund	22,778,239	-	-	22,778,239
International equities	27,925,282	-	-	27,925,282
Partnerships, other	-	-	8,436,682	8,436,682
Hedge fund	-	28,319,792	-	28,319,792
Total investments	<u>\$ 201,565,574</u>	<u>\$ 28,319,792</u>	<u>\$ 16,194,648</u>	<u>\$ 246,080,014</u>

Level 1 Inputs - The fair value of shares of common stock, the Northern Trust Stock index fund, fixed income mutual funds, international equities, and commodities funds are based on quoted market prices.

Level 2 Inputs - The fair value of units held in the hedge fund is based on its net asset values, as reported by Northern Trust and as supported by the unit prices of actual purchase and sale transactions occurring as of or close to the financial statement date. The fair value of the hedge fund that invests in private placement and other securities, for which values are not readily available, is determined in good faith by the investment advisors to the respective portfolio funds.

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Notes to Financial Statements December 31, 2014 and 2013

Note 3 - Fair Value Measurements (Continued)

Level 3 Inputs - The fair value of shares of partnership funds were based on the underlying partnership value. The fair values of the real estate limited partnership include a member interest in an affiliated real estate operating company which invests in privately owned domestic commercial real estate investments, a limited partnership interest in an affiliated real estate partnership that invests in mezzanine financing and real estate properties, and all of the partnership interest in a private real estate partnership that invest in net leased commercial real properties. The fair values of the other partnerships that invest in nonmarketable privately held equity investments, common and preferred equity securities, partnership interest, corporate debt, warrants, escrow and earn out receivables, and other privately issued securities require significant judgment by fund management due to the absence of quoted market values, inherent lack of liquidity, changes in market conditions, and long-term nature of such assets. In determining valuation adjustments, emphasis is placed on market participants' assumptions and market-based information over entity specific information.

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 transfer. During the years ended December 31, 2014 and 2013, there were no such transfers.

Investments in Entities that Calculate Net Asset Value per Share

The following table summarizes unfunded commitments, redemption rules and fair value measurements of investments in other investment funds that calculate net asset value per share (or its equivalent) as of December 31, 2014 and 2013, respectively.

	December 31,	December 31,	December 31, 2014		
	2014	2013	Unfunded	Redemption Frequency,	Redemption
	Fair Value	Fair Value	Commitments	if Eligible	Notice
					Period
Real estate limited partnership (a)	\$ 8,698,783	\$ 7,757,966	\$ -	Quarterly	Open-end
Partnerships, other (b)	10,801,521	8,436,682	10,067,291	N/A	N/A
Long-Short Equity Portfolio Funds (c)	10,206,771	9,974,362	-	Monthly to Semi-Annual	10-90 days
Event Driven Portfolio Funds (d)	2,831,366	2,875,090	-	Annually - Rolling 2 Year	90 days
Relative Value Portfolio Funds (e)	3,984,699	4,827,380	-	Monthly - Quarterly	15-90 days
Global Asset Allocation Portfolio Funds (f)	1,937,770	2,011,920	-	Monthly - Quarterly	5-90 days
Multi-Strategy Portfolio Funds (g)	8,561,815	8,631,040	-	Monthly - Annual	30-90 days
Total	\$ 47,022,725	\$ 44,514,440	\$ 10,067,291		

Note 3 - Fair Value Measurements (Continued)

- (a) 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. Fund manager has sole discretion as to when and how the request may be funded.
- (b) 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
- (c) Long-short equity strategies seek to make a profit by taking positions in equities and generally involve fundamental analysis in the investment decision process. Managers in these strategies tend to be "stock pickers" and typically manage market exposure by shifting allocations between long and short investments depending on market conditions and outlook. Long-short equity strategies may comprise investments in one or multiple countries, including emerging markets and one or multiple sectors.
- (d) Event driven strategies involve investing in opportunities created by significant transaction events, such as spin-offs, mergers and acquisitions, and reorganizations. These strategies include Risk Arbitrage, Distressed Situations Investing, Special Situations, and Opportunistic Investing.
- (e) Relative value strategies seek 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 the following: Convertible Bond Arbitrage, Fixed Income Arbitrage, Options Arbitrage, Pairs Trading, Managed Futures, Statistical Arbitrage, Commodity Trading Advisors (CTAs), and multiple "Market Neutral" strategies.
- (f) Global asset allocation strategies seek to exploit opportunities in various global markets. Portfolio managers employing these strategies have a broad mandate to invest in those markets and instruments 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.
- (g) Multi-strategy managers employ a combination of any of the above mentioned strategies.

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Notes to Financial Statements December 31, 2014 and 2013

Note 3 - Fair Value Measurements (Continued)

Changes in fair value of assets measured on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2014 and 2013 are as follows:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Real Estate Limited Partnership	Partnerships, Other	Total
Beginning balance - December 31, 2012	\$ 6,890,299	\$ 5,264,870	\$ 12,155,169
Contributions	-	2,175,732	2,175,732
Settlements	-	(60,480)	(60,480)
Realized gain	193,317	272,211	465,528
Unrealized gain	483,189	990,990	1,474,179
Investment income (loss), net	191,161	(206,641)	(15,480)
December 31, 2013	7,757,966	8,436,682	16,194,648
Contributions	-	2,682,616	2,682,616
Settlements	-	(3,535,925)	(3,535,925)
Realized gain	225,370	1,390,200	1,615,570
Unrealized gain	453,095	2,125,227	2,578,322
Investment income (loss), net	262,352	(297,279)	(34,927)
December 31, 2014	<u>\$ 8,698,783</u>	<u>\$ 10,801,521</u>	<u>\$ 19,500,304</u>

Note 4 - Investments

Investment returns for 2014 and 2013 were as follows:

	2014	2013
Interest	\$ 669,835	\$ 646,400
Dividends	5,843,814	4,382,362
Other investment loss	-	(4,903)
Investment expense	(219,178)	(172,133)
Net realized gain on sales of securities	23,559,246	7,976,586
Net unrealized (loss) gain on securities	(24,745,290)	7,172,837
Total	<u>\$ 5,108,427</u>	<u>\$ 20,001,149</u>

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Notes to Financial Statements December 31, 2014 and 2013

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 generally accepted accounting principles 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 0.63 percent as of December 31, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Within one year	\$ 1,599,743	\$ 451,045
From one to five years	2,386,363	-
Less allowance for net present value discount	<u>(18,192)</u>	<u>-</u>
Net contributions receivable	<u>\$ 3,967,914</u>	<u>\$ 451,045</u>

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.

In addition to pension benefits, through 1994 the Arboretum provided certain health care benefits to retired employees. The cost of retiree health care 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 ending December 31, 2014 and 2013 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.

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Notes to Financial Statements December 31, 2014 and 2013

Note 6 - Postretirement Benefit Plans (Continued)

Obligations and Funded Status

	2014	2013
Accumulated benefit obligation	\$ 8,506,386	\$ 7,276,056
Pension benefit obligation	\$ (8,506,386)	\$ (7,276,056)
Fair value of plan assets	5,184,599	5,117,042
Excess of benefit obligation over plan assets (funded status)	\$ (3,321,787)	\$ (2,159,014)
Employer contributions	\$ 36,380	\$ 25,000
Benefits paid	\$ 219,387	\$ 106,996
Amounts recognized in the statement of financial position:		
Accrued pension obligation	\$ (3,321,787)	\$ (2,159,014)
Amounts recognized in the statements of activities:		
Pension related changes other than net periodic benefit cost:		
Net loss (gain)	\$ 1,208,543	\$ (601,294)
Amortization of net loss	(87,245)	(152,787)
Amortization of prior service credits	21,935	21,935
Net pension related changes other than net periodic benefit cost	1,143,233	(732,146)
Net periodic benefit cost:		
Interest cost	350,457	326,895
Expected return on plan assets	(354,677)	(367,402)
Amortization of net loss	87,245	152,787
Amortization of prior service credit	(21,935)	(21,935)
Total net periodic benefit cost	61,090	90,345
Total	\$ 1,204,323	\$ (641,801)

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

	2014	2013
Net loss	\$ 2,694,304	\$ 1,573,003
Prior service credit	(134,685)	(156,620)
Total	\$ 2,559,619	\$ 1,416,383

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Notes to Financial Statements December 31, 2014 and 2013

Note 6 - Postretirement Benefit Plans (Continued)

Items included in December 31, 2013 net assets expected to be recognized as components of net periodic pension costs in the year ending December 31, 2014:

	2014	2013
Amortization of net loss	\$ 199,044	\$ 87,245
Amortization of prior service cost (credit)	(21,935)	(21,935)
Total	\$ 177,109	\$ 65,310

Assumptions

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

	2014	2013
Discount rate	3.94 %	4.86 %

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

	2014	2013
Discount rate	4.86 %	4.06 %
Expected long-term return on plan assets	7.00	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 assets are 100 percent invested in a fixed dollar account with Prudential Insurance Company of America. 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, 2014, the estimated Market Value Adjustment is 12.8 percent. For December 31, 2013, the amount was 9.8 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.

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Notes to Financial Statements December 31, 2014 and 2013

Note 6 - Postretirement Benefit Plans (Continued)

The fair values of the Arboretum's pension plan assets at December 31, 2014 by major asset classes are as follows:

Fair Value Measurements at December 31, 2014

	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	\$ 5,184,599	\$ -	\$ 5,184,599	\$ -

Fair Value Measurements at December 31, 2013

	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	\$ 5,117,042	\$ -	\$ 5,117,042	\$ -

The tables above present information about the pension plan assets measured at fair value at December 31, 2014 and 2013, 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 expects to contribute approximately \$52,396 in 2015. Subject to approval of the plan termination discussed above, future benefits to be paid would be approximately as follows:

Years	Amounts
2015	\$ 160,000
2016	210,000
2017	240,000
2018	280,000
2019	300,000
2020-2023	2,140,000

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Notes to Financial Statements December 31, 2014 and 2013

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 non-elective 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 non-elective contribution. Contributions to the plan of \$552,874 and \$519,394 were charged against operations in 2014 and 2013, 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 November 1, 2012, by PNC Bank and expires on October 31, 2015. It is management's expectation to renew the letter of credit with similar terms and conditions in 2015.

Note 9 - Temporarily Restricted Net Assets

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

	2014	2013
Pledges receivable - Time restricted	\$ 625,720	\$ 451,045
Pledges receivable - Capital campaign	3,342,194	-
Science and conservation	1,810,684	1,887,548
Capital campaign	6,885,141	-
Estate gifts:		
Garden sitting area	213,214	4,159,666
Library	408,358	435,765
Program grants:		
School programs	236,117	341,464
Center for tree science	161,151	180,609
Other	337,087	361,784
Total	<u>\$ 14,019,666</u>	<u>\$ 7,817,881</u>

The Morton Arboretum

Notes to Financial Statements December 31, 2014 and 2013

Note 10 - Permanently Restricted Net Assets

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

	2014	2013
Davis Chair program	\$ 766,276	\$ 766,276
Charles C. Haffner Trust	500,000	500,000
Total	<u>\$ 1,266,276</u>	<u>\$ 1,266,276</u>

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. Income generated from the permanently restricted funds is allocated to temporarily restricted funds in support of these projects.

Note 11 - Net Assets Released from Restrictions

Net assets of \$2,351,727 and \$1,438,771 for the years ended December 31, 2014 and 2013, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Note 12 - 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.

The Morton Arboretum

Notes to Financial Statements December 31, 2014 and 2013

Note 12 - Donor Restricted and Board Designated Endowments (Continued)

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 organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization 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 organization 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 organization
- (7) The investment policies of the organization

Endowment Net Asset Composition by Type of Fund as of December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,873,473	\$ 1,266,276	\$ 3,139,749
Board-designated endowment funds	9,469,262	7,605,076	-	17,074,338
Total funds	<u>\$ 9,469,262</u>	<u>\$ 9,478,549</u>	<u>\$ 1,266,276</u>	<u>\$ 20,214,087</u>

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Notes to Financial Statements December 31, 2014 and 2013

Note 12 - Donor Restricted and Board Designated Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets -				
Beginning of year	\$ 9,208,405	\$ 6,711,335	\$ 1,266,276	\$ 17,186,016
Investment return:				
Investment income	242,691	242,971	-	485,662
Realized gains	908,354	909,255	-	1,817,609
Unrealized losses	<u>(954,083)</u>	<u>(955,185)</u>	<u>-</u>	<u>(1,909,268)</u>
Total investment return	196,962	197,041	-	394,003
Contributions	-	3,890,026	-	3,890,026
Amounts appropriated for expenditures	(236,105)	(1,319,853)	-	(1,555,958)
Other changes - Transfers	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>300,000</u>
Endowment net assets - End of year	<u>\$ 9,469,262</u>	<u>\$ 9,478,549</u>	<u>\$ 1,266,276</u>	<u>\$ 20,214,087</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,938,835	\$ 1,266,276	\$ 3,205,111
Board-designated endowment funds	<u>9,208,405</u>	<u>4,772,500</u>	<u>-</u>	<u>13,980,905</u>
Total funds	<u>\$ 9,208,405</u>	<u>\$ 6,711,335</u>	<u>\$ 1,266,276</u>	<u>\$ 17,186,016</u>

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Notes to Financial Statements December 31, 2014 and 2013

Note 12 - Donor Restricted and Board Designated Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets -				
Beginning of year	\$ 8,541,242	\$ 2,658,148	\$ 766,276	\$ 11,965,666
Investment return:				
Investment income	172,468	113,621	-	286,089
Realized gains	283,549	186,802	-	470,351
Unrealized gains	254,977	167,978	-	422,955
Total investment return	710,994	468,401	-	1,179,395
Contributions	-	3,500,000	500,000	4,000,000
Amounts appropriated for expenditures	(288,831)	(206,627)	-	(495,458)
Other changes - Transfers	245,000	291,413	-	536,413
Endowment net assets - End of year	<u>\$ 9,208,405</u>	<u>\$ 6,711,335</u>	<u>\$ 1,266,276</u>	<u>\$ 17,186,016</u>

Return Objectives and Risk Parameters

The Arboretum has adopted investment and spending policies for endowment assets that attempt to provide 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(s). 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 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 2014 and 2013, the Board approved a spending rate of 5.0 percent.

Note 13 - Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. During fiscal 2014, the Arboretum concluded that it was appropriate to classify its realized gains/losses on securities as operating revenue. As a result, \$7,976,586 of realized gain was reclassified from non-operating to operating revenue and support on the statement of activities and changes in net assets.

Note 14 - New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board 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 annual reporting periods beginning after December 15, 2017. The ASU permits the new revenue recognition guidance to be applied using one of two retrospective application methods. The Arboretum has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.