Chicago Horticultural Society

Consolidated Financial Statements and Independent Auditor's Report

December 31, 2018

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Independent Auditor's Report

To the Board of Directors
Chicago Horticultural Society

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Chicago Horticultural Society (the "Society"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017 and the related consolidated statements of activities and cash flows for the years then ended and the statement of functional expense for the year ended December 31, 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chicago Horticultural Society and its subsidiaries as of December 31, 2018 and 2017 and the changes in their net assets and their cash flows for the years then ended and their functional expenses for the year ended December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the consolidated financial statements, the Society adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of January 1, 2018. Our opinion is not modified with respect to this matter.

To the Board of Directors
Chicago Horticultural Society

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2019 on our consideration of Chicago Horticultural Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chicago Horticultural Society's internal control over financial reporting and compliance.

Plante & Moran, PLLC

April 16, 2019

CHICAGO HORTICULTURAL SOCIETY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017
(000's omitted)

	2018	2017
ASSETS		
Cash	$ 2,229	$ 1,306
Pledges receivable	11,371	14,658
Accounts receivable	671	1,789
Prepaid expenses	229	394
Investments	104,151	107,634
Beneficial interests in third-party trusts	950	1,027
Property and equipment, net	129,428	125,733
Total assets	$ 249,029	$ 252,541
LIABILITIES		
Accounts payable and other current liabilities	$ 6,391	$ 3,916
Deferred revenue	3,869	3,536
Other liabilities	621	493
Gift annuity obligations	325	292
Interest rate swaps	1,396	2,216
Bonds payable less unamortized bond issuance costs	49,516	49,489
Total liabilities	62,118	59,942
NET ASSETS		
Without donor restrictions		
Designated by the Board	52,804	57,567
Undesignated	75,376	70,464
Total net assets without donor restrictions	128,180	128,031
With donor restrictions		
Purpose and time restricted	24,489	33,593
Perpetual in nature	34,242	30,975
Total net assets with donor restrictions	58,731	64,568
Total net assets	186,911	192,599
Total liabilities and net assets	$ 249,029	$ 252,541

CHICAGO HORTICULTURAL SOCIETY
CONSOLIDATED STATEMENTS OF ACTIVITIES
Year ended December 31, 2018 (With Summarized Comparative Information for 2017)
(000's omitted)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
OPERATING REVENUES				
Forest Preserve District of Cook County				
Tax revenue	$ 9,196	$ -	$ 9,196	$ 9,170
Personal property replacement tax	250	-	250	242
Contributions	4,847	12,637	17,484	14,248
Government grants	3,410	-	3,410	6,710
Sponsorships	799	-	799	877
In-kind contributions	1,344	-	1,344	930
Membership	4,632	-	4,632	4,552
Visitor programs and operations	4,998	-	4,998	5,000
Education fees	2,118	-	2,118	1,849
Investment income	1,050	1,851	2,901	2,699
Fundraising benefits - Net of $532 and $562 of direct expenses in 2018 and 2017, respectively	750	-	750	767
Other income	574	-	574	651
Release from restrictions	16,677	(16,677)	-	-
Total operating revenues	$ 50,645	$ (2,189)	$ 48,456	$ 47,695
OPERATING EXPENSES				
Program services				
Gardens and grounds	13,552	-	13,552	11,507
Visitor programs and operations	5,789	-	5,789	4,766
Education and community programs	7,136	-	7,136	6,316
Scientific affairs	9,377	-	9,377	12,852
Communications	3,066	-	3,066	2,665
Support services				
Administration	4,479	-	4,479	7,058
Development	4,723	-	4,723	3,743
Total operating expenses	$ 48,122	$ -	$ 48,122	$ 48,907
Increase (decrease) in net assets before nonoperating activities	$ 2,523	$ (2,189)	$ 334	$ (1,212)
NONOPERATING ACTIVITIES				
Investment return net of amount designated for current use	(3,194)	(3,648)	(6,842)	10,723
Change in fair value of interest rate swaps	820	-	820	990
Total nonoperating activity	$ (2,374)	$ (3,648)	$ (6,022)	$ 11,713
Increase (Decrease) in net assets	149	(5,837)	(5,688)	10,501
Net assets, beginning of year	128,031	64,568	192,599	182,098
Net assets, end of year	$ 128,180	$ 58,731	$ 186,911	$ 192,599

CHICAGO HORTICULTURAL SOCIETY
CONSOLIDATED STATEMENTS OF ACTIVITIES
Year ended December 31, 2017
(000's omitted)

	Without Donor Restrictions	With Donor Restrictions	2017 Total
OPERATING REVENUES			
Forest Preserve District of Cook County			
Tax revenue	$ 9,170	$ -	$ 9,170
Personal property replacement tax	242	-	242
Contributions	4,393	9,855	14,248
Government grants	6,710	-	6,710
Sponsorships	877	-	877
In-kind contributions	930		930
Membership	4,552	-	4,552
Visitor programs and operations	5,000	-	5,000
Education fees	1,849	-	1,849
Investment income	931	1,768	2,699
Fundraising benefits - Net of $562 of direct expenses	767	-	767
Other income	651	-	651
Release from restrictions	22,608	(22,608)	-
Total operating revenues	$ 58,680	$ (10,985)	$ 47,695
OPERATING EXPENSES			
Program services			
Gardens and grounds	11,507	-	11,507
Visitor programs and operations	4,766	-	4,766
Education and community programs	6,316	-	6,316
Scientific affairs	12,852	-	12,852
Communications	2,665	-	2,665
Support services		-	-
Administration	7,058	-	7,058
Development	3,743	-	3,743
Total operating expenses	$ 48,907	$ -	$ 48,907
Increase (decrease) in net assets before nonoperating activities	9,773	(10,985)	(1,212)
NONOPERATING ACTIVITIES			
Investment return net of amount designated for current use	6,910	3,813	10,723
Change in fair value of interest rate swaps	990	-	990
Total nonoperating activity	$ 7,900	$ 3,813	$ 11,713
Increase (Decrease) in net assets	$ 17,673	$ (7,172)	$ 10,501
Net assets, beginning of year	110,358	71,740	182,098
Net assets, end of year	$ 128,031	$ 64,568	$ 192,599

CHICAGO HORTICULTURAL SOCIETY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2018
(000's omitted)

	PROGRAM SERVICES						SUPPORTING SERVICES		2018
	Gardens and Grounds	Visitor Programs and Operations	Education and Community Programs	Scientific Affairs	Communications	Total Program	Administration	Development	TOTAL
Salaries and wages	$ 5,670	$ 1,791	$ 3,211	$ 4,323	$ 1,416	$ 16,411	$ 1,870	$ 1,987	$ 20,268
Payroll taxes and fringe benefits	1,504	410	728	981	370	3,993	84	537	4,614
Professional services	931	241	405	448	139	2,164	1,587	349	4,100
Information technology services	146	176	223	266	43	854	45	88	987
Occupancy	797	25	25	20	3	870	3	7	880
Plants, research and other supplies	571	931	321	35	1	1,859	8	92	1,959
Office services and supplies	129	135	282	101	193	840	138	478	1,456
Printing	1	243	7	9	109	369	2	143	514
Equipment maintenance and repair	511	16	6	15	2	550	74	-	624
Travel	159	11	134	190	4	498	33	36	567
Vehicle maintenance and repair	59	77	7	5	-	148	2	-	150
Participant and client support	-	1	31	198	-	230	1	-	231
Other operating expenses	165	29	346	286	37	863	107	59	1,029
Advertising and marketing	-	184	-	5	282	471	5	110	586
Debt service expenses	411	1	3	1,070	97	1,582	131	97	1,810
Depreciation	2,498	1,518	1,407	1,425	370	7,218	389	740	8,347
Total functional expenses	**$ 13,552**	**$ 5,789**	**$ 7,136**	**$ 9,377**	**$ 3,066**	**$ 38,920**	**$ 4,479**	**$ 4,723**	**$ 48,122**

CHICAGO HORTICULTURAL SOCIETY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2018 and 2017
(000's omitted)

	2018	2017
Cash flows from operating activities:		
Increase in net assets	$ (5,688)	$ 10,501
Depreciation	8,347	8,050
Expense of bond issue cost	27	27
Realized and unrealized losses (gains) on investments	5,705	(11,927)
Contributions of securities	(2,686)	(2,510)
Change in allowance for doubtful accounts	125	3
Change in fair value of beneficial interests in third-party trusts	77	(80)
Change in fair value of interest rate swaps	(820)	(990)
Realized loss on disposal of equipment	(5)	(20)
Contributions restricted for long-term investment	(9,718)	(1,595)
Gift annuity obligations	33	(32)
Changes in assets and liabilities:	-	-
Pledges receivable	8,249	2,487
Accounts receivable and prepaid expenses	1,283	(210)
Accounts payable, accrued expenses and deferred revenue	193	(16)
Net cash provided by operating activities	5,123	3,688
Cash flows from investing activities:		
Purchase of property and equipment	(9,294)	(15,526)
Proceeds from sale of investments	6,997	21,647
Purchase of investments	(9,219)	(13,865)
Net cash used in investing activities	(11,516)	(7,744)
Cash flows from financing activities:		
Sale of donated financial assets	2,686	2,510
Collections of contributions restricted for investment in endowment	4,631	2,151
Net cash provided by financing activities	7,317	4,661
Increase in cash	923	605
Cash, beginning of year	1,306	701
Cash, end of year	$ 2,229	$ 1,306
Supplemental disclosure of cash flow information:		
Interest paid, net of interest capitalized	$ 1,400	$ 1,428
Non-cash property and equipment additions	$ (3,291)	$ (548)

1. ORGANIZATION

The Chicago Horticultural Society (the "Society") operates the Chicago Botanic Garden on land owned by the Forest Preserve District of Cook County (the "District") under an agreement expiring in 2055. Such agreement provides for an automatic renewal for 40 years unless either party provides notice of non-renewal.

The Board of Directors of the Society has adopted the following mission statement: We cultivate the power of plants to sustain and enrich life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation—The consolidated financial statements include the accounts of the Society and Chicagoland Grows, Inc., of which the Society is the sole member. (collectively referred to as the "Society"). There are no significant intercompany transactions between these entities.

Basis of Presentation—The consolidated financial statements of the Society have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAPUSA).

Adoption of New Accounting Pronouncements – In May, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes 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 Society adopted the ASU effective January 1, 2018, using the full retrospective method. The adoption of the ASU resulted in a restatement to deferred revenue, net assets, and changes in net assets as disclosed in Note 3.

As of January 1, 2018, the Society adopted ASU No. 2016 14, *Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not for Profit Entities*. The standard requires significant changes to the financial reporting model of organizations who 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 standard also requires changes in the way certain information is aggregated and reported by the Society, including required disclosures about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. All applicable changes to the reporting model have been retrospectively incorporated into the presentation, except for the functional expense disclosures as allowed by the standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Classification of Net Assets – Net assets of the Society are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed or the donor-imposed restriction have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Society.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Society or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Contributions and Grant Revenue – Contributions are recorded as increases in net assets with donor restrictions or increases in net assets without donor restrictions, depending on the existence or nature of any donor restrictions. Contributions received with donor-imposed restrictions limiting the use of the donated assets are reported as revenue with donor restrictions. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restriction.

Contributions of donated securities are sold upon receipt unless there are donor restrictions restricting the sale of such securities.

Government grant revenue is recognized as expenses are incurred on the project.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax revenue appropriated and collected by the District partially supports the services provided by the Society under its agreement with the District to operate the Chicago Botanic Garden. Amounts received from the District under the agreement for 2018 represent the amounts appropriated by the District for 2017 property taxes and personal property replacement taxes, which are due for payment from taxpayers in 2018 for ultimate distribution to the Society. Tax revenues also include the Society's share of any amounts remitted to the District by the Cook County Collector (the "County") for prior year property tax payments, net of the Society's share of any property tax refunds returned to the taxpayers by the County. Support from the District for any given year is recognized at the net amount reported as collected by the District to operate the Chicago Botanic Garden. A receivable is recorded at year-end for any amounts reported as collected by the District but not yet remitted to the Society.

Revenue Recognition for Contracts with Customers — The Society's revenue streams under contracts with customers are comprised of events revenue; program-generated revenues; membership dues and facility room rentals.

For each revenue stream identified above, revenue recognition is subject to the completion of performance obligations. For each contract with a customer, the Society determined whether the performance obligations in the contracts are distinct or should be bundled. Factors to be considered include the pattern of transfer, whether visitors or participants (customers) can benefit from the resources, and whether the resources are readily available. The Society also performs an analysis to determine if membership dues, sponsorship agreements or special event tickets constitute separate performance obligations. The Society's revenue is recognized when a given performance obligation is satisfied, either over a period of time or at a given point in time. The Society recognizes the revenue over a period of time if the customer receives and consumes the benefits that the Society provided, or if the Society's performance does not create an asset with an alternative use, and has an enforceable right to payment for the performance. The revenue is recognized at a given point in time when the control of the goods or service is transferred to the customer and when the customer can direct its use and obtain substantial benefit from the goods.

The transaction price is calculated as the amount of consideration to which the Society expects to be entitled (such as merchant price, event agreements, price of membership and course fees set in advance). In some situations (such as course fees for education programs, sponsorship, or security of room rental), the Society bills customers and collects cash prior to the satisfaction of the performance obligation, which results in the Society recognizing contract liabilities upon receipt of payment.

The following explains the performance obligations related to each revenue stream and how they are recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Membership Dues – The Society earns dues from its members for memberships. Membership dues are earned over the course or one of two years, representing the period over which the Society satisfies the performance obligation.

Visitor Programs and Operations – The Society generates revenue from transaction-based fees, restaurant sales, merchandize sales, and providing services to customers. Transactions-based fees, which include parking, ticket sales, and plant sales, are recognized at the time the transaction is executed as that is the point in time when the Society satisfies the performance obligation. Restaurant, merchandise, and plant sales are recognized at the point in time when the sale occurs and the visitor takes possession of the item purchased.

Facility Rental Revenues – Included in visitor programs and operations revenue on the consolidate statement of activities, facility rental revenues consist of room rentals for special events on a specified date. The Society does not have an obligation to issue a refund in the event that facility room rental is canceled by the customer. The Society recognizes revenue at the point in time when services are rendered to the customer.

Other Income – The Society generates revenue from other activities including sponsorships, education programs, tours, transportation, and equipment rentals. The Society recognizes revenue at the point in time the services are rendered to its visitors.

Pledges Receivable—Contributions, including unconditional promises, are recognized as revenue when the donor's commitment is received. Unconditional promises to give and grants expected to be received over more than one year are recorded at the present value of their estimated future cash flows. Amortization of the discount is recorded as additional contribution revenue. Conditional promises are recorded when donor stipulations are substantially met.

Accounts Receivable—Accounts receivable consist of government grants and other receivables that are carried at original invoice and voucher amount. Management monitors the collection of these receivables on a monthly basis and amounts are written off when deemed uncollectible**.**

Investments—Investments are measured at fair value in the accompanying consolidated statements of financial position. Investment income or loss (including realized gains and losses on investments, changes in unrealized holding gains and losses, interest, and dividends) on investments is included in investment income and return in the consolidated statements of activities. Gains and losses on securities transactions are accounted for on the specific-identification method. Certain investments require advance notice to sell the Society's share of its investment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Society'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 term and will materially affect the amounts reported in the consolidated financial statements.

In 1996, the Society established a spending policy based on the total return concept, and approved an investment payout of five percent of the average fair value of the long-term investment pool for allocation to operations as directed by the Board of Directors. To the extent the investment income exceeds investment payout, it is reported as a nonoperating activity in the consolidated statements of activities.

Property and Equipment—All real property of the Society, whether purchased with District tax funds or private funds, is owned by the District. Personal property is owned by the Society. Property and equipment, whether owned by the District or the Society, is capitalized on the Society's books and depreciation is recorded using the straight-line method, based on estimated useful lives of the related assets or the term of the agreement. The useful lives of building and improvements, land improvements, and equipment are 20 to 40 years, 20 years, and 3 to 10 years, respectively.

Museum Assets—Purchased museum assets and rare books are capitalized at the time of purchase and not depreciated. Contributed museum assets are not valued and thus are not reflected in the consolidated financial statements.

Interest Rate Swaps—The Society's interest rate swaps are recognized as a liability in the consolidated statements of financial position and measured at fair value. Any change in fair value is recognized immediately in earnings.

In order to present the interest expense at the fixed amount paid, the periodic settlement payments are recorded as interest expense and are included as operating expenses in the consolidated statements of activities. The change in the fair value of these financial instruments, net of the periodic settlement payments, has been recorded in nonoperating activities in the consolidated statements of activities. See Note 11 for further disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax—The Society is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986 (as amended from time to time) as well as similar provisions of state and local revenue laws.

Chicagoland Grows, Inc. is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Chicagoland Grows, Inc. is one of the most innovative plant introduction programs in the horticulture industry. The program's main goal is to develop and promote the use of new plant cultivars that are well-adapted to the growing conditions of the Upper Midwest.

The Society's application of GAAPUSA regarding uncertain tax positions had no effect on its financial position as management believes the Society has no material unrecognized income tax liabilities, including any potential risk of loss of its exempt status. The Society would account for any potential interest or penalties related to possible future liabilities for unrecognized income tax liabilities as income tax expense.

Reclassification— Certain 2017 amounts have been reclassified to conform to the 2018 presentation. In-kind contributions have been presented separate from sponsorships and the allocation of functional expenses has changed as a result of the adoption of ASU No. 2016-14 described further in Note 3.

Functional Allocation of Expenses – Costs of providing the program and support services have been reported on a functional basis in the statement of activities. Costs are charged to program services and supporting services on an actual basis when available. In addition, indirect costs have been allocated between the various programs and support services on several bases and estimates as determined by management:

- *Depreciation – by headcount per department and/or building within each function*
- *Information Technology Services – by headcount per department and/or building within each function*
- *Debt service expenses – directly assigned based on use of proceeds from bond issuance*

Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAPUSA requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events—The consolidated financial statements and related disclosures include evaluation of events up through and including April 16, 2019, which is the date the consolidated financial statements were available to be issued.

(000's omitted)

3. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT

The accompanying financial statements for 2017 have been restated in accordance with the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which provides accounting guidance on the recognition of revenues from contracts. This change was applied to all periods presented using the modified retrospective method. The following financial statement line items for 2017 were restated:

Statement of Activities
Year Ended December 31, 2017

	As Computed Under ASC 605	As Computed Under ASC 606	Effect of Change
Membership	$ 4,692	$ 4,552	$ (140)
Visitor programs and operations	4,976	5,000	24
Total operating revenues	$ 47,811	$ 47,695	$ (116)
Total operating expenses	48,907	48,907	-
Decrease in net assets before nonoperating activities	(1,096)	(1,212)	(116)
Nonoperating activities	11,713	11,713	-
Increase (decrease) in net assets	10,617	10,501	(116)
Net assets, beginning of year	$ 184,556	$ 182,098	$ (2,458)
Net assets, end of year	$ 195,173	$ 192,599	$ (2,574)

Statement of Financial Position
Year Ended December 31, 2017

	As Computed Under ASC 605	As Computed Under ASC 606	Effect of Change
Deferred revenue	$ 962	$ 3,536	$ 2,574
Total liabilities	$ 57,368	$ 59,942	$ 2,574
Total net assets	195,173	192,599	(2,574)
Total liabilities and net assets	$ 252,541	$ 252,541	$ -

As a result of the transition adjustments, net assets as of January 1, 2017 decreased from $184,556 as originally reported, to $182,098. The total increase in net assets for the year ended December 31, 2017 decreased from $10,617 as originally reported, to $10,501.

(000's omitted)

3. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT (CONTINUED)

As a result of the transition adjustments, there were no changes in operating, investing, or financing cash flows for the year ended December 31, 2017.

The accompanying financial statements for 2017 have also been restated to reflect changes implemented to reflect the functional allocation of expenses. The changes presented on the statement of activities are summarized as follows:

	As Computed Under Old Method	As Reported Under New Method	Effect of Change
Gardens and grounds	$ 10,432	$ 11,507	$ 1,075
Visitor programs and operations	4,190	4,766	576
Education and community programs	7,001	6,316	(685)
Scientific affairs	8,514	12,852	4,338
Communications	-	2,665	2,665
Membership	1,252	-	(1,252)
Depreciation	8,050	-	(8,050)
Administration	6,704	7,058	354
Development	2,764	3,743	979
Total operating expenses	$ 48,907	$ 48,907	$ -

Amounts previously classified as depreciation and membership expenses have been reallocated among program services and support services based on the methodology described in Note 2.

4. PLEDGES RECEIVABLE

Contributions are recorded at the present value of their estimated future cash flows. The Society discounted contributions due in more than one year using rates between 2.46% and 2.69%. Unconditional promises to give are expected to be received in the following periods:

	2018	2017
Within one year	$ 3,485	$ 4,547
One to five years	6,290	7,820
More than five years	2,060	2,915
Less:		
Discount to present value	(447)	(607)
Allowance for uncollectible promises to give	(17)	(17)
	$ 11,371	$ 14,658

(000's omitted)

5. BENEFICIAL INTERESTS IN THIRD-PARTY TRUSTS

Beneficial interests in third-party trusts primarily consist of charitable remainder trusts. These interests are adjusted to fair value using an interest rate of 4.20% to 8.40% for the discount rate.

	2018	2017
Gross beneficial interests	$ 1,548	$ 1,711
Less fair value discount	(598)	(684)
	$ 950	$ 1,027

6. INVESTMENTS

Investments consist of the following as of December 31, 2018 and 2017:

	2018	2017
Corporate bonds and fixed income funds	$ 7,897	$ 7,836
Common stock and equity funds	53,809	59,869
Money market funds	8,844	8,351
Fixed income commingled fund	6,720	6,673
Open-ended real estate fund	10,666	8,860
Hedge funds	13,337	12,742
Private equity funds	2,087	2,272
Real estate funds	791	1,031
	$ 104,151	$ 107,634

Total investment return consists of the following:

	2018	2017
Interest and dividends	$ 1,764	$ 1,495
Realized gain on sale of investments	2,184	3,364
Change in unrealized (loss) gain on investments	(7,889)	8,563
	$ (3,941)	$ 13,422

6. INVESTMENTS (CONTINUED)

Investment income included in operations totaled $2,901 and $2,699 for 2018 and 2017, respectively. The total investment return is net of $163 and $145 for investment consulting and custodian fees for 2018 and 2017, respectively.

7. FAIR VALUE MEASUREMENT

GAAPUSA defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. GAAPUSA describes three approaches to measuring the fair value of assets and liabilities: the market approach; the income approach; and the cost approach. Each approach includes multiple valuation techniques. GAAPUSA does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority.

Financial assets and liabilities carried at fair value are classified in one of the following three categories based upon the inputs to the valuation technique:

- *Level 1* - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Investments included in Level 1 include listed equities.

- *Level 2* - Observable market-based inputs or unobservable inputs that are corroborated by market data. Investments which are generally included in this category include less liquid and certain over-the-counter derivatives. Investments that are included in this category also include investments in commingled funds and investment partnerships such as hedge funds and open-ended real estate funds.

- *Level 3* - Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using net asset value per share of the funds. Investments that are included in this category generally include investments in investment partnerships such as private equity and real estate funds.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurements. The Society's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The following section describes the valuation techniques used by the Society to measure different financial instruments at fair value and includes the level within the fair value hierarchy in which the financial instrument is categorized.

(000's omitted)

7. FAIR VALUE MEASUREMENT (CONTINUED)

Investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. The estimated fair values for the fixed income, hedge, private equity, and real estate funds were based on net asset value per share of the fund for the years ended December 31, 2018 and 2017.

The following table presents the Society's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2018:

		Fair Value Measurement Using			
Description	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value
Assets:					
Equity mutual funds					
U.S. large-cap	$ 21,544	$ 21,544	$ -	$ -	$ -
U.S. mid-cap	5,278	5,278	-	-	-
U.S. small-cap	4,339	4,339	-	-	-
International growth	17,927	17,927	-	-	-
Emerging market value	4,733	4,733	-	-	-
Fixed income mutual funds					
U.S. core bond	7,884	7,884	-	-	-
Money market fund	8,844	8,844	-	-	-
Other					
Fixed income commingled fund	6,720	-	-	-	6,720
Multi-strategy hedge funds	-	-	-	-	-
Hedged equity fund	6,288	-	-	-	6,288
Relative value hedge funds	7,050	-	-	-	7,050
Open-ended real estate funds	10,666	-	-	-	10,666
Private equity funds	2,087	-	-	-	2,087
Real estate funds	791	-	-	-	791
Subtotal	104,151	70,549	-	-	33,602
Beneficial interests in third-party trusts	950	-	-	950	-
	$ 105,101	$ 70,549	$ -	$ 950	$ 33,602
Liabilities:					
Interest rate swaps	$ 1,396	$ -	$ 1,396	$ -	$ -

(000's omitted)

7. FAIR VALUE MEASUREMENT (CONTINUED)

The following table presents the Society's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2017:

		Fair Value Measurement Using			
Description	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value
Assets:					
Equity mutual funds					
U.S. large-cap	$ 23,481	$ 23,481	$ -	$ -	$ -
U.S. mid-cap	5,871	5,871	-	-	-
U.S. small-cap	5,682	5,682	-	-	-
International growth	19,229	19,229	-	-	-
Emerging market value	5,605	5,605	-	-	-
Fixed income mutual funds					
U.S. core bond	7,836	7,836	-	-	-
Money market fund	8,351	8,351	-	-	-
Other					
Fixed income commingled fund	6,673	-	-	-	6,673
Multi-strategy hedge funds	2	-	-	-	2
Hedged equity fund	6,148	-	-	-	6,148
Relative value hedge funds	6,593	-	-	-	6,593
Open-ended real estate funds	8,860	-	-	-	8,860
Private equity funds	2,272	-	-	-	2,272
Real estate funds	1,031	-	-	-	1,031
Subtotal	107,634	76,055	-	-	31,579
Beneficial interests in third-party trusts	1,027	-	-	1,027	-
	$ 108,661	$ 76,055	$ -	$ 1,027	$ 31,579
Liabilities:					
Interest rate swaps	$ 2,216	$ -	$ 2,216	$ -	$ -

7. FAIR VALUE MEASUREMENT (CONTINUED)

At December 31, 2018 and 2017, the Society had $21,212 and $22,922, respectively, invested in the Vanguard Institutional Index Fund. This single investment is a significant portion of the Society's investment balance, making up approximately 20% of the total portfolio as of December 31, 2018 and 21% at December 31, 2017.

Level 1
Investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation.

Level 2
Interest rate swaps are not traded on an exchange and are recorded at fair value based on a variety of observable inputs, including contractual terms, interest rate curves, yield curves, credit curves, measure of volatility, and correlations of such inputs. Valuation adjustments may be made in the determination of fair value, which was obtained by an independent third-party advisor. These adjustments include amounts to reflect counterparty credit quality and liquidity risk. A schedule of potential counterparty risk was also provided by an independent third-party advisor. This schedule assumed the maximum exposure assuming the counterparty had no claims-paying ability and had not posted collateral with a third party.

Level 3
The Society's beneficial interests in third-party trusts are stated at estimated fair value based on the Society's percentage of the trust applied to the total fair value of the trust, which is based primarily on quoted market prices. Changes in fair value of the underlying trust assets, as determined by the trustees that hold and manage these assets, are recognized in the consolidated statements of activities in the periods in which they occur.

The Society's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the beginning of the year of change in circumstances that caused the transfer.

(000's omitted)

7. FAIR VALUE MEASUREMENT (CONTINUED)

The following table presents a reconciliation of the beginning and ending balances recorded for beneficial interest in third-party trusts classified as Level 3 in the fair value hierarchy as of December 31:

	2018	2017
Assets:		
Beginning balance	$ 1,027	$ 947
Total (losses) gains (realized and change in unrealized) included in change in net assets	(77)	80
Ending balance	$ 950	$ 1,027
The amount of total (losses) / gains for the year included in change in net assets attributable to the change in unrealized gains (losses) relating to assets still held at December 31	$ (77)	$ 80

(000's omitted)

7. FAIR VALUE MEASUREMENT (CONTINUED)

At December 31, 2018 and 2017, the fair value, unfunded commitments, redemption rules, and investment strategies of investments valued at NAV or its equivalent are as follows:

	Fair Value as of December 31, 2018	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Fixed income commingled fund [a]	$ 6,720	$ -	quarterly	30 days
Hedge funds:				
Hedged equity hedge fund [c]	6,288	-	monthly	5 days
Relative value hedge fund [d]	7,050	-	quarterly	65 days
Open-ended real estate funds [e]	10,666	-	quarterly	90 days
Private equity funds [f]	2,087	69	see paragraph f	see paragraph f
Real estate funds [g]	791	-	see paragraph g	see paragraph g
	$ 33,602	$ 69		

	Fair Value as of December 31, 2017	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Fixed income commingled fund [a]	$ 6,673	$ -	quarterly	30 days
Hedge funds:				
Multi-strategy [b]	2	-	quarterly	45-90 days
Hedged equity hedge fund [c]	6,148	-	monthly	5 days
Relative value hedge fund [d]	6,593	-	quarterly	65 days
Open-ended real estate funds [e]	8,860	-	quarterly	90 days
Private equity funds [f]	2,272	260	see paragraph f	see paragraph f
Real estate funds [g]	1,031	-	see paragraph g	see paragraph g
	$ 31,579	$ 260		

7. FAIR VALUE MEASUREMENT (CONTINUED)

a. This category invests in a commingled fund that seeks a high level of current income by investing in floating rate loans and floating rate debt securities. The fund generally invests at least 80% of its assets in floating rate loans and floating rate debt securities. The fund may invest up to 25% of its assets in U.S. dollar-denominated foreign investments, principally in developed markets. It may invest up to 20% of its assets in certain other types of debt instruments or securities, including non-investment grade debt instruments.

b. This category includes a hedge fund that pursues multiple strategies to diversify risks and reduce volatility. The investment consists of a hedge fund of funds that invests in hedge funds through a multi-manager, multi-strategy approach. The underlying hedge fund managers invest in individual equity, fixed income, derivative, and private securities through various strategies in different global markets. The fund of funds typically invests over 50% of its portfolio with managers pursuing an equity long/short strategy.

c. This category contains a hedge fund that seeks to provide a defensive equity exposure that is expected to provide favorable risk-adjusted performance relative to the S&P 500 Index over the long term, and is expected to produce the strongest relative performance when the S&P 500 is experiencing negative returns. The strategy is designed to provide equity exposure and downside protection through core positions in the S&P 500 index (50%) and U.S. Treasury bills (50%), combined with fully covered equity index call and put options. The strategy does not utilize leverage.

d. This category includes a hedge fund that seeks to achieve a substantial return on capital through opportunistic investments primarily in a broad range of public and private credit instruments with an emphasis on corporate credit securities, asset-backed securities, mortgage-backed securities, commercial real estate, structured credit, and collateralized loan obligations.

e. This category includes a perpetual life, open-end real estate fund that seeks to combine an attractive yield with long-term capital growth by acquiring or otherwise investing in primarily institutional quality real estate assets and real estate-related investments within the United States. The fair value of the investments in this category has been estimated using the net asset value of the Society's ownership interest in partners' capital.

(000's omitted)

7. FAIR VALUE MEASUREMENT (CONTINUED)

f. This category 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. A characteristic of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. These investments may not be redeemed without the prior written consent of the general partner. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over five to eight years. However, the individual investments that will be sold have not yet been determined. Because it is not probable that any individual investment in this category will be sold, the fair value of each individual investment has been estimated using the net asset value of the Society's ownership interest in partners' capital.

g. This category includes several real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this category have been estimated using the net asset value of the Society's ownership interest in partners' capital. Distributions from each fund will be received as the underlying investments of the funds are liquidated. These investments may not be redeemed without the prior written consent of the general partner. It is estimated that the underlying assets of the fund will be liquidated over the next three to eight years. However, the individual investments that will be sold have not yet been determined. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been estimated using the net asset value of the Society's ownership interest in partners' capital. Once it has been determined which investments will be sold and whether those investments will be sold individually or in a group, the investments will be sold in an auction process. The investee fund's management must approve of the buyer before the sale of the investment can be completed.

8. PROPERTY AND EQUIPMENT

Property and equipment are reflected at cost and consist of the following:

	2018	2017
Buildings and improvements	$ 136,490	$ 126,369
Land improvements	82,113	81,891
Equipment	15,889	15,509
Museum assets	4,342	4,342
Construction in progress	2,217	899
	241,051	229,010
Accumulated depreciation	(111,623)	(103,277)
	$ 129,428	$ 125,733

Depreciation expense was $8,346 and $8,050 for 2018 and 2017, respectively.

(000's omitted)

8. PROPERTY AND EQUIPMENT (CONTINUED)

Construction in progress as of December 31, 2018 and 2017 consists of expenditures associated primarily with the construction of the shade garden and various other projects.

As of December 31, 2018, the Society had agreements with contractors for approximately $566 in commitments for work on the shade garden, shoreline restoration, and other various projects. Accounts payable included $811 and $548 of construction in progress of various projects as of December 31, 2018 and 2017, respectively.

9. LINES OF CREDIT

The Society had two $5 million lines of credit ($5 million committed and $5 million uncommitted) available in 2018 and 2017. Outstanding amounts bear interest at a prime-based rate or a LIBOR-based rate. There were no borrowings outstanding on the lines of credit as of December 31, 2018 and 2017. The Society has agreed to maintain a funded indebtedness (cash, unrestricted investments, and unrestricted pledges to indebtedness) financial ratio of at least .85 to 1.0 at December 31, 2018 and 2017.

10. BONDS PAYABLE

Bonds payable at December 31, 2018 and 2017 consist of the following amounts due to the Illinois Finance Authority, which issued Adjustable Demand Revenue Bonds on the Society's behalf:

	2018	2017
Series 2008, payable 2043	$ 30,000	$ 30,000
Series 1999, payable 2029	20,000	20,000
Unamortized Debt Issuance Costs	(484)	(511)
	$ 49,516	$ 49,489

The Society has obtained a letter of credit from a bank for each bond issue, which provides credit enhancement for the bonds. The letters of credit for the Series 1999 bonds and Series 2008 bonds expire on December 31, 2020.

The bonds' proceeds were used by the Society to finance the costs of construction, to equip new operating facilities and gardens, and to pay certain issuance costs.

The bonds' interest rate is adjustable weekly based on a national index of tax-exempt variable rate bonds. The weekly rates for 2018 and 2017 averaged 1.44% and 0.89%, respectively.

10. BONDS PAYABLE (CONTINUED)

Total interest expense for all debt, and including the interest payments made under the swap agreements (See Note 11) and amortization of bond issuance costs, for 2018 and 2017 was $1,380 and $1,398 respectively. In the event that the remarketing agent is unable to remarket the bonds, the bonds become pledged bonds to the bank under the letter of credit. If the letter of credit cannot be renewed and an alternative letter of credit cannot be obtained, so long as certain conditions are satisfied under the reimbursement agreement in effect between the Society and the bank, the bonds shall be repaid according to an amortization schedule consisting of eight quarterly installments of principal, with the first of such installments commencing on the due date, which is 13 months after the date on which the bonds were purchased by the bank pursuant to the letter of credit. The Society has agreed to maintain a funded indebtedness (cash, unrestricted investments, and unrestricted pledges to indebtedness) financial ratio of at least 0.85 to 1.0 on the combined bond issues as of December 31, 2018 and 2017.

11. INTEREST RATE SWAPS

The Society entered into two interest rate swap agreements, which are considered derivative financial instruments. The Society does not utilize interest rate swaps or other similar financial instruments for trading or other speculative purposes. The counterparty for these swap agreements is The Northern Trust Company, a major financial institution with which the Society also has other financial relationships.

The principal objective of these swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in interest rates on floating rate debt. These swap agreements are a contract to exchange fixed interest payments for the floating rate interest received over the life of the swap agreements without the exchange of the underlying notional amounts. Effective July 1, 2010, the Society entered into an agreement to limit the interest rate exposure to 3.64% on a notional amount of $12,000 that expires on June 1, 2025. Effective February 12, 2009, the Society entered into an agreement to limit the interest rate exposure to 2.47% on a notional amount of $38,000 that expired on February 1, 2019. Effective December 7, 2018, the Society entered into an agreement to limit the interest rate exposure to 2.176% on the notional amount of $38,000 that expires on July 28, 2028. The counterparty for this new agreement is BMO Harris Bank, a major financial institution with which the Society also has other financial relationships. The Society is exposed to credit loss in the event of nonperformance with each bank to the interest rate swap agreements; however, the Society does not anticipate nonperformance by either of the counterparty banks.

(000's omitted)

11. INTEREST RATE SWAPS (CONTINUED)

The following table presents the amounts and the locations of the amounts relating to the Society's interest rate swaps in the Society's consolidated financial statements as of and for the years ended December 31, 2018 and 2017:

	2018	2017
Statements of Financial Position Information:		
Interest rate swaps	$ 1,396	$ 2,216
Statements of Activities Information:		
Change in fair value of interest rate swaps	$ 820	$ 990
Periodic settlement payments recorded as interest expense and included in the operating expenses	(668)	(983)
Total gain on interest rate swaps	$ 152	$ 7

12. CAPITAL LEASE

In 2016, the Society entered into a capital lease agreement involving automated office equipment. The future minimum lease payments are as follows:

Year	Amount
2019	$ 37
2020	37
2021	18
	$ 92
less amount representing interest	27
	$ 65

The equipment purchased under the capital lease agreement has been capitalized and is included in the property and equipment (Note 8). Depreciation of assets under capital leases totaled $28 in both 2018 and 2017, and is included in depreciation expense. The outstanding balance of the lease payments is included in accounts payable and other current liabilities on the consolidated statements of financial position.

(000's omitted)

13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of December 31, 2018 and 2017:

	2018	2017
Subject to expenditures for a specified purpose:		
Garden construction and improvement projects	$ 9,344	$ 14,248
Educational and research programs	3,788	4,400
Total subject to expenditures for a specified purpose	13,132	18,648
Subject to the passage of time	1,170	1,110
Subject to the Society's spending policy and appropriation	10,187	13,835
Not subject to appropriation or expenditure	34,242	30,975
	$ 58,731	$ 64,568

Net assets of $16,677 and $22,608 were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the passage of time in 2018 and 2017, respectively.

Net assets not subject to appropriation of expenditure consist of endowment funds, pledges restricted for investment in endowment, and beneficial interests in third-party trusts as of December 31, 2018 and 2017. The income earned on the investment of net assets restricted in perpetuity is generally available for use in garden maintenance and supporting the Society's research programs.

14. DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS

The Society's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

14. DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law – The Society is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of trustees appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Society had interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Society considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Society has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Society and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Society
- The investment policies of the Society

14. DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS (CONTINUED)

Underwater Endowment Funds – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Society to retain as a fund of perpetual duration. Deficiencies of this nature exist in 3 donor-restricted endowment funds, which together have an original gift value of $612, a current fair value of $563, and a deficiency of $48 as of December 31, 2018. There were no deficiencies as of December 31, 2017. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the board of trustees.

Return Objectives and Risk Parameters—The Society 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 Society must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to achieve a return of 5 percent net of inflation and investment expenses. The secondary investment objective is to earn a total return, net of expenses, at least equal to the portfolio's composite benchmark as defined in its investment policy statement. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Society 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 Society 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 – The Society has a policy of appropriating for distribution each year up to five (5) percent of the rolling three (3) year average fair value of the long-term investment pool for allocation to operations as directed by the Board of Directors. In establishing this policy, the Society considered the long-term expected rate of return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow an average of 1.5 percent annually. The organization has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The governing board appropriated for expenditure $28 from underwater endowments during the year ended December 31, 2018, which represents the 5 percent it generally draws from its endowment.

(000's omitted)

14. DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS (CONTINUED)

The endowment net assets composition by type of fund as of December 31, 2018:

		With Donor Restrictions		
	Without Donor Restrictions	Purpose or Time Restricted	Perpetual in Nature	Total
Donor-restricted endowment funds	$ -	$ 10,187	$ 31,766	$ 41,953
Board-designated endowment funds	52,804	-	-	52,804
Total Funds	$ 52,804	$ 10,187	$ 31,766	$ 94,757

Changes in endowment net assets for the year ended December 31, 2018:

		With Donor Restrictions		
	Without Donor Restrictions	Purpose or Time Restricted	Perpetual in Nature	Total
Beginning balance	$ 57,687	$ 13,835	$ 28,227	$ 99,749
Investment return:				
Investment income	990	774	-	1,764
Net appreciation (realized and change in unrealized)	(3,289)	(2,571)	-	(5,860)
Total investment return	(2,299)	(1,797)	-	(4,096)
Contributions	-	-	2,924	2,924
Collections of pledges restricted for investment in endowment	-	-	615	615
Bequests and contributions designated by the board for endowment	745	-	-	745
Appropriation of endowment assets for expenditure	(3,339)	(1,851)	-	(5,190)
Transfers to add assets to board-designated endowment funds	10		-	10
Ending balance	$ 52,804	$ 10,187	$ 31,766	$ 94,757

Reconciliation to perpetual in nature net assets:	
Pledges restricted for investment in endowment	2,366
Beneficial interests in third-party trusts	110
Total perpetual in nature net assets	$ 34,242

(000's omitted)

14. DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS (CONTINUED)

The endowment net assets composition by type of fund as of December 31, 2017:

		With Donor Restrictions		
	Without Donor Restrictions	Purpose or Time Restricted	Perpetual in Nature	Total
Donor-restricted endowment funds	$ -	$ 13,835	$ 28,227	$ 42,062
Board-designated endowment funds	57,687	-	-	57,687
Total Funds	$ 57,687	$ 13,835	$ 28,227	$ 99,749

Changes in endowment net assets for the year ended December 31, 2017:

		With Donor Restrictions		
	Without Donor Restrictions	Purpose or Time Restricted	Perpetual in Nature	Total
Beginning balance	$ 51,927	$ 10,124	$ 26,022	$ 88,073
Investment return:				
Investment income	827	599	-	1,426
Net appreciation (realized and change in unrealized)	6,859	4,982	-	11,841
Total investment return	7,686	5,581	-	13,267
Contributions	-	-	1,590	1,590
Collections of pledges restricted for investment in endowment	-	-	615	615
Bequests and contributions designated by the board for endowment	520	-	-	520
Appropriation of endowment assets for expenditure	(2,783)	(1,768)	-	(4,551)
Transfers to add assets to board-designated endowment funds	337	(102)	-	235
Ending balance	$ 57,687	$ 13,835	$ 28,227	$ 99,749

Reconciliation to perpetual in nature net assets:	
Pledges restricted for investment in endowment	2,625
Beneficial interests in third-party trusts	123
Total perpetual in nature net assets	$ 30,975

(000's omitted)

15. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Society's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	2018	2017
Financial assets		
Cash	$ 2,229	$ 1,306
Pledges receivable	11,371	14,658
Accounts receivable	671	1,789
Investments	104,151	107,634
Total financial assets at year end	$ 118,422	$ 125,387
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with implied time restrictions - pledge collectible in one to five years	(7,886)	(10,111)
Restricted by donors with time or purpose restrictions:		
Endowment funds	(42,309)	(42,062)
Capital projects or contractual obligations	(2,630)	(1,498)
Board designations:		
Board designated endowment funds	(52,804)	(57,687)
Financial assets available to meet cash needs for general expenditures within one year	$ 12,793	$ 14,029

In addition to financial assets available to meet general expenditures over the next 12 months, the Society operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Society's cash and shows positive cash generated by operations for fiscal years 2018 and 2017.

The Society's board of directors has designated a portion of its unrestricted resources for endowment. Those amounts are identified as board-designated in the table above. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board.

The Society also has two lines of credit totaling $10 million that are available to meet short-term needs. See Note 9 for information about these arrangements.

16. EMPLOYEE BENEFIT PLAN

The Society sponsors an Internal Revenue Code Section 403(b) defined contribution money purchase retirement plan. Participation in the plan is voluntary for all eligible employees who have completed one year of service. The employee and the Society make contributions to the plan trustee. The Society's expense for this plan for 2018 and 2017 was $293 and $306, respectively.

Beginning in 2010, the Society established an Internal Revenue Code Section 457(f) Plan covering employees with certain contractual arrangements. The benefits under the plan are contingent upon completion of contractual obligations and are valued on an annual basis to reflect the return on the Society's investments. The assets of the plan in the amount of $10 as of December 31, 2017 are included in investments in the consolidated statements of financial position. There were no assets or liabilities as of December 31, 2018 as the plan terminated on December 31, 2017 and the plan assets were distributed to the remaining plan participant.

In 2015, the Society established an Internal Revenue Code Section 457(b) Retirement Plan, the purpose of which is to encourage selected key managerial employees to maintain their employment with the Society by providing retirement benefits for them, and pre-retirement benefits for their survivors. The Society makes contributions to the plan, and participants may voluntarily defer compensation within prescribed limits. Participants are fully vested at all times in both their voluntary deferrals and employer contributions. The Society's expense for this plan was $89 and $87 for the years ended December 31, 2018 and 2017, respectively.

17. CONCENTRATIONS

The Society maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Society has not experienced any losses in such accounts. The Society believes it is not exposed to any significant credit risk on cash.

18. RELATED PARTY TRANSACTIONS

The Society purchases goods and services from several businesses that are associated with the Board of Directors in its normal course of business. Total expenditures to these related companies amounted to $620 and $520 for 2018 and 2017, respectively. These goods and services were provided at rates consistent with the market rates for not-for-profit organizations.