

# **Chicago Horticultural Society**

**Consolidated Financial Statements  
and Independent Auditor's Report**

December 31, 2019

**CHICAGO HORTICULTURAL SOCIETY**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

---

**CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1-2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4-5
Consolidated Statement of Functional Expenses	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-38

## 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, 2019 and 2018 and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, 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 as of December 31, 2019 and 2018 and the changes in their net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 21, 2020 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 21, 2020

**CHICAGO HORTICULTURAL SOCIETY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

December 31, 2019 and 2018

(000's omitted)

	2019	2018
<b>ASSETS</b>		
Cash	\$ 6,439	\$ 2,229
Pledges receivable - Net	26,131	11,371
Accounts receivable - Net	2,817	671
Prepaid expenses and other assets	480	388
Investments	129,073	104,151
Beneficial interests in third-party trusts	1,099	950
Property and equipment, net	123,873	129,437
Total assets	<u>\$ 289,912</u>	<u>\$ 249,197</u>
<b>LIABILITIES</b>		
Accounts payable and other current liabilities	\$ 5,433	\$ 6,570
Contract liabilities	5,193	3,869
Other liabilities	822	621
Gift annuity obligations	306	325
Interest rate swaps	3,599	1,396
Bonds payable less unamortized bond issuance costs	49,544	49,516
Total liabilities	<u>64,897</u>	<u>62,297</u>
<b>NET ASSETS</b>		
<b>Without donor restrictions</b>		
Designated by the Board	60,756	52,786
Undesignated	70,048	75,383
Total net assets without donor restrictions	<u>130,804</u>	<u>128,169</u>
<b>With donor restrictions</b>		
Purpose and time restricted	39,615	24,489
Perpetual in nature	54,596	34,242
Total net assets with donor restrictions	<u>94,211</u>	<u>58,731</u>
Total net assets	<u>225,015</u>	<u>186,900</u>
Total liabilities and net assets	<u>\$ 289,912</u>	<u>\$ 249,197</u>

**CHICAGO HORTICULTURAL SOCIETY**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

Year ended December 31, 2019 (With Summarized Comparative Information for 2018)

(000's omitted)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
<b>OPERATING REVENUES</b>				
Forest Preserve District of Cook County				
Tax revenue	\$ 8,872	\$ -	\$ 8,872	\$ 9,196
Personal property replacement tax	253	-	253	250
Contributions	7,000	34,044	41,044	17,484
Government grants	2,618	-	2,618	3,410
Sponsorships	734	-	734	799
In-kind contributions	928	-	928	1,344
Membership	4,649	-	4,649	4,632
Visitor programs and operations	8,629	-	8,629	4,998
Education fees	2,331	-	2,331	2,118
Investment income	17	2,051	2,068	2,901
Fundraising benefits - Net of \$493 and \$532 of direct expenses in 2019 and 2018, respectively	853	-	853	750
Other income	1,364	-	1,364	574
Release from restrictions	6,343	(6,343)	-	-
<b>Total operating revenues</b>	<b>\$ 44,591</b>	<b>\$ 29,752</b>	<b>\$ 74,343</b>	<b>\$ 48,456</b>
<b>OPERATING EXPENSES</b>				
Program services				
Gardens and grounds	15,910	-	15,910	16,225
Visitor programs and operations	7,042	-	7,042	4,849
Education and community programs	6,755	-	6,755	6,392
Scientific affairs	7,405	-	7,405	8,946
Communications	2,520	-	2,520	2,530
Support services				
Administration	4,954	-	4,954	4,829
Development	4,349	-	4,349	4,362
<b>Total operating expenses</b>	<b>\$ 48,935</b>	<b>\$ -</b>	<b>\$ 48,935</b>	<b>\$ 48,133</b>
Decrease (increase) in net assets before nonoperating activities	\$ (4,344)	\$ 29,752	\$ 25,408	\$ 323
<b>NONOPERATING ACTIVITIES</b>				
Investment return net of amount designated for current use	9,182	5,728	14,910	(6,842)
Change in fair value of interest rate swaps	(2,203)	-	(2,203)	820
<b>Total nonoperating activity</b>	<b>\$ 6,979</b>	<b>\$ 5,728</b>	<b>\$ 12,707</b>	<b>\$ (6,022)</b>
<b>Increase (Decrease) in net assets</b>	<b>2,635</b>	<b>35,480</b>	<b>38,115</b>	<b>(5,699)</b>
<b>Net assets, beginning of year</b>	<b>128,169</b>	<b>58,731</b>	<b>186,900</b>	<b>192,599</b>
<b>Net assets, end of year</b>	<b>\$ 130,804</b>	<b>\$ 94,211</b>	<b>\$ 225,015</b>	<b>\$ 186,900</b>

**CHICAGO HORTICULTURAL SOCIETY**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

Year ended December 31, 2018

(000's omitted)

	Without Donor Restrictions	With Donor Restrictions	2018 Total
<b>OPERATING REVENUES</b>			
Forest Preserve District of Cook County			
Tax revenue	\$ 9,196	\$ -	\$ 9,196
Personal property replacement tax	250	-	250
Contributions	4,847	12,637	17,484
Government grants	3,410	-	3,410
Sponsorships	799	-	799
In-kind contributions	1,344	-	1,344
Membership	4,632	-	4,632
Visitor programs and operations	4,998	-	4,998
Education fees	2,118	-	2,118
Investment income	1,050	1,851	2,901
Fundraising benefits - Net of \$532 of direct expenses	750	-	750
Other income	574	-	574
Release from restrictions	16,677	(16,677)	-
 Total operating revenues	 \$ 50,645	 \$ (2,189)	 \$ 48,456
<b>OPERATING EXPENSES</b>			
Program services			
Gardens and grounds	16,225	-	16,225
Visitor programs and operations	4,849	-	4,849
Education and community programs	6,392	-	6,392
Scientific affairs	8,946	-	8,946
Communications	2,530	-	2,530
Support services			
Administration	4,829	-	4,829
Development	4,362	-	4,362
 Total operating expenses	 \$ 48,133	 \$ -	 \$ 48,133
Increase (decrease) in net assets before nonoperating activities	2,512	(2,189)	323
<b>NONOPERATING ACTIVITIES</b>			
Investment return net of amount designated for current use	(3,194)	(3,648)	(6,842)
Change in fair value of interest rate swaps	820	-	820
 Total nonoperating activity	 \$ (2,374)	 \$ (3,648)	 \$ (6,022)
<b>Increase (Decrease) in net assets</b>	<b>\$ 138</b>	<b>\$ (5,837)</b>	<b>\$ (5,699)</b>
<b>Net assets, beginning of year</b>	<b>128,031</b>	<b>64,568</b>	<b>192,599</b>
<b>Net assets, end of year</b>	<b>\$ 128,169</b>	<b>\$ 58,731</b>	<b>\$ 186,900</b>

**CHICAGO HORTICULTURAL SOCIETY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

Year ended December 31, 2019

(000's omitted)

	PROGRAM SERVICES					SUPPORTING SERVICES		2019	
	Gardens and Grounds	Visitor Programs and Operations	Education and Community Programs	Scientific Affairs	Communications	Total Program	Administration	Development	TOTAL
Salaries and wages	\$ 6,289	\$ 2,010	\$ 3,361	\$ 3,505	\$ 1,451	\$ 16,616	\$ 2,083	\$ 2,042	\$ 20,741
Payroll taxes and fringe benefits	1,348	436	715	655	279	3,433	369	412	4,214
Professional services	1,045	410	595	432	131	2,613	288	399	3,300
Occupancy	418	142	102	141	19	822	48	76	946
Plants, research and other supplies	749	1,586	409	238	155	3,137	85	187	3,409
Office services and supplies	8	7	111	22	87	235	92	417	744
Printing	1	379	11	7	166	564	5	149	718
Equipment maintenance and repair	605	31	2	-	1	639	21	-	660
Travel	80	2	121	179	3	385	17	23	425
Vehicle maintenance and repair	52	7	21	2	-	82	-	-	82
Participant and client support	-	1	33	347	-	381	-	-	381
Other operating expenses	(362)	1,258	498	185	145	1,724	851	285	2,860
Advertising and marketing	-	-	-	-	-	-	425	103	528
Debt service expenses	310	1	3	660	73	1,047	521	73	1,641
Depreciation and amortization	5,367	772	773	1,032	10	7,954	149	183	8,286
<b>Total functional expenses</b>	<b>\$ 15,910</b>	<b>\$ 7,042</b>	<b>\$ 6,755</b>	<b>\$ 7,405</b>	<b>\$ 2,520</b>	<b>\$ 39,632</b>	<b>\$ 4,954</b>	<b>\$ 4,349</b>	<b>\$ 48,935</b>



**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	1,069	270	454	517	169	2,479	1,626	447	4,552
Occupancy	414	112	60	146	20	752	49	79	880
Plants, research and other supplies	600	940	331	44	11	1,926	18	102	2,046
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	320	81	377	326	56	1,160	149	169	1,478
Advertising and marketing	-	-	-	-	-	-	475	110	585
Debt service expenses	411	1	3	1,070	97	1,582	131	97	1,810
Depreciation and amortization	5,378	761	761	1,021	83	8,004	177	177	8,358
<b>Total functional expenses</b>	<b>\$ 16,225</b>	<b>\$ 4,849</b>	<b>\$ 6,392</b>	<b>\$ 8,946</b>	<b>\$ 2,530</b>	<b>\$ 38,942</b>	<b>\$ 4,829</b>	<b>\$ 4,362</b>	<b>\$ 48,133</b>

**CHICAGO HORTICULTURAL SOCIETY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended December 31, 2019 and 2018

(000's omitted)

	2019	2018
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 38,115	\$ (5,699)
Depreciation and amortization	8,286	8,358
Expense of bond issue cost	28	27
Realized and unrealized losses (gains) on investments	(15,266)	5,705
Contributions of securities	(13,252)	(2,686)
Change in allowance for doubtful accounts	(750)	125
Change in fair value of beneficial interests in third-party trusts	(149)	77
Change in fair value of interest rate swaps	2,203	(820)
Realized loss on disposal of equipment	-	(5)
Contributions restricted for long-term purposes	(22,167)	(9,718)
Gift annuity obligations	(19)	33
Changes in assets and liabilities:		
Pledges receivable	780	8,249
Accounts receivable and prepaid expenses	(2,238)	1,104
Accounts payable, accrued expenses and deferred revenue	3,184	372
	<u>(1,244)</u>	<u>5,122</u>
Net cash (used in) provided by operating activities		
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(5,518)	(9,294)
Proceeds from sale of investments	3,234	6,997
Purchase of investments	(3,830)	(9,219)
	<u>(6,114)</u>	<u>(11,516)</u>
Net cash used in investing activities		
<b>Cash flows from financing activities:</b>		
Sale of donated financial assets	4,191	2,686
Collections of contributions restricted for long-term purposes	7,377	4,631
	<u>11,568</u>	<u>7,317</u>
Net cash provided by financing activities		
Increase in cash	4,210	923
Cash, beginning of year	2,229	1,306
	<u>6,439</u>	<u>2,229</u>
<b>Cash, end of year</b>		
Supplemental disclosure of cash flow information:		
Interest paid, net of interest capitalized	\$ 1,242	\$ 1,400
Non-cash property and equipment additions	<u>\$ (486)</u>	<u>\$ (3,291)</u>

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**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**

As of January 1, 2019, the Society adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and 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 Society adopted the new standard on a modified prospective basis. The adoption of this ASU resulted in the recognition of government grants as revenue as conditions are met. The adoption did not result in a restatement of the 2018 financial information, as there was no change to the timing of revenue recognition.

As of January 1, 2019, the Society adopted ASU No. 2016-02, *Leases (Topic 842)*. The ASU requires lessees to recognize a right to use asset and related lease liability for all leases, with a limited exception for short term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of activities. The Society adopted the ASU under a modified retrospective approach. Adoption of the leasing standard resulted in the recognition of an operating right of use asset of \$163, and operating lease liability of \$163 as of August 1, 2018. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the Society's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Society's Consolidated Statement of Activities. Disclosures about the Society's leasing activities are presented in Note 12.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

As a result of the adoption of the ASU, the following financial statement line items for 2018 were restated:

**Statement of Activities**  
**Year Ended December 31, 2018**

	As Computed Under ASC 840	As Computed Under ASC 842	Effect of Change
Total operating revenues	\$ 48,456	\$ 48,456	\$ -
Total operating expenses	48,122	48,133	11
Decrease in net assets before nonoperating activities	334	323	(11)
Nonoperating activities	(6,022)	(6,022)	-
Decrease in net assets	(5,688)	(5,699)	(11)
Net assets, beginning of year	\$ 192,599	\$ 192,599	-
Net assets, end of year	\$ 186,911	\$ 186,900	\$ (11)

**Statement of Financial Position**  
**Year Ended December 31, 2018**

	As Computed Under ASC 840	As Computed Under ASC 842	Effect of Change
Prepays and other assets	\$ 229	\$ 388	\$ 159
Property and equipment	129,428	129,437	9
Total Assets	\$ 249,029	\$ 249,197	\$ 168
Accounts payable and other	\$ 6,391	\$ 6,570	\$ 179
Total liabilities	62,118	62,297	179
Total net assets	186,911	186,900	(11)
Total liabilities and net assets	\$ 249,029	\$ 249,197	\$ 168

As a result of the accounting change, the total decrease in net assets for the year ended December 31, 2018 increased from \$(5,688) as originally reported, to \$(5,699).

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 consists of cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Society has incurred expenditures in compliance with specific contract or grant provisions. Amounts that have been awarded but not yet recognized as revenue are treated as conditional contributions and are not reflected in the accompanying consolidated financial statements. As of December 31, 2019, the Society is eligible to receive and recognize \$3,180 of these conditional contributions upon the occurrence of future qualifying expenses.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**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 2019 represent the amounts appropriated by the District for 2018 property taxes and personal property replacement taxes, which are due for payment from taxpayers in 2019 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). Payment is typically expected at the point of sale. 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.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

*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.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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. 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.

**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.



**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 2018 amounts have been reclassified to conform to the 2019 presentation. The 2018 allocations of functional expenses have been restated to align with the 2019 allocation methods utilized. Program services expenses increased by \$505 while support services decreased by \$505, which is offset by an expense increase of \$11 from the ASU adoption disclosed in Note 2, for a total decrease of \$494. Under the new methods utilized, information technology services expense of \$987 is no longer a natural classification presented for 2018. These expenses are included in the natural classification categories as follows: \$452 in professional services; \$87 in plants, research and other supplies; \$448 in other operating expenses.

**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 building occupied by all departments and/or building or equipment within each function*
- *Information Technology Services – by headcount per shared utilization by all department and/or building within each function (included in professional services, plants, research and other supplies, and other operating expenses)*
- *Debt service expenses – by headcount based on use of leased equipment, proceeds from bond issuance, and directly assigned*
- *Occupancy – by headcount based on building occupied by all departments and/or building within each function*

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

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**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**— Management evaluated subsequent events through April 21, 2020, the date the financial statements were available to be issued. On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a “pandemic”. First identified in late 2019 and known now as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. COVID-19 may have a material adverse effect upon revenue derived from education classes, restaurants, parking, private events, and various exhibition events due to the closure of the Garden over an extended period of time. Upon release of the Coronavirus Aid, Relief, and Economic Security Act, management applied for the Paycheck Protection Program and received approval for a loan under the program, a portion of which is eligible for forgiveness. No impairments were recorded as of the statement of financial position date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Society's results of operations, cash flows and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time. The Society is controller expenses and managing cash flow.

Subsequent to year-end, the Society's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**3. 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 1.58% and 2.69%. Unconditional promises to give are expected to be received in the following periods:

	<u>2019</u>	<u>2018</u>
Within one year	\$ 7,306	\$ 3,485
One to five years	18,098	6,290
More than five years	1,505	2,060
Less:		
Discount to present value	(761)	(447)
Allowance for uncollectible promises to give	(17)	(17)
	<u>\$ 26,131</u>	<u>\$ 11,371</u>

**4. 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 between 4.20% to 8.40% for the discount rate.

	<u>2019</u>	<u>2018</u>
Gross beneficial interests	\$ 1,736	\$ 1,548
Less fair value discount	(637)	(598)
	<u>\$ 1,099</u>	<u>\$ 950</u>

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**5. INVESTMENTS**

Investments consist of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Corporate bonds and fixed income funds	\$ 8,199	\$ 7,897
Common stock and equity funds	39,747	53,809
Money market funds	19,000	8,844
Fixed income commingled fund	34,486	6,720
Open-ended real estate fund	11,342	10,666
Hedge funds	13,886	13,337
Private equity funds	1,715	2,087
Real estate funds	698	791
	<u>\$ 129,073</u>	<u>\$ 104,151</u>

Total investment return consists of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends - net	\$ 1,713	\$ 1,764
Realized gain on sale of investments	14,406	2,184
Change in unrealized gain (loss) on investments	859	(7,889)
	<u>\$ 16,978</u>	<u>\$ (3,941)</u>

Investment income included in operations totaled \$2,067 and \$2,901 for 2019 and 2018, respectively. The total investment return is net of \$148 and \$163 for investment consulting and custodian fees for 2019 and 2018, respectively.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**6. 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.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**6. FAIR VALUE MEASUREMENT (CONTINUED)**

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.

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, 2019 and 2018.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

**6. 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, 2019:

Description	Total Fair Value	Fair Value Measurement Using			Net Asset Value
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets:</b>					
Equity mutual funds					
U.S. large-cap	\$ 485	\$ 485	\$ -	\$ -	\$ -
U.S. mid-cap	5,749	5,749	-	-	-
U.S. small-cap	5,847	5,847	-	-	-
International growth	21,506	21,506	-	-	-
Emerging market value	6,160	6,160	-	-	-
Fixed income mutual funds					
U.S. core bond	8,199	8,199	-	-	-
Money market fund	19,000	19,000	-	-	-
Other					
Fixed income commingled fund	7,236	-	-	-	7,236
Hedged equity fund	6,839	-	-	-	6,839
Relative value hedge funds	7,047	-	-	-	7,047
Open-ended real estate funds	11,342	-	-	-	11,342
Private equity funds	1,715	-	-	-	1,715
Real estate funds	698	-	-	-	698
Large-cap equity fund	27,250	-	-	-	27,250
Subtotal	129,073	66,946	-	-	62,127
Beneficial interests in third-party trusts	1,099	-	-	1,099	-
	<u>\$ 130,172</u>	<u>\$ 66,946</u>	<u>\$ -</u>	<u>\$ 1,099</u>	<u>\$ 62,127</u>
<b>Liabilities:</b>					
Interest rate swaps	<u>\$ 3,599</u>	<u>\$ -</u>	<u>\$ 3,599</u>	<u>\$ -</u>	<u>\$ -</u>

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

**6. 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, 2018:

Description	Total Fair Value	Fair Value Measurement Using			Net Asset Value
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets:</b>					
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
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	-
	<u>\$ 105,101</u>	<u>\$ 70,549</u>	<u>\$ -</u>	<u>\$ 950</u>	<u>\$ 33,602</u>
<b>Liabilities:</b>					
Interest rate swaps	<u>\$ 1,396</u>	<u>\$ -</u>	<u>\$ 1,396</u>	<u>\$ -</u>	<u>\$ -</u>



**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**6. FAIR VALUE MEASUREMENT (CONTINUED)**

At December 31, 2019, the Society had \$27,250, invested in the Legal & General S&P 500 Fund. At December 31, 2018, the Society had \$22,922 invested in the Vanguard Institutional Index Fund. These single investments represent a significant portion of the Society's investment balance in each respective year, making up approximately 16% of the total portfolio at December 31, 2019 and 22% at December 31, 2018.

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.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**6. 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:

	<u>2019</u>	<u>2018</u>
Assets:		
Beginning balance	\$ 950	\$ 1,027
Total gains (losses) (realized and change in unrealized) included in change in net assets	<u>149</u>	<u>(77)</u>
Ending balance	<u>\$ 1,099</u>	<u>\$ 950</u>
The amount of total gains / (losses) 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	<u>\$ 149</u>	<u>\$ (77)</u>

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

**6. FAIR VALUE MEASUREMENT (CONTINUED)**

At December 31, 2019 and 2018, 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, 2019	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Fixed income commingled fund <sup>(a)</sup>	\$ 7,236	\$ -	quarterly	30 days
Hedge funds:				
Hedged equity hedge fund <sup>(b)</sup>	6,839	-	monthly	5 days
Relative value hedge fund <sup>(c)</sup>	7,047	-	quarterly	65 days
Open-ended real estate funds <sup>(d)</sup>	11,342	-	quarterly	90 days
Private equity funds <sup>(e)</sup>	1,715	101	see paragraph e	see paragraph e
Real estate funds <sup>(f)</sup>	698	-	see paragraph f	see paragraph f
Large-cap equity fund <sup>(g)</sup>	27,250	-	Daily	N/A
	<u>\$ 62,127</u>	<u>\$ 101</u>		

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

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**6. 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 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.
- c. 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.
- d. 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.
- e. 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.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**6. FAIR VALUE MEASUREMENT (CONTINUED)**

- f. 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.
- g. This category includes a commingled fund that invests primarily in large-cap U.S. equity securities. The fund seeks to match the risk and return characteristics of the S&P 500 Total Return Index. The proportion of securities held is approximate to the weights of the S&P 500 Total Return Index.

**7. PROPERTY AND EQUIPMENT**

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

	2019	2018
Buildings and improvements	\$ 138,175	\$ 136,490
Land improvements	82,113	82,113
Equipment	16,607	15,916
Museum assets	4,342	4,342
Construction in progress	2,563	2,217
	<u>243,800</u>	<u>241,078</u>
Accumulated depreciation	<u>(119,927)</u>	<u>(111,641)</u>
	<u>\$ 123,873</u>	<u>\$ 129,437</u>

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**7. PROPERTY AND EQUIPMENT (CONTINUED)**

Depreciation and amortization expense was \$8,286 and \$8,358 for 2019 and 2018, respectively.

Construction in progress as of December 31, 2019 and 2018 consists of expenditures associated primarily with the construction of the shade garden and various other projects.

As of December 31, 2019, the Society had agreements with contractors for approximately \$545K in commitments for work on the Greenhouse, Website platform upgrade and other various projects.

**8. CONTRACT LIABILITIES**

Contract liabilities consist of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Membership dues	\$ 3,105	\$ 2,712
Visitor programs and operations	\$ 1,858	\$ 1,057
Facility rentals	230	100
Total	<u>\$ 5,193</u>	<u>\$ 3,869</u>

The following table provides information on the changes in the balance of contract liabilities for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Opening balance	\$ 3,869	\$ 3,536
Cash received	\$ 3,058	\$ 866
Less revenue recognized from satisfaction of performance obligations in the current period	<u>(1,734)</u>	<u>(533)</u>
Ending balance	<u>\$ 5,193</u>	<u>\$ 3,869</u>

Total contract liabilities increased by \$1,324 and \$333 during 2019 and 2018, respectively. The increases were primarily due to normal timing differences between the satisfaction of performance obligations and customer payments.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**9. LINES OF CREDIT**

The Society had two \$5 million lines of credit (\$5 million committed and \$5 million uncommitted) available in 2019 and 2018. 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, 2019 and 2018. 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, 2019 and 2018.

**10. BONDS PAYABLE**

Bonds payable at December 31, 2019 and 2018 consist of the following amounts due to the Illinois Finance Authority, which issued Adjustable Demand Revenue Bonds on the Society's behalf:

	<u>2019</u>	<u>2018</u>
Series 2008, payable 2043	\$ 30,000	\$ 30,000
Series 1999, payable 2029	20,000	20,000
Unamortized Debt Issuance Costs	<u>(456)</u>	<u>(484)</u>
	<u>\$ 49,544</u>	<u>\$ 49,516</u>

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, 2023.

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 2019 and 2018 averaged 1.46% and 1.44%, respectively.

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 2019 and 2018 was \$1,216 and \$1,380 respectively. The bonds are due in lump-sum payments in the year 2029 and 2043, as indicated in the table above. 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, 2019 and 2018.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

**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.

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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Statements of Financial Position Information:		
Interest rate swaps	\$ 3,599	\$ 1,396
Statements of Activities Information:		
Change in fair value of interest rate swaps	\$ (2,203)	\$ 820
Periodic settlement payments recorded as interest expense and included in the operating expenses	(483)	(668)
Total loss on interest rate swaps	<u>\$ (2,686)</u>	<u>\$ 152</u>



**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

**12. LEASES**

Lease are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the Society's right to use an underlying asset for the lease term and lease liabilities represent the Society's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Society uses its incremental borrowing rate at lease commencement to calculate the present value of the lease payments over the lease term.

The Society is obligated under an operating lease primarily for a building and related facilities, expiring at December 31, 2027. Cash paid under this lease amounts to \$12 and \$10 as of December 31, 2019 and 2018, respectively.

The Society leases the copiers under long-term lease arrangements classified as finance leases. Under the terms of the lease agreements, payments of \$3 are due monthly through June 30, 2021.

The right of use assets and related lease liabilities for the operating and finance leases have been calculated using the incremental borrowing rate of 4.5 percent. Right-of-use assets and lease liabilities by lease type, and the associated statements of financial position classifications are as follows for the year ended December 31, 2019 and 2018:

	<u>Statements of Financial Position Classification</u>	<u>2019</u>	<u>2018</u>
Right-of-use assets:			
Operating lease	Prepaid expenses and other assets	\$ 153	\$ 159
Finance leases	Property and equipment, net	53	88
Total right-of-use assets		<u>\$ 206</u>	<u>\$ 247</u>
Lease liabilities			
Operating lease	Accounts payable and other accrued current liabilities	154	159
Finance leases	Accounts payable and other accrued current liabilities	59	96
Total lease liabilities		<u>\$ 213</u>	<u>\$ 255</u>

Expenses recognized under these leases consist of the following:

Years Ended December 31	<u>Operating Lease</u>	<u>Finance Leases</u>		<u>Total</u>
	Lease Expense	Amortization Expense	Interest Expense	Total Expense
2018	\$ 11	35	5	\$ 51
2019	\$ 13	35	4	\$ 51

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

**12. LEASES (CONTINUED)**

Aggregate future minimum lease payments as of December 31, 2019 are as follows:

Years Ending December 31	Operating Lease	Financing Leases	Total Payments
2020	\$ 12	\$ 41	\$ 53
2021	12	20	32
2022	12	-	12
2023	12	-	12
2024	12	-	12
Thereafter	167	-	167
Total future minimum payments	227	61	288
Less: Present value discount	(73)	(2)	(75)
Long-term obligations under capital leases	<u>\$ 154</u>	<u>\$ 59</u>	<u>\$ 213</u>

**13. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consist of the following as of December 31, 2019 and 2018:

	2019	2018
Subject to expenditures for a specified purpose:		
Garden construction and improvement projects	\$ 10,644	\$ 9,344
Educational, research and garden programs	12,919	3,788
Total subject to expenditures for a specified purpose	<u>23,563</u>	<u>13,132</u>
Subject to the passage of time	137	1,170
Subject to the Society's spending policy and appropriation	15,915	10,187
Not subject to appropriation or expenditure	<u>54,596</u>	<u>34,242</u>
	<u>\$ 94,211</u>	<u>\$ 58,731</u>

Net assets of \$6,343 and \$16,677 were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the passage of time in 2019 and 2018, respectively.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**13. NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)**

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, 2019 and 2018. 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.

**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

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**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. There were no deficiencies of this nature as of December 31, 2019. Deficiencies 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. 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.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

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

The endowment net assets composition by type of fund as of December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose or Time Restricted	Perpetual in Nature	
Donor-restricted endowment funds	\$ -	\$ 15,915	37,175	\$ 53,090
Board-designated endowment funds	60,756			60,756
<b>Total Funds</b>	<b>\$ 60,756</b>	<b>\$ 15,915</b>	<b>\$ 37,175</b>	<b>\$ 113,846</b>

Changes in endowment net assets for the year ended December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose or Time Restricted	Perpetual in Nature	
Beginning balance	\$ 52,787	\$ 10,187	\$ 31,766	\$ 94,740
Investment return:				
Investment income	947	775	-	1,722
Net appreciation (realized and change in unrealized)	7,899	7,004	-	14,903
Total investment return	8,846	7,779	-	16,625
Contributions			5,095	5,095
Collections of pledges restricted for investment in endowment			314	314
Bequests and contributions designated by the board for endowment	1,583		-	1,583
Appropriation of endowment assets for expenditure	(2,460)	(2,051)	-	(4,511)
<b>Ending balance</b>	<b>\$ 60,756</b>	<b>\$ 15,915</b>	<b>\$ 37,175</b>	<b>\$ 113,846</b>
Reconciliation to perpetual in nature net assets:				
Pledges restricted for investment in endowment			17,292	
Beneficial interests in third-party trusts			129	
Total perpetual in nature net assets			<u>\$ 54,596</u>	

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(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:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose or Time Restricted	Perpetual in Nature	
Donor-restricted endowment funds	\$ -	\$ 10,187	\$ 31,766	\$ 41,953
Board-designated endowment funds	52,787	-	-	52,787
<b>Total Funds</b>	<b>\$ 52,787</b>	<b>\$ 10,187</b>	<b>\$ 31,766</b>	<b>\$ 94,740</b>

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

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose or Time Restricted	Perpetual in Nature	
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	(3,356)	(1,851)	-	(5,207)
Transfers to add assets to board-designated endowment funds	10	-	-	10
<b>Ending balance</b>	<b>\$ 52,787</b>	<b>\$ 10,187</b>	<b>\$ 31,766</b>	<b>\$ 94,740</b>

Reconciliation to perpetual in nature net assets:

Pledges restricted for investment in endowment	2,366
Beneficial interests in third-party trusts	110
<b>Total perpetual in nature net assets</b>	<b>\$ 34,242</b>

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(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.

	2019	2018
Financial assets		
Cash	\$ 6,439	\$ 2,229
Pledges receivable	26,131	11,371
Accounts receivable	2,817	671
Investments	129,073	104,151
Total financial assets at year end	\$ 164,460	\$ 118,422
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with implied time restrictions -		
long-term pledges receivable	(18,825)	(7,886)
Restricted by donors with time or purpose restrictions:		
Endowment funds	(32,429)	(42,309)
Capital projects or contractual obligations	(1,970)	(2,630)
Board designations:		
Board designated endowment funds	60,756	(52,786)
Financial assets available to meet cash needs for general expenditures within one year	\$ 171,992	\$ 12,793

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 2019 and 2018.

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.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019 and 2018

(000's omitted)

---

**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 2019 and 2018 was \$291 and \$293, respectively.

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 \$54 and \$89 for the years ended December 31, 2019 and 2018, 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 \$623 and \$620 for 2019 and 2018, respectively. These goods and services were provided at rates consistent with the market rates for not-for-profit organizations.