

# **Chicago Horticultural Society**

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

**December 31, 2012**

**CHICAGO HORTICULTURAL SOCIETY**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

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## Independent Auditor's Report

To the Board of Directors  
Chicago Horticultural Society

We have audited the accompanying consolidated financial statements of Chicago Horticultural Society, which comprise the statements of financial position as of December 31, 2012 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the 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 audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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.

To the Board of Directors  
Chicago Horticultural Society

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chicago Horticultural Society as of December 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matter**

The financial statements of Chicago Horticultural Society as of December 31, 2011 were audited by Blackman Kallick, LLP, whose report dated May 17, 2012 expressed an unqualified opinion on those statements. Blackman Kallick, LLP subsequently merged into Plante & Moran, PLLC.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2013 on our consideration of the 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*

May 14, 2013

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

December 31, 2012 and 2011

(000's omitted)

|                                                  | 2012              | 2011              |
|--------------------------------------------------|-------------------|-------------------|
| <b>ASSETS</b>                                    |                   |                   |
| Cash                                             | \$ 541            | \$ 743            |
| Pledges receivable                               | 10,199            | 11,538            |
| Accounts receivable                              | 1,762             | 1,332             |
| Prepaid expenses                                 | 138               | 101               |
| Investments                                      | 71,018            | 59,012            |
| Beneficial interests in third-party trusts       | 1,424             | 1,287             |
| Unamortized bond issue costs                     | 646               | 673               |
| Land held for sale                               | -                 | 3,240             |
| North Lake shoreline restoration project deposit | -                 | 1,465             |
| Property and equipment, net                      | 107,135           | 107,311           |
|                                                  | <u>192,863</u>    | <u>186,702</u>    |
| Total assets                                     | <u>\$ 192,863</u> | <u>\$ 186,702</u> |
| <b>LIABILITIES</b>                               |                   |                   |
| Accounts payable                                 | \$ 1,075          | \$ 1,849          |
| Accrued expenses                                 | 1,163             | 1,026             |
| Deferred revenue                                 | 907               | 990               |
| Note payable                                     | -                 | 2,251             |
| Gift annuity obligations                         | 458               | 714               |
| Derivative instruments                           | 6,668             | 6,168             |
| Bonds payable                                    | 50,000            | 50,000            |
|                                                  | <u>60,271</u>     | <u>62,998</u>     |
| Total liabilities                                | <u>60,271</u>     | <u>62,998</u>     |
| <b>NET ASSETS</b>                                |                   |                   |
| Unrestricted                                     | 85,078            | 77,705            |
| Temporarily restricted                           | 22,097            | 24,055            |
| Permanently restricted                           | 25,417            | 21,944            |
|                                                  | <u>132,592</u>    | <u>123,704</u>    |
| Total net assets                                 | <u>132,592</u>    | <u>123,704</u>    |
|                                                  | <u>\$ 192,863</u> | <u>\$ 186,702</u> |
| Total liabilities and net assets                 | <u>\$ 192,863</u> | <u>\$ 186,702</u> |

See accompanying notes to consolidated financial statements.

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

Year ended December 31, 2012 (With Summarized Comparative Information for 2011)

(000's omitted)

|                                                                                                           | Unrestricted    |                  | Total            | Temporarily<br>Restricted | Permanently<br>Restricted | 2012<br>Total     | 2011<br>Total     |
|-----------------------------------------------------------------------------------------------------------|-----------------|------------------|------------------|---------------------------|---------------------------|-------------------|-------------------|
|                                                                                                           | Operating       | Designated       |                  |                           |                           |                   |                   |
| <b>OPERATING REVENUES</b>                                                                                 |                 |                  |                  |                           |                           |                   |                   |
| Forest Preserve District of Cook County                                                                   |                 |                  |                  |                           |                           |                   |                   |
| Tax revenue                                                                                               | \$ 9,207        | \$ -             | \$ 9,207         | \$ -                      | \$ -                      | \$ 9,207          | \$ 9,425          |
| Personal Property Replacement Tax                                                                         | 293             | -                | 293              | -                         | -                         | 293               | 310               |
| Contributions                                                                                             | 3,062           | 307              | 3,369            | 7,633                     | 3,473                     | 14,475            | 11,727            |
| Government grants                                                                                         | 4,503           | 3,472            | 7,975            | -                         | -                         | 7,975             | 5,547             |
| Sponsorships                                                                                              | 632             | -                | 632              | -                         | -                         | 632               | 596               |
| Membership                                                                                                | 3,504           | -                | 3,504            | -                         | -                         | 3,504             | 3,314             |
| Visitor programs and operations                                                                           | 3,708           | 81               | 3,789            | -                         | -                         | 3,789             | 3,550             |
| Education fees                                                                                            | 1,309           | -                | 1,309            | -                         | -                         | 1,309             | 1,237             |
| Investment income                                                                                         | 370             | -                | 370              | 1,256                     | -                         | 1,626             | 1,486             |
| Fundraising benefits - Net of \$1,090<br>and \$1,183 of direct expenses<br>in 2012 and 2011, respectively | 640             | -                | 640              | -                         | -                         | 640               | 702               |
| Other income                                                                                              | 497             | -                | 497              | -                         | -                         | 497               | 449               |
| Release from restrictions                                                                                 | 3,094           | 9,703            | 12,797           | (12,797)                  | -                         | -                 | -                 |
| Total operating revenues                                                                                  | <u>30,819</u>   | <u>13,563</u>    | <u>44,382</u>    | <u>(3,908)</u>            | <u>3,473</u>              | <u>43,947</u>     | <u>38,343</u>     |
| <b>OPERATING EXPENSES</b>                                                                                 |                 |                  |                  |                           |                           |                   |                   |
| Program services                                                                                          |                 |                  |                  |                           |                           |                   |                   |
| Gardens and grounds                                                                                       | 8,424           | -                | 8,424            | -                         | -                         | 8,424             | 8,522             |
| Scientific affairs                                                                                        | 5,483           | -                | 5,483            | -                         | -                         | 5,483             | 4,822             |
| Education and community programs                                                                          | 5,871           | 93               | 5,964            | -                         | -                         | 5,964             | 5,878             |
| Visitor programs and operations                                                                           | 3,473           | 187              | 3,660            | -                         | -                         | 3,660             | 3,186             |
| Membership                                                                                                | 983             | -                | 983              | -                         | -                         | 983               | 980               |
| Depreciation and amortization                                                                             | -               | 7,299            | 7,299            | -                         | -                         | 7,299             | 7,198             |
| Support services                                                                                          |                 |                  |                  |                           |                           |                   |                   |
| Development                                                                                               | 1,708           | 493              | 2,201            | -                         | -                         | 2,201             | 2,552             |
| Administration                                                                                            | 3,988           | 1,813            | 5,801            | -                         | -                         | 5,801             | 5,647             |
| Total operating expenses                                                                                  | <u>29,930</u>   | <u>9,885</u>     | <u>39,815</u>    | <u>-</u>                  | <u>-</u>                  | <u>39,815</u>     | <u>38,785</u>     |
| Increase (decrease) in net assets<br>before nonoperating activities                                       | <u>889</u>      | <u>3,678</u>     | <u>4,567</u>     | <u>(3,908)</u>            | <u>3,473</u>              | <u>4,132</u>      | <u>(442)</u>      |
| <b>NONOPERATING ACTIVITIES</b>                                                                            |                 |                  |                  |                           |                           |                   |                   |
| Investment return net of amount<br>designated for current use                                             | -               | 4,298            | 4,298            | 1,950                     | -                         | 6,248             | (2,750)           |
| Realized loss on disposal of land                                                                         | -               | (991)            | (991)            | -                         | -                         | (991)             | (778)             |
| Change in fair value of derivative<br>instruments, net of payments                                        | -               | (501)            | (501)            | -                         | -                         | (501)             | (4,003)           |
| Total nonoperating activity                                                                               | <u>-</u>        | <u>2,806</u>     | <u>2,806</u>     | <u>1,950</u>              | <u>-</u>                  | <u>4,756</u>      | <u>(7,531)</u>    |
| <b>Increase (decrease) in net assets</b>                                                                  | <u>889</u>      | <u>6,484</u>     | <u>7,373</u>     | <u>(1,958)</u>            | <u>3,473</u>              | <u>8,888</u>      | <u>(7,973)</u>    |
| <b>Net assets, beginning of year</b>                                                                      | <u>5,411</u>    | <u>72,294</u>    | <u>77,705</u>    | <u>24,055</u>             | <u>21,944</u>             | <u>123,704</u>    | <u>131,677</u>    |
| <b>Net assets, end of year</b>                                                                            | <u>\$ 6,300</u> | <u>\$ 78,778</u> | <u>\$ 85,078</u> | <u>\$ 22,097</u>          | <u>\$ 25,417</u>          | <u>\$ 132,592</u> | <u>\$ 123,704</u> |

See accompanying notes to consolidated financial statements.

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

Year ended December 31, 2011

(000's omitted)

|                                                                                                           | Operating | Unrestricted<br>Designated | Total     | Temporarily<br>Restricted | Permanently<br>Restricted | 2011<br>Total |
|-----------------------------------------------------------------------------------------------------------|-----------|----------------------------|-----------|---------------------------|---------------------------|---------------|
| <b>OPERATING REVENUES</b>                                                                                 |           |                            |           |                           |                           |               |
| Forest Preserve District of Cook County                                                                   |           |                            |           |                           |                           |               |
| Tax revenue                                                                                               | \$ 9,425  | \$ -                       | \$ 9,425  | \$ -                      | \$ -                      | \$ 9,425      |
| Personal Property Replacement Tax                                                                         | 310       | -                          | 310       | -                         | -                         | 310           |
| Contributions                                                                                             | 2,714     | 919                        | 3,633     | 7,498                     | 596                       | 11,727        |
| Government grants                                                                                         | 3,562     | 1,985                      | 5,547     | -                         | -                         | 5,547         |
| Sponsorships                                                                                              | 596       | -                          | 596       | -                         | -                         | 596           |
| Membership                                                                                                | 3,314     | -                          | 3,314     | -                         | -                         | 3,314         |
| Visitor programs and operations                                                                           | 3,469     | 81                         | 3,550     | -                         | -                         | 3,550         |
| Education fees                                                                                            | 1,237     | -                          | 1,237     | -                         | -                         | 1,237         |
| Investment income                                                                                         | 335       | -                          | 335       | 1,151                     | -                         | 1,486         |
| Fundraising benefits - Net of \$1,183<br>and \$1,110 of direct expenses<br>in 2011 and 2010, respectively | 702       | -                          | 702       | -                         | -                         | 702           |
| Other income                                                                                              | 449       | -                          | 449       | -                         | -                         | 449           |
| Release from restrictions                                                                                 | 2,881     | 4,548                      | 7,429     | (7,429)                   | -                         | -             |
| <b>Total operating revenues</b>                                                                           | 28,994    | 7,533                      | 36,527    | 1,220                     | 596                       | 38,343        |
| <b>OPERATING EXPENSES</b>                                                                                 |           |                            |           |                           |                           |               |
| Program services                                                                                          |           |                            |           |                           |                           |               |
| Gardens and grounds                                                                                       | 8,522     | -                          | 8,522     | -                         | -                         | 8,522         |
| Scientific affairs                                                                                        | 4,822     | -                          | 4,822     | -                         | -                         | 4,822         |
| Education and community programs                                                                          | 5,514     | 364                        | 5,878     | -                         | -                         | 5,878         |
| Visitor programs and operations                                                                           | 3,186     | -                          | 3,186     | -                         | -                         | 3,186         |
| Membership                                                                                                | 980       | -                          | 980       | -                         | -                         | 980           |
| Depreciation and amortization                                                                             | -         | 7,198                      | 7,198     | -                         | -                         | 7,198         |
| Support services                                                                                          |           |                            |           |                           |                           |               |
| Development                                                                                               | 1,567     | 985                        | 2,552     | -                         | -                         | 2,552         |
| Administration                                                                                            | 3,837     | 1,810                      | 5,647     | -                         | -                         | 5,647         |
| <b>Total operating expenses</b>                                                                           | 28,428    | 10,357                     | 38,785    | -                         | -                         | 38,785        |
| Increase (decrease) in net assets<br>before nonoperating activities                                       | 566       | (2,824)                    | (2,258)   | 1,220                     | 596                       | (442)         |
| <b>NONOPERATING ACTIVITIES</b>                                                                            |           |                            |           |                           |                           |               |
| Investment return net of amount<br>designated for current use                                             | -         | (1,403)                    | (1,403)   | (1,347)                   | -                         | (2,750)       |
| Impairment loss on land held for sale                                                                     | -         | (778)                      | (778)     | -                         | -                         | (778)         |
| Change in fair value of derivative<br>instruments, net of payments                                        | -         | (4,003)                    | (4,003)   | -                         | -                         | (4,003)       |
| <b>Total nonoperating activity</b>                                                                        | -         | (6,184)                    | (6,184)   | (1,347)                   | -                         | (7,531)       |
| <b>Increase (decrease) in net assets</b>                                                                  | 566       | (9,008)                    | (8,442)   | (127)                     | 596                       | (7,973)       |
| <b>Net assets, beginning of year</b>                                                                      | 4,845     | 81,302                     | 86,147    | 24,182                    | 21,348                    | 131,677       |
| <b>Net assets, end of year</b>                                                                            | \$ 5,411  | \$ 72,294                  | \$ 77,705 | \$ 24,055                 | \$ 21,944                 | \$ 123,704    |

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

Years ended December 31, 2012 and 2011

(000's omitted)

|                                                                     | 2012                 | 2011                 |
|---------------------------------------------------------------------|----------------------|----------------------|
| <b>Cash flows from operating activities:</b>                        |                      |                      |
| Increase (decrease) in net assets                                   | \$ 8,888             | \$ (7,973)           |
| Depreciation                                                        | 7,272                | 7,171                |
| Amortization of bond issue cost                                     | 27                   | 27                   |
| Realized and unrealized (gains) losses on investments               | (6,604)              | 2,017                |
| Change in fair value of derivative instruments, net                 | 501                  | 4,003                |
| Realized loss on disposal of land                                   | 991                  | 778                  |
| Contributions restricted for long-term investment                   | (3,473)              | (596)                |
| Donated land improvements                                           | (2,360)              | (996)                |
| Gift annuity obligations                                            | (256)                | (30)                 |
| Changes in assets and liabilities:                                  |                      |                      |
| Pledges receivable                                                  | 4,142                | 2,651                |
| Accounts receivable and prepaid expenses                            | (467)                | 331                  |
| Tax revenue receivable                                              | -                    | 1,106                |
| Beneficial interests in third-party trusts                          | (137)                | (16)                 |
| Accounts payable, accrued expenses and deferred revenue             | 167                  | 222                  |
| Net cash provided by operating activities                           | <u>8,691</u>         | <u>8,695</u>         |
| <b>Cash flows from investing activities:</b>                        |                      |                      |
| Purchase of property and equipment                                  | (5,626)              | (5,017)              |
| Proceeds from sale of investments                                   | 6,284                | 7,139                |
| North Lake shoreline restoration project deposit                    | 1,465                | (1,665)              |
| Purchase of investments                                             | <u>(11,686)</u>      | <u>(9,941)</u>       |
| Net cash used in investing activities                               | <u>(9,563)</u>       | <u>(9,484)</u>       |
| <b>Cash flows from financing activities:</b>                        |                      |                      |
| Collections of contributions restricted for investment in endowment | <u>670</u>           | <u>1,156</u>         |
| Net cash provided by financing activities                           | <u>670</u>           | <u>1,156</u>         |
| (Decrease) increase in cash                                         | (202)                | 367                  |
| Cash, beginning of year                                             | <u>743</u>           | <u>376</u>           |
| <b>Cash, end of year</b>                                            | <u><u>\$ 541</u></u> | <u><u>\$ 743</u></u> |
| Supplemental disclosure of cash flow information:                   |                      |                      |
| Interest paid, net of interest capitalized                          | <u>\$ 1,658</u>      | <u>\$ 1,797</u>      |
| Non-cash property and equipment additions                           | <u>\$ 145</u>        | <u>\$ 1,033</u>      |
| Disposal of land held for sale in satisfaction of of note payable   | <u>\$ 2,251</u>      | <u>\$ -</u>          |
| Donated land improvements                                           | <u>\$ 2,360</u>      | <u>\$ 996</u>        |

See accompanying notes to consolidated financial statements.



**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Year Ended December 31, 2012  
(000s omitted)

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**1. ORGANIZATION**

The Chicago Horticultural Society (Society) operates the Chicago Botanic Garden (CBG) on land owned by the Forest Preserve District of Cook County (the District) under an agreement expiring in 2015. Such agreement provides for an automatic renewal for 40 years upon agreement of the parties.

The Board of Directors of the Society has adopted the following Mission Statement:

“The mission of the Chicago Botanic Garden is to promote the enjoyment, understanding and conservation of plants and the natural world.”

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Consolidation**—The consolidated financial statements include the accounts of the Society, Chicagoland Grows, Inc. and North Lawndale Land Corporation, NFP (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).

**Classification of Net Assets**—The Society’s net assets have been grouped into the following three classes:

- *Unrestricted*—Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by actions of the Board of Directors.
- *Temporarily Restricted*—Net assets whose use by the Society is subject to donor-imposed restrictions that can be fulfilled by actions of the Society pursuant to those restrictions or that expire by the passage of time.
- *Permanently Restricted*—Net assets subject to donor-imposed restrictions that they be maintained permanently by the Society. Generally, the donors of these assets permit the Society to use all or part of the income earned on these assets.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Year Ended December 31, 2012  
(000s omitted)

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

**Contributions and Revenue**—Contributions are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, 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 temporarily restricted revenue. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restriction.

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

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 2012 represent the amounts appropriated by the District for 2011 property taxes and personal property replacement taxes, which are due for payment from taxpayers in 2012 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.

The Society recognizes revenue from the District bond issue as costs are incurred on capital improvements.

Membership revenue is recognized in full in the year received. This method reasonably approximates the earnings process for membership revenue.

**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 initially recorded at fair value by the Society as contributions receivable. They are subsequently valued at the present value of future cash flows. 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 or 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**  
Year Ended December 31, 2012  
(000s omitted)

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**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 (5) 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 payout exceeds investment income, 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.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Year Ended December 31, 2012  
(000s omitted)

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

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

**Financial Instruments**—The Society's financial instruments consist of cash, pledges and accounts receivables, investments, accounts payable, bonds payable and derivative financial instruments. Investments and derivative instruments are carried at fair value as disclosed in Note 6. Based on the weekly remarketing of the interest rates, the carrying amount of the bonds approximates its fair value as of December 31, 2012 and 2011. For the remaining financial instruments other than pledges receivable, the carrying value is a reasonable estimate of fair value because of the short-term nature of the financial instruments. The fair values of the Society's pledges receivable are estimated based on the current interest rates and the period of collectability.

**Derivative Instruments**—The Society's derivatives 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 12 for further disclosures.

**Endowment**—GAAPUSA addresses the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act (UPMIFA). A key component of UPMIFA is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. See further disclosure in Note 14.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Year Ended December 31, 2012  
(000s omitted)

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**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.

In April 2012, the corporate name of Windy City Harvest was formally changed to North Lawndale Land Corporation, NFP (NLLC). NLLC is tax exempt under Section 501(c)(3) of the Internal Revenue Code. As of December 31, 2011, NLLC held land for sale in North Lawndale and a related note payable agreement. On July 6, 2012, NLLC and the Society, its sole member, conveyed the land held for sale to SFF Lender, LLC, in satisfaction of the note payable agreement entered into by the parties in connection with the purchase of the land. Effective November 26, 2012, NLLC was dissolved.

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. The Society is no longer subject to examination by tax authorities for federal, state or local income taxes for periods before 2009.

**Use of Estimates**—The preparation of 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.

**Functional Allocation of Expenses**—The costs of providing the program and support services have been reported on a functional basis in the consolidated statements of activities. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

**Subsequent Events**—The consolidated financial statements and related disclosures include evaluation of events up through and including May 14, 2013, which is the date the consolidated financial statements were available to be issued.

**CHICAGO HORTICULTURAL SOCIETY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. PLEDGES RECEIVABLE**

Contributions are recorded at fair value initially and present value thereafter. The Society discounted contributions due in more than one year using rates between 0.17% and 0.76%. Unconditional promises to give are expected to be received in the following periods:

|                                              | <u>2012</u>      | <u>2011</u>      |
|----------------------------------------------|------------------|------------------|
| Within one year                              | \$ 4,547         | \$ 5,411         |
| One to five years                            | 5,806            | 6,354            |
| More than five years                         | -                | 10               |
| Less:                                        |                  |                  |
| Discount to present value                    | (120)            | (190)            |
| Allowance for uncollectible promises to give | <u>(34)</u>      | <u>(47)</u>      |
|                                              | <u>\$ 10,199</u> | <u>\$ 11,538</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 of 4.27% to 8.40% for the discount rate.

|                            | <u>2012</u>     | <u>2011</u>     |
|----------------------------|-----------------|-----------------|
| Gross beneficial interests | \$ 2,044        | \$ 1,931        |
| Less fair value discount   | <u>(620)</u>    | <u>(644)</u>    |
|                            | <u>\$ 1,424</u> | <u>\$ 1,287</u> |

**CHICAGO HORTICULTURAL SOCIETY**  
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Year Ended December 31, 2012  
(000s omitted)

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**5. INVESTMENTS**

Investments consist of the following as of December 31, 2012 and 2011:

|                                        | <u>2012</u>      | <u>2011</u>      |
|----------------------------------------|------------------|------------------|
| Corporate bonds and fixed income funds | \$ 10,955        | \$ 8,426         |
| Common stock and equity funds          | 35,023           | 28,579           |
| Money market funds                     | 12,864           | 9,432            |
| Hedge funds                            | 4,725            | 4,416            |
| Private equity funds                   | 4,709            | 5,208            |
| Real estate funds                      | 2,742            | 2,951            |
|                                        | <u>\$ 71,018</u> | <u>\$ 59,012</u> |

Total investment return consists of the following:

|                                          | <u>2012</u>     | <u>2011</u>       |
|------------------------------------------|-----------------|-------------------|
| Interest and dividends                   | \$ 1,270        | \$ 753            |
| Realized gain on sale of investments     | 1,360           | 1,035             |
| Change in unrealized gain on investments | 5,244           | (3,052)           |
|                                          | <u>\$ 7,874</u> | <u>\$ (1,264)</u> |

Investment income included in operations totaled \$1,626 and \$1,486 for 2012 and 2011, respectively. The total investment return is net of \$75 investment consulting fees for 2012 and 2011.

**CHICAGO HORTICULTURAL SOCIETY**  
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(000s omitted)

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**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 investment partnerships such as hedge 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.



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**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, 2012:

| Description                                   | Total<br>Fair Value | Fair Value Measurement Using                                                     |                                                           |                                                    |
|-----------------------------------------------|---------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                               |                     | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets:</b>                                |                     |                                                                                  |                                                           |                                                    |
| Equity mutual funds                           |                     |                                                                                  |                                                           |                                                    |
| U.S. large-cap                                | \$ 17,314           | \$ 17,314                                                                        | \$ -                                                      | \$ -                                               |
| U.S. mid-cap                                  | 3,270               | 3,270                                                                            | -                                                         | -                                                  |
| U.S. small-cap                                | 3,695               | 3,695                                                                            | -                                                         | -                                                  |
| U.S. growth                                   | 350                 | 350                                                                              | -                                                         | -                                                  |
| International growth                          | 6,729               | 6,729                                                                            | -                                                         | -                                                  |
| Emerging market value                         | 3,665               | 3,665                                                                            | -                                                         | -                                                  |
| Fixed income mutual funds                     |                     |                                                                                  |                                                           |                                                    |
| U.S. core bond                                | 9,061               | 9,061                                                                            | -                                                         | -                                                  |
| Global bond                                   | 1,894               | 1,894                                                                            | -                                                         | -                                                  |
| Other                                         |                     |                                                                                  |                                                           |                                                    |
| Multi-strategy hedge funds                    | 4,725               | -                                                                                | 4,725                                                     | -                                                  |
| Private equity funds                          | 4,709               | -                                                                                | -                                                         | 4,709                                              |
| Real estate funds                             | 2,742               | -                                                                                | -                                                         | 2,742                                              |
| Subtotal                                      | 58,154              | 45,978                                                                           | 4,725                                                     | 7,451                                              |
| Beneficial interests<br>in third-party trusts | 1,424               | -                                                                                | 1,424                                                     | -                                                  |
|                                               | <u>\$ 59,578</u>    | <u>\$ 45,978</u>                                                                 | <u>\$ 6,149</u>                                           | <u>\$ 7,451</u>                                    |
| <b>Liabilities:</b>                           |                     |                                                                                  |                                                           |                                                    |
| Derivative instruments                        | <u>\$ 6,668</u>     | <u>\$ -</u>                                                                      | <u>\$ 6,668</u>                                           | <u>\$ -</u>                                        |

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**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, 2011:

| Description                                   | Total<br>Fair Value | Fair Value Measurement Using                                                     |                                                           |                                                    |
|-----------------------------------------------|---------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                               |                     | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets:</b>                                |                     |                                                                                  |                                                           |                                                    |
| Equity mutual funds                           |                     |                                                                                  |                                                           |                                                    |
| U.S. large-cap                                | \$ 11,599           | \$ 11,599                                                                        | \$ -                                                      | \$ -                                               |
| U.S. mid-cap                                  | 2,938               | 2,938                                                                            | -                                                         | -                                                  |
| U.S. small-cap                                | 3,068               | 3,068                                                                            | -                                                         | -                                                  |
| U.S. growth                                   | 344                 | 344                                                                              | -                                                         | -                                                  |
| International growth                          | 7,560               | 7,560                                                                            | -                                                         | -                                                  |
| Emerging market value                         | 3,070               | 3,070                                                                            | -                                                         | -                                                  |
| Fixed income mutual funds                     |                     |                                                                                  |                                                           |                                                    |
| U.S. core bond                                | 6,796               | 6,796                                                                            | -                                                         | -                                                  |
| Global bond                                   | 1,630               | 1,630                                                                            | -                                                         | -                                                  |
| Other                                         |                     |                                                                                  |                                                           |                                                    |
| Multi-strategy hedge funds                    | 4,416               | -                                                                                | 4,416                                                     | -                                                  |
| Private equity funds                          | 5,208               | -                                                                                | -                                                         | 5,208                                              |
| Real estate funds                             | 2,951               | -                                                                                | -                                                         | 2,951                                              |
| Subtotal                                      | 49,580              | 37,005                                                                           | 4,416                                                     | 8,159                                              |
| Beneficial interests<br>in third-party trusts | 1,287               | -                                                                                | 1,287                                                     | -                                                  |
|                                               | <u>\$ 50,867</u>    | <u>\$ 37,005</u>                                                                 | <u>\$ 5,703</u>                                           | <u>\$ 8,159</u>                                    |
| <b>Liabilities:</b>                           |                     |                                                                                  |                                                           |                                                    |
| Derivative instruments                        | <u>\$ 6,168</u>     | <u>\$ -</u>                                                                      | <u>\$ 6,168</u>                                           | <u>\$ -</u>                                        |

Not included in the above tables are \$12,864 and \$9,432 in cash and cash equivalents in brokerage accounts as of December 31, 2012 and 2011, respectively.

The carrying value of the bonds payable is its estimated fair value as of December 31, 2012 and 2011. The fair value of the bonds is based on the rates currently in effect for bonds issued by similar issuers with similar terms and would have been classified as Level 2 if they had been included in the previous table.

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(000s omitted)

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

The following table sets forth, by level of the fair value hierarchy, the Society's assets that were accounted for at fair value on a nonrecurring basis as of December 31, 2011:

| Description        | Total<br>Fair Value | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Impairment<br>Loss for the<br>Year Ended<br>December 31,<br>2011 |
|--------------------|---------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|---------------------------------------------------------------------------|
| Assets:            |                     |                                                                                  |                                                           |                                                    |                                                                           |
| Land held for sale | \$ 3,240            | \$ -                                                                             | \$ 3,240                                                  | \$ -                                               | \$ (778)                                                                  |

See Note 7 for further information related to land held for sale.

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

Estimated fair values for hedge funds were based on net asset value per share of the funds with no redemption restrictions.

The derivative instruments consist solely of interest rate swaps that 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. The beneficial interests in trusts are stated at the 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.

Level 3

Estimated fair values of private equity funds and real estate funds were based on net asset value per share of the funds with redemption restrictions longer than 90 days.

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

Level 3 (CONTINUED)

The fair value of the Society's investments in investment partnerships generally represents the amount the Society would expect to receive if it were to liquidate its investment in the investment partnerships excluding any redemption charges that may apply. In circumstances where the investment partnerships' net asset values were deemed to differ from fair value due to illiquidity or other factors, net asset values were adjusted accordingly to reflect illiquidity reserves. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. As further support for the reasonableness of the fair values of the Level 3 real estate funds as of December 31, 2011, the Society employed an independent third-party financial advisory firm to review the valuation methodologies, inputs to the valuation models and work product completed by the real estate funds to determine fair value, including a review of the real estate market.

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.

The following table presents a reconciliation of the beginning and ending balances recorded for instruments classified as Level 3 in the fair value hierarchy as of December 31, 2012:

|                                                                                                                                                                                                | Fair Value Measurement Using Significant<br>Unobservable Inputs (Level 3) |                         |                 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|-------------------------|-----------------|
|                                                                                                                                                                                                | Private<br>Equity<br>Funds                                                | Real<br>Estate<br>Funds | Total           |
| Assets:                                                                                                                                                                                        |                                                                           |                         |                 |
| Beginning balance, December 31, 2011                                                                                                                                                           | \$ 5,208                                                                  | \$ 2,951                | \$ 8,159        |
| Total gain/losses (realized and change in<br>unrealized) included in change in net assets                                                                                                      | 886                                                                       | 198                     | 1,084           |
| Purchases                                                                                                                                                                                      | 390                                                                       | 51                      | 441             |
| Settlements                                                                                                                                                                                    | (1,775)                                                                   | (458)                   | (2,233)         |
| Ending balance, December 31, 2012                                                                                                                                                              | <u>\$ 4,709</u>                                                           | <u>\$ 2,742</u>         | <u>\$ 7,451</u> |
| The amount of total gain/losses for the year<br>included in change in net assets attributable<br>to the change in unrealized gain/losses<br>relating to assets still held at December 31, 2012 | <u>\$ 222</u>                                                             | <u>\$ 198</u>           | <u>\$ 420</u>   |

**CHICAGO HORTICULTURAL SOCIETY**  
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(000s omitted)

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

Level 3 gains/losses (realized and change in unrealized) are reported on the consolidated statements of activities as investment return net of amount designated for current use.

The following table presents a reconciliation of the beginning and ending balances recorded for instruments classified as Level 3 in the fair value hierarchy as of December 31, 2011:

|                                                                                                                                                                                                | Fair Value Measurement Using Significant<br>Unobservable Inputs (Level 3) |                         |                 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|-------------------------|-----------------|
|                                                                                                                                                                                                | Private<br>Equity<br>Funds                                                | Real<br>Estate<br>Funds | Total           |
| Assets:                                                                                                                                                                                        |                                                                           |                         |                 |
| Beginning balance, December 31, 2010                                                                                                                                                           | \$ 4,743                                                                  | \$ 3,347                | \$ 8,090        |
| Total gain/losses (realized and change in<br>unrealized) included in change in net assets                                                                                                      | 872                                                                       | (442)                   | 430             |
| Purchases                                                                                                                                                                                      | 214                                                                       | 90                      | 304             |
| Settlements                                                                                                                                                                                    | (621)                                                                     | (44)                    | (665)           |
| Ending balance, December 31, 2011                                                                                                                                                              | <u>\$ 5,208</u>                                                           | <u>\$ 2,951</u>         | <u>\$ 8,159</u> |
| The amount of total gain/losses for the year<br>included in change in net assets attributable<br>to the change in unrealized gain/losses<br>relating to assets still held at December 31, 2011 | <u>\$ 610</u>                                                             | <u>\$ (144)</u>         | <u>\$ 466</u>   |

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

Level 3 gains/losses (realized and change in unrealized) are reported on the consolidated statements of activities as investment return net of amount designated for current use.

|                                     | Fair Value<br>as of<br>December 31,<br>2012 | Unfunded<br>Commitments | Redemption<br>Frequency (if<br>Currently<br>Eligible) | Redemption<br>Notice Period |
|-------------------------------------|---------------------------------------------|-------------------------|-------------------------------------------------------|-----------------------------|
| Hedge funds:                        |                                             |                         |                                                       |                             |
| Multi-strategy <sup>(a)</sup>       | \$ 4,725                                    | \$ -                    | quarterly                                             | 45-90 days                  |
| Private equity funds <sup>(b)</sup> | 4,709                                       | 1,223                   |                                                       |                             |
| Real estate funds <sup>(c)</sup>    | 2,742                                       | 159                     |                                                       |                             |
|                                     | <u>\$ 12,176</u>                            | <u>\$ 1,382</u>         |                                                       |                             |

|                                     | Fair Value<br>as of<br>December 31,<br>2011 | Unfunded<br>Commitments | Redemption<br>Frequency (if<br>Currently<br>Eligible) | Redemption<br>Notice Period |
|-------------------------------------|---------------------------------------------|-------------------------|-------------------------------------------------------|-----------------------------|
| Hedge funds:                        |                                             |                         |                                                       |                             |
| Multi-strategy <sup>(a)</sup>       | \$ 4,416                                    | \$ -                    | quarterly                                             | 45-90 days                  |
| Private equity funds <sup>(b)</sup> | 5,208                                       | 1,356                   |                                                       |                             |
| Real estate funds <sup>(c)</sup>    | 2,951                                       | 210                     |                                                       |                             |
|                                     | <u>\$ 12,575</u>                            | <u>\$ 1,566</u>         |                                                       |                             |

- a. This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The investments include hedge funds that invest directly in individual equity, fixed income, derivative and private securities. The investments also include 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. Investments representing approximately 3% of the value of the investments in this category are in the process of being redeemed and will be liquidated over time. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

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

- b. 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.
- c. 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 action process. The investee fund's management must approve of the buyer before the sale of the investment can be completed.

**7. LAND HELD FOR SALE**

In 2007, Windy City Harvest (WCH) purchased two parcels of land in the North Lawndale community in Chicago, Illinois for \$4,018 for the development of an urban horticulture center. When that project was deemed financially unfeasible due to the state of the economy and other factors, Windy City Harvest listed the land for sale in 2010.

In 2011, all of the criteria necessary to classify the land as held for sale were met. Based on several offers from potential purchasers that were significantly less than the cost of the land (for one or both parcels), the depressed real estate market, and an opinion of value from the real estate firm that marketed the land for two years that was also substantially less than the carrying cost, Windy City Harvest recognized an impairment loss of \$778 in 2011. The estimated recoverable amount of the land's cost was classified as land held for sale in the consolidated statements of financial position as of December 31, 2011. In April 2012, the corporate name of Windy City Harvest was formally changed to North Lawndale Land Corporation, NFP (NLLC).

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**7. LAND HELD FOR SALE (CONTINUED)**

On July 6, 2012, NLLC and the Society, its sole member, conveyed the land held for sale to SFF Lender, LLC, in satisfaction of the note payable agreement entered into by the parties in connection with the purchase of the land. Effective November 26, 2012, NLLC was dissolved.

Based on the amounts reflected on the Society's consolidated financial statements, the conveyance of the land in satisfaction of the note payable would result in a loss of \$991 and \$778 for 2012 and 2011, respectively.

**8. PROPERTY AND EQUIPMENT**

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

|                            | 2012       | 2011       |
|----------------------------|------------|------------|
| Buildings and improvements | \$ 86,618  | \$ 86,602  |
| Land improvements          | 71,118     | 60,614     |
| Equipment                  | 13,404     | 13,174     |
| Museum assets              | 4,225      | 4,225      |
| Construction in progress   | 1,637      | 5,298      |
|                            | 177,002    | 169,913    |
| Accumulated depreciation   | (69,867)   | (62,602)   |
|                            | \$ 107,135 | \$ 107,311 |

Construction in progress as of December 31, 2012 consists of expenditures associated primarily with the development of the children's campus, nursery and greenhouse campus and various other projects. Construction in progress as of December 31, 2011 consists of expenditures associated primarily with the restoration of the North Lake shoreline, development of the children's campus and various other projects.

The North Lake shoreline restoration project is being funded primarily through in-kind contributions by the Army Corps of Engineers. As of December 31, 2012 and 2011, the Society recognized \$2,774 and \$996, respectively, of in-kind grant revenue related to the project. In addition, during 2011, the Society prepaid the Army Corps \$1,665 for the Society's estimated portion of the project cost. As of December 31, 2011, the remaining prepaid balance of \$1,465 was shown as the North Lake shoreline restoration project deposit in the consolidated statements of financial position. The project was completed in August 2012.



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

Accounts payable included \$38 and \$833 of construction in progress of various projects as of December 31, 2012 and 2011, respectively. The Society follows the policy of capitalizing interest as a component of the cost of the property, plant, and equipment constructed for its own use.

**9. LINE OF CREDIT**

The Society has a \$5 million line of credit available in 2012 and 2011. Outstanding amounts bear interest at a prime based rate or LIBOR plus 0.50%. There were no borrowings outstanding on this line of credit as of December 31, 2012 and 2011. The line expires on September 1, 2013, but it is management's expectation that the line will be renewed by the bank. 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, 2012.

**10. NOTE PAYABLE**

In September 2007, Windy City Harvest (WCH) entered into a note payable agreement with a related party, SFF Lender, LLC, to borrow \$2,813 for a land purchase. SFF Lender, LLC is an entity created by the Steans Family Foundation, one of the initial funding sponsors of WCH. The Chairman of the Board of Trustees of the Steans Family Foundation is a member of the Board of Directors of the Society. The note bears interest at 6% payable quarterly. Payments may be made periodically, with a final payment to be made when the note matures in 2013. During 2010, the Society, on behalf of WCH, made a principal payment of \$562 from funds received for WCH. The note payable was \$2,251 as of December 31, 2011. In April 2012, the corporate name of Windy City Harvest was formally changed to North Lawndale Land Corporation NFP (NLLC).

On June 14, 2012, NLLC and the Society, its sole member, conveyed the land held for sale to SFF Lender, LLC, in satisfaction of the note payable agreement entered into by the parties in connection with the purchase of the land. Effective November 26, 2012, NLLC was dissolved.

See related information on the land held for sale in Note 7.

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**11. BONDS PAYABLE**

Bonds payable at December 31, 2012 and 2011 consist of the following amounts due to the Illinois Finance Authority, which issued Adjustable Demand Revenue Bonds on the Society's behalf:

|                           | 2012      | 2011      |
|---------------------------|-----------|-----------|
| Series 2008, payable 2043 | \$ 30,000 | \$ 30,000 |
| Series 1999, payable 2029 | 20,000    | 20,000    |
|                           | \$ 50,000 | \$ 50,000 |

The Society has obtained a letter of credit from a bank for each bond issue, which provides credit enhancement for the bonds. The letter of credit for the Series 1999 bonds expires August 31, 2013. The letter of credit for the Series 2008 bonds expires July 31, 2013. In 2013, the Society has undertaken to change the letter of credit provider bank and obtain new letters of credit. The new letters of credit, which will both expire December 31, 2014, will be in effect prior to the respective expiration dates of the existing letters of credit.

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 2012 and 2011 averaged 0.17% and 0.19%, respectively.

Total interest expense for all debt, and including the interest payments made under the swap agreements (See Note 12), for 2012 and 2011 was \$1,660 and \$1,774, 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, the bonds require payment according to an amortization schedule consisting of eight quarterly installments of principal with the initial installment due 366 days after a drawing under 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, 2012.

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**12. DERIVATIVE FINANCIAL INSTRUMENTS**

The Society entered into two interest rate swap agreements, which are considered derivative financial instruments. These agreements, which are not designated as hedging instruments, were entered into in order to manage interest rate exposure. 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 JPMorgan Chase Bank, N.A. (the Bank), 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 June 1, 2006, the Society entered into an agreement to limit the interest rate exposure to 4.13% on a notional amount of \$12,000 that expires on June 1, 2016. On July 1, 2010 the agreement was blended with an extended agreement to limit interest rate exposure to 3.56% on a notional amount of \$12,000. The revised agreement expires on July 1, 2025. Effective February 12, 2009, the Society entered into an agreement to limit the interest rate exposure to 2.385% on a notional amount of \$38,000 that expires on February 1, 2019. The Society is exposed to credit loss in the event of nonperformance by the Bank to the interest rate swap agreements. However, the Society does not anticipate nonperformance by the Bank.

In 2013, the Society has undertaken to change the counterparty for the swap agreements from JPMorgan Chase Bank, N.A. to The Northern Trust Company, also a major financial institution with which the Society has other financial relationships. The change is scheduled to become effective in mid-2013.

The following table presents the amounts and the locations of the amounts relating to the Society's interest rate swaps in the Society's financial statements as of and for the years ended December 31, 2012 and 2011:

|                                                                                                  | <u>2012</u>       | <u>2011</u>       |
|--------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Statements of Financial Position Information Location on statement of fair value of liability:   |                   |                   |
| Derivative instrument                                                                            | \$ 6,668          | \$ 6,168          |
| Statements of Activities Information:                                                            |                   |                   |
| Change in fair value of derivative instruments, net of periodic settlement payments              | \$ (501)          | \$ (4,003)        |
| Periodic settlement payments recorded as interest expense and included in the operating expenses | (1,257)           | (1,239)           |
| Total loss on derivative instruments                                                             | <u>\$ (1,758)</u> | <u>\$ (5,242)</u> |

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**13. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following as of December 31, 2012 and 2011:

|                                              | 2012      | 2011      |
|----------------------------------------------|-----------|-----------|
| Garden construction and improvement projects | \$ 6,920  | \$ 7,506  |
| Educational and research programs            | 1,130     | 1,056     |
| Time restriction                             | 6,977     | 10,374    |
| Endowments- time and purpose restriction     | 7,070     | 5,119     |
|                                              | \$ 22,097 | \$ 24,055 |

Net assets of \$12,797 and \$7,429 were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the passage of time in 2012 and 2011, respectively.

Permanently restricted net assets consist of endowment funds as of December 31, 2012 and 2011. The income earned on the investment of permanently restricted net assets is generally available for use in garden maintenance and supporting the Society's research programs.

**14. ENDOWMENT**

The Society's endowment consists of 67 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAPUSA, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on existences or absences of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Board of Directors of the Society has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA.

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**14. ENDOWMENT (CONTINUED)**

**Interpretation of Relevant Law (Continued)**

In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

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

**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 Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the total return of the weighted average blend of a combination of global equity and fixed income benchmarks utilizing strategies consistent with the Society's portfolio strategy while assuming a moderate level of investment risk. Additional comparisons are made to endowment and foundation peer groups. The Society expects its endowment funds, over time, to provide a long-term average rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Society has established a spending policy based on the total return concept and approved an investment payout of five (5) percent of the 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 return on its endowment. This is consistent with the Society's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**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.

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**14. ENDOWMENT (CONTINUED)**

**Funds With Deficiencies**

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 UPMIFA requires the Society to retain as a fund of perpetual duration. In accordance with GAAPUSA, deficiencies of this nature that are reported in unrestricted net assets were \$268 and \$687 as of December 31, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Endowment net assets composition by type of fund as of December 31, 2012:

|                                  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>     |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|------------------|
| Donor-restricted endowment funds | \$ (268)            | \$ 7,070                          | \$ 25,417                         | \$ 32,219        |
| Board-designated endowment funds | 36,553              | -                                 | -                                 | 36,553           |
| Total Funds                      | <u>\$ 36,285</u>    | <u>\$ 7,070</u>                   | <u>\$ 25,417</u>                  | <u>\$ 68,772</u> |

Changes in endowment net assets for the year ended December 31, 2012:

|                                                                | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>     |
|----------------------------------------------------------------|---------------------|-----------------------------------|-----------------------------------|------------------|
| Beginning balance                                              | \$ 27,913           | \$ 5,119                          | \$ 21,944                         | \$ 54,976        |
| Investment return:                                             |                     |                                   |                                   |                  |
| Investment income                                              | 686                 | 584                               | -                                 | 1,270            |
| Net appreciation (realized and<br>change in unrealized)        | 3,899               | 2,623                             | -                                 | 6,522            |
| Total investment return                                        | 4,585               | 3,207                             | -                                 | 7,792            |
| Contributions                                                  | 2,251               | -                                 | 3,473                             | 5,724            |
| Appropriation of endowment<br>assets for expenditure           | (2,095)             | (1,256)                           | -                                 | (3,351)          |
| Transfers to add assets to<br>board-designated endowment funds | 3,631               | -                                 | -                                 | 3,631            |
| Ending balance                                                 | <u>\$ 36,285</u>    | <u>\$ 7,070</u>                   | <u>\$ 25,417</u>                  | <u>\$ 68,772</u> |

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**14. ENDOWMENT (CONTINUED)**

Endowment net assets composition by type of fund as of December 31, 2011:

|                                  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>     |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|------------------|
| Donor-restricted endowment funds | \$ (687)            | \$ 5,119                          | \$ 21,944                         | \$ 26,376        |
| Board-designated endowment funds | <u>28,600</u>       | <u>-</u>                          | <u>-</u>                          | <u>28,600</u>    |
| Total Funds                      | <u>\$ 27,913</u>    | <u>\$ 5,119</u>                   | <u>\$ 21,944</u>                  | <u>\$ 54,976</u> |

Changes in endowment net assets for the year ended December 31, 2011:

|                                                                | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>     |
|----------------------------------------------------------------|---------------------|-----------------------------------|-----------------------------------|------------------|
| Beginning balance                                              | \$ 27,277           | \$ 6,466                          | \$ 21,348                         | \$ 55,091        |
| Investment return:                                             |                     |                                   |                                   |                  |
| Investment income                                              | 630                 | 114                               | -                                 | 744              |
| Net depreciation (realized and<br>change in unrealized)        | <u>(1,715)</u>      | <u>(310)</u>                      | <u>-</u>                          | <u>(2,025)</u>   |
| Total investment return                                        | (1,085)             | (196)                             | -                                 | (1,281)          |
| Contributions                                                  | 675                 | -                                 | 596                               | 1,271            |
| Appropriation of endowment<br>assets for expenditure           | (1,954)             | (1,151)                           | -                                 | (3,105)          |
| Transfers to add assets to<br>board-designated endowment funds | <u>3,000</u>        | <u>-</u>                          | <u>-</u>                          | <u>3,000</u>     |
| Ending balance                                                 | <u>\$ 27,913</u>    | <u>\$ 5,119</u>                   | <u>\$ 21,944</u>                  | <u>\$ 54,976</u> |

**15. 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 2012 and 2011 was \$257 and \$258, respectively.

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**15. EMPLOYEE BENEFIT PLAN (CONTINUED)**

Beginning in 2010, the Society established an Internal Revenue Code Section 457(b) 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 and corresponding liabilities of the plan in the amounts of \$158 and \$97 as of December 31, 2012 and 2011, respectively, are included in investments and in accounts payable in the consolidated statements of financial position. The Society contributed benefits of \$51 and \$50 under this plan for the year ended December 31, 2012 and 2011, respectively.

**16. CONCENTRATIONS**

The Society maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. Effective December 31, 2010, and anticipated through December 31, 2012, all noninterest-bearing transaction accounts are fully insured by the FDIC. The Society has not experienced any losses in such accounts. The Society believes it is not exposed to any significant credit risk on cash.

**17. 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 \$668 and \$691 for 2012 and 2011, respectively. These goods and services were provided at rates consistent with the market rates for not-for-profit organizations.



