

KLEHM ARBORETUM AND BOTANIC GARDEN, INC.

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FINANCIAL REPORT

For the Year Ended October 31, 2013

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS:	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6
Notes to Financial Statements	7-15

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Klehm Arboretum and Botanic Garden, Inc.

We have audited the accompanying financial statements of Klehm Arboretum and Botanic Garden, Inc., which comprise the statement of financial position as of as of October 31, 2013, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Klehm Arboretum and Botanic Garden, Inc. as of October 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Weinberg & Co.

Rockford, Illinois  
May 11, 2014

*Weinberg & Co.*

KLEHM ARBORETUM AND BOTANIC GARDEN, INC.

STATEMENT OF FINANCIAL POSITION  
October 31, 2013

<u>ASSETS</u>	<u>2013</u>	(Memo only) <u>2012</u>
Cash and cash equivalents	\$ 228 604	\$ 81 776
Restricted cash	230 220	193 336
Other receivables	2 889	100 450
Inventory	2 547	3 292
Property and equipment, net of accumulated depreciation	173 696	185 867
Children's garden improvements	-	5 250
Beneficial interest in charitable trust	<u>131 127</u>	<u>129 092</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 769 083</u></b>	<b><u>\$ 699 063</u></b>
<u>LIABILITIES AND NET ASSETS</u>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 3 223	\$ 8 598
Accrued expenses	24 324	19 543
Due to Community Foundation of Northern Illinois	12 725	2 645
Deferred revenue and security deposits	<u>85 746</u>	<u>37 350</u>
<b>Total liabilities</b>	<b><u>126 018</u></b>	<b><u>68 136</u></b>
<b>NET ASSETS:</b>		
Unrestricted:		
Undesignated	331 364	308 499
Board designated	<u>153 784</u>	<u>154 223</u>
<b>Total unrestricted</b>	<b>485 148</b>	<b>462 722</b>
Temporarily restricted	<u>157 917</u>	<u>168 205</u>
<b>Total net assets</b>	<b><u>643 065</u></b>	<b><u>630 927</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 769 083</u></b>	<b><u>\$ 699 063</u></b>

See notes to financial statements.

KLEHM ARBORETUM AND BOTANIC GARDEN, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
For the Year Ended October 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2013</u>	<u>(Memo only) 2012</u>
<b>SUPPORT AND REVENUE:</b>				
Contributions	\$ 86 709	\$ 10 775	\$ 97 484	\$ 119 658
Governmental funding	257 300	-	257 300	336 000
Special events, net of direct expenses of \$54,308 and \$73,134 in 2013 and 2012	48 508	-	48 508	60 404
Program income and rental fees	146 163	-	146 163	178 081
Interest and dividend income	104	128	232	421
Unrealized gain (loss) in beneficial interest in charitable trust	-	7 524	7 524	8 931
Gain on sale of asset	294	-	294	-
Grants	-	-	-	100 000
Net assets released from restrictions:				
Satisfaction of program restrictions	23 226	(23 226)	-	-
Satisfaction of time restrictions	5 489	(5 489)	-	-
<b>Total support and revenue</b>	<u>567 793</u>	<u>(10 288)</u>	<u>557 505</u>	<u>803 495</u>
<b>EXPENSES:</b>				
Program services:				
Education	63 283	-	63 283	55 591
Improvement and maintenance of arboretum and gardens	196 975	-	196 975	265 604
<b>Total program services</b>	260 258	-	260 258	321 195
Resource development	52 237	-	52 237	12 111
Management and general	227 622	-	227 622	342 303
<b>Total expenses</b>	<u>540 117</u>	<u>-</u>	<u>540 117</u>	<u>675 609</u>
Change in net assets	27 676	(10 288)	17 388	127 886
Contribution to Winnebago County Forest Preserve District	(5 250)	-	(5 250)	-
Net assets, beginning of year	<u>462 722</u>	<u>168 205</u>	<u>630 927</u>	<u>503 041</u>
Net assets, end of year	<u>\$ 485 148</u>	<u>\$ 157 917</u>	<u>\$ 643 065</u>	<u>\$ 630 927</u>

See notes to financial statements.

KLEHM ARBORETUM AND BOTANIC GARDEN, INC.

STATEMENT OF CASH FLOWS  
For the Year Ended October 31, 2013

	<u>2013</u>	(Memo only) <u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 17 388	\$ 127 886
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	14 546	22 629
Unrealized(gain)on beneficial interest in charitable trust	(7 524)	(8 931)
Change in assets and liabilities:		
Restricted cash	(36 884)	(129 687)
Other receivables	97 561	(86 812)
Inventory	745	(2 479)
Beneficial interest in charitable trust	5 489	5 481
Accounts payable	(5 375)	2 620
Due to Community Foundation of Northern Illinois	10 080	2 645
Accrued expenses	4 781	(8 989)
Deferred revenue and security deposits	48 396	(21 175)
Gain on sale of asset	<u>(294)</u>	<u>-</u>
<b>Net cash provided by (used for) operating activities</b>	<u>148 909</u>	<u>96 812</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Improvements - Children's garden	-	(5 250)
Proceeds from sale of assets	1 000	-
Purchase of property and equipment	<u>(3 081)</u>	<u>(114 177)</u>
<b>Net cash used for investing activities</b>	<u>(2 081)</u>	<u>(119 427)</u>
Net increase (decrease) in cash and cash equivalents	146 828	(216 239)
Cash and cash equivalents, Beginning	<u>81 776</u>	<u>298 015</u>
Ending	<u>\$ 228 604</u>	<u>\$ 81 776</u>
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH OPERATING ACTIVITIES,</b>		
Support recognized on donated services and other non-cash assets	\$ 23 894	\$ 13 480

See notes to financial statements.

KLEHM ARBORETUM AND BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

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NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

Klehm Arboretum and Botanic Garden, Inc. (Organization) was organized to establish a botanical garden and outdoor education center in cooperation with the Winnebago County Forest Preserve District. KABG's mission is to inspire people through education, environmental experiences and enjoyment as a unique arboretum and botanic garden. The Organization's purpose is to:

- Inspire and educate the public in horticulture and botany through formal and informal programming,
- Preserve and enhance the unique character of the tree and plant collections,
- Promote and grow an inclusive membership organization to support a network of horticultural activities,
- Manage its fund development activities to provide financial self-sufficiency and stability,
- Partner with community to encourage the use of the facilities by individuals and organizations interested in horticultural and environmental activities, and
- Be regarded as a prime catalyst to showcase civic pride.

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in which revenue is recognized when earned and expenses are recorded when incurred and, accordingly, reflect all significant receivables, payables and other liabilities.

Significant accounting policies

Net assets are presented as follows:

Unrestricted net assets - Undesignated net assets are reflective of revenues and expenses associated with the principal programs and activities of the Organization and are not subject to donor-imposed stipulations. The Board of Directors has designated a portion of unrestricted net assets for specific future expenditures and long-term program funding.

Temporarily restricted net assets - Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Permanently restricted net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donor of these assets permit all or part of the income earned in related investments be used for unrestricted or temporarily restricted purposes.

Cash and cash equivalents

The Organization, for purposes of reporting the statement of cash flows, includes all cash accounts which are not subject to withdrawal restrictions, penalties or donor restrictions, and all highly liquid debt instruments purchased with an original maturity of three months or less as cash and cash equivalents.

KLEHM ARBORETUM AND BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

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NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. The Organization reports gifts and cash and other assets as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires; that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions whose restrictions are met in the same year the contributions are recognized are reported as increases in unrestricted net assets. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

The Organization provides for uncollectable amounts on unconditional promises to give using the allowance method. The allowance is based on management's analysis of specific contributions receivable made and any circumstances which may affect the ability of the donors to honor their promise to give. Management deemed no allowance for uncollectable amounts was necessary at October 31, 2013.

Inventory

Inventory is principally items acquired for resale in the Organization's gift shop. It is valued at the lower of cost or market, with cost being determined on the first-in, first-out basis.

Property and equipment

Property and equipment purchased by the Organization is carried at cost. Donated property and equipment is recorded at the estimated fair value at the date of the gift. Depreciation is computed over the estimated useful lives of the assets under the straight-line method. The estimated useful lives of property and equipment for purposes of computing depreciation are as follows:

	<u>Years</u>
Office furniture and fixtures	5-7
Equipment	5-7
Vehicles	5

Maintenance and repairs of property and equipment which do not significantly extend the useful lives of the assets are charged to operations as incurred and major improvements are capitalized. Gains or losses on the disposition of property and equipment are reflected in revenue.



KLEHM ARBORETUM AND BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

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NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated services and other non-cash assets

The Organization will record support for contributed services at their estimated fair value at the date of receipt. Contributed services are recognized if the services (a) create or enhance long-lived assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed services that do not meet these criteria are not recorded.

Donations of investment securities and other noncash assets are recognized as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Donations of long-lived assets with explicit restrictions regarding their use and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent any explicit donor-imposed time requirement, the Organization reports expirations of donor restrictions when the restrictions are fulfilled.

Donated support totaled \$12,324 and \$3,500 for donated services for the years ended October 31, 2013 and 2012, respectively. Donated materials, supplies and equipment totaled \$11,570 and \$9,980 for the years ended October 31, 2013 and 2012, respectively.

Income taxes

The Organization was incorporated in May 1989 as a not-for-profit corporation under the laws of the State of Illinois and has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Organization follows the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at October 31, 2013 and 2012.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. The Organization believes it is no longer subject to income tax examinations for years prior to 2009.

The Organization's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively.

KLEHM ARBORETUM AND BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred revenue and security deposits

Grants and fees collected in advance for future construction projects, program events, educational classes, and building rentals subsequent to October 31 are reflected as deferred revenue. These fees will be reported as revenues upon completion of the project, event or dates of rental. Deferred revenue consists of:

	<u>2013</u>	<u>2012</u>
Grants for future construction projects	\$ 49,646	\$ -
Program events	1,900	1,500
Community Tree Program(CTP)	10,000	20,000
Building rentals	18,600	12,450
Security deposits	<u>5,600</u>	<u>3,400</u>
	<u>\$ 85,746</u>	<u>\$ 37,350</u>

The Organization collects security deposits primarily to hold dates for rental of building or outdoor facility space and to cover potential property damage. The security deposits are refundable, unless the individual or group cancels their date of rental, or damage costs are assessed. Security deposits are recognized as unrestricted revenue upon cancellation of an event.

Governmental funding

The Organization receives funding, under an operating agreement with the Winnebago County Forest Preserve District (the District), to assist in covering operating expenses incurred by the Organization for routine site maintenance and repairs to the grounds and buildings owned by the District and managed by the Organization. The funding received from the District comes primarily from the District's Botanical Garden tax levy, and is typically paid out to the Organization in late June and September each year after the tax is collected. The Organization's funding from the District is considered an "exchange" transaction covering the goods and services incurred by the Organization under the operating agreement and is not classified as contributed support on the statement of activities.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

Advertising

It is the policy of the Organization to expense advertising costs as incurred.

KLEHM ARBORETUM AND BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended October 31, 2012, from which the summarized information was derived.

NOTE 2 - RESTRICTED CASH

Restricted cash consists of the following at October 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Restricted	\$ 76,436	\$ 39,113
Board designated	<u>153,784</u>	<u>154,223</u>
	<u>\$230,220</u>	<u>\$193,336</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at October 31, is summarized as follows:

	<u>2013</u>	<u>2012</u>
Office furniture, fixtures and signage	\$ 211,150	\$ 210,087
Equipment	256,021	259,468
Vehicles	<u>59,052</u>	<u>59,052</u>
	526,223	528,607
Less accumulated depreciation	<u>352,527</u>	<u>342,740</u>
Net book value	<u>\$ 173,696</u>	<u>\$ 185,867</u>

Depreciation expense for the years ended October 31, 2013 and 2012, was \$14,546 and \$22,629, respectively.

NOTE 4 - BENEFICIAL INTEREST IN CHARITABLE TRUST

The Organization is one of the beneficiaries of a charitable trust established under the terms of a donor's will. These terms require the trust to make annual payments of income and a portion of principal to the charitable beneficiaries until 2018. At that time, the trust will terminate and the remaining assets will be distributed among the various beneficiaries in accordance with their respective beneficial interest. The balance reported on the statement of financial position is based upon the present value of the estimated future distributions. To determine the present value of these annual and final distributions, the Organization has applied a discount interest rate factor of 4.5%. Earnings and appreciation on the charitable trust were estimated at a 7.25% combined return on investment. The discount rate and the return on investment are estimates of future events. Actual results could differ materially from these estimates in the near-term future.

KLEHM ARBORETUM AND BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - BENEFICIAL INTEREST IN CHARITABLE TRUST (Continued)

Estimated proceeds to be distributed from the charitable trust are expected as follows:

	<u>2013</u>	<u>2012</u>
Due in one year or less	\$ 6,020	\$ 5,768
Due in one year through five years	125,107	21,669
Due after five years	<u>-</u>	<u>101,655</u>
	<u>\$ 131,127</u>	<u>\$ 129,092</u>

NOTE 5 - SIGNAGE PROJECT

During the year ended October 31, 2012, the Organization was awarded a \$100,000 grant from the Illinois Department of Natural Resources (IDNR) for a signage project. The project was completed by October 31, 2012, at a cost of \$110,022 which was included in property and equipment on the 2012 statement of financial position. The \$100,000 receivable is included in other receivables in the 2012 Statement of Financial Position and as grant revenue in the Statement of Activities for the year ended October 31, 2012.

NOTE 6 - RESTRICTED NET ASSETS

Temporarily restricted net assets are comprised of the following as of October 31:

	<u>2013</u>	<u>2012</u>
<u>Purpose restrictions:</u>		
Assets restricted for future construction	\$ -	\$ 1,456
Memorial gifts restricted for various purposes	6,920	6,920
Maintenance of children's garden	2,598	2,700
Community tree program (CTP)	10,000	20,000
Tree replacement	4,098	4,825
Other	3,174	3,212
<u>Time restrictions,</u>		
Charitable trust distributions due in future periods	<u>131,127</u>	<u>129,092</u>
	<u>\$ 157,917</u>	<u>\$ 168,205</u>

Net assets were released from donor restrictions by incurring expenses satisfying their restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2013</u>	<u>2012</u>
<u>Purpose restrictions accomplished:</u>		
Program events, site maintenance and improvements, and general operations	<u>\$ 23,226</u>	<u>\$ 27,336</u>
<u>Time restrictions expired:</u>		
Passage of specified time - Beneficial interest in charitable trust distributions	<u>\$ 5,489</u>	<u>\$ 5,481</u>

KLEHM ARBORETUM AND BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - BOARD DESIGNATED NET ASSETS

The Organization's board of directors has approved designating a portion of unrestricted net assets for specific uses. The amounts and purposes of these assets at October 31, are as follows:

	<u>2013</u>	<u>2012</u>
Long-term reserves - Board approves specific uses as needed; earnings are available to current year operations	\$ 144,784	\$ 141,631
Arboretum garden improvements	-	3,592
Future purchases of furniture and equipment	<u>9,000</u>	<u>9,000</u>
	<u>\$ 153,784</u>	<u>\$ 154,223</u>

NOTE 8 - SIMPLE IRA PLAN

The Organization has a SIMPLE IRA PLAN covering substantially all employees. Eligible employees are allowed to make voluntary wage deferrals to the plan and the Organization will make matching dollar for dollar employer contributions on these deferrals up to a specified percentage of individual employee compensation. The matching employer contribution was 1% through December 31, 2011, and then was increased to 3% beginning January 1, 2012. Employer-matching contributions are immediately 100% vested. Employer contributions to this plan for the years ended October 31, 2013 and 2012 were \$3,035 and \$5,623, respectively.

NOTE 9 - SUPPORT AND REVENUE CONCENTRATION

The Organization received approximately 44% and 42% of its unrestricted support and revenue from the Winnebago County Forest Preserve District during the years ended October 31, 2013 and 2012, respectively. A significant reduction in the level of this support and revenue, if this were to occur, could have a significant effect on the Organization's activities.

NOTE 10 - DUE TO COMMUNITY FOUNDATION OF NORTHERN ILLINOIS

Klehm entered into an agency endowment agreement with the Community Foundation of Northern Illinois for the Community Tree Program(CTP) endowment fund during September 2011. Fifteen percent of all contributions made to the CTP will be allocated to the CTP endowment fund. The amount due to the CTP endowment fund totaled \$3,645 and \$2,645 at October 31, 2013 and 2012, respectively.

Due to Community Foundation of Northern Illinois at October 31, 2013 also includes \$9080 relating to amounts designated for the Carroll H. Starr Endowment Challenge.

NOTE 11 - KLEHM ARBORETUM AND BOTANICAL GARDEN DEVELOPMENT

The Organization has an agreement with the Winnebago County Forest Preserve District (the District) to develop and maintain an arboretum and botanical garden at the Klehm Forest Preserve. Under the terms of the agreement, the Organization is responsible for raising funds for buildings and gardens and for providing educational programming. Buildings, gardens and other related improvements to the property are transferred to the District when completed. Through October 31, 2013, \$2,364,665 in capital improvements have been constructed and contributed to the District.

KLEHM ARBORETUM AND BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 - FAIR VALUE

ASC Topic 820, "Fair Value Measurements", establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy under ASC Topic 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access as of the measurement date.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Significant unobservable inputs that reflect the Organization's own assumptions, that market participants would use in pricing an asset or liability (including assumptions about risk). Unobservable inputs shall be developed based on the best information available in the circumstances which might include the reporting of the Organization's own data.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at October 31, 2013 and 2012.

Beneficial interest in charitable trust: The fair value of the Organization's beneficial interest in charitable trust is determined by using a discounted cash flow model based on the Organization's current pro-rata beneficial interest percentage of the total fair value of assets held by the trust as of the measurement date. Discounted cash flow is a valuation technique used widely in the industry to value estimated future cash flows to be received over the term of the trust. Note 4 discusses the discount rate used in the discounted cash flow determination.

The following table presents the Organization's approximate fair value hierarchy for the assets measured at fair value on a recurring basis at October 31, 2013:

	<u>Fair Value Measurement Using:</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets measured at fair value on a recurring basis:				
Beneficial interest in charitable trust	<u>\$ 131,127</u>			<u>\$ 131,127</u>

KLEHM ARBORETUM AND BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 - FAIR VALUE (Continued)

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the year ended October 31, 2013:

Balance, beginning of year	\$ 129,092
Recognition of change in estimated discount cash flows	7,793
Distribution payments received	<u>(5,758)</u>
Balance, end of year	<u>\$ 131,127</u>

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 13 - RECLASSIFICATION

Cash and cash equivalents at October 31, 2012 has been reduced by \$100,000 and restricted cash at October 31, 2012 has been increased by the same amount to include cash restricted by the board of directors as part of restricted cash in conformity with the October 31, 2013 presentation.

NOTE 14 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 11, 2014, which is the date these financial statements were available to be issued, and have concluded that there are no significant subsequent events that would require adjustment to or disclosure in the financial statements.