

Lewis Ginter Botanical Garden, Inc.

Combined Financial Statements

March 31, 2016 and 2015



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LEWIS GINTER BOTANICAL GARDEN, INC.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Lewis Ginter Botanical Garden, Inc.
Richmond, Virginia

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Lewis Ginter Botanical Garden, Inc. and related organization (collectively, the "Organization"), which comprise the combined statements of financial position as of March 31, 2016 and 2015, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Lewis Ginter Botanical Garden, Inc. and related organization as of March 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in black ink, appearing to read "Keita", with a stylized flourish at the end.

September 13, 2016
Glen Allen, Virginia

LEWIS GINTER BOTANICAL GARDEN, INC.

Combined Statements of Financial Position
March 31, 2016 and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents:		
Unrestricted	\$ 114,870	\$ 35,406
Temporarily restricted	2,060,725	2,121,819
Unconditional promises to give	93,806	213,502
Accounts and other receivables	10,023	45,102
Inventory, gift shop	303,573	312,448
Prepaid expenses	135,914	28,105
Investments:		
Board designated	5,139,524	5,613,587
Temporarily restricted	2,275,950	3,111,429
Permanently restricted	11,372,146	11,171,165
Real estate with life interest	1,053,534	-
Assets held in trust - deferred compensation plans	81,462	94,175
Assets held in trust - gift annuities	557,984	608,759
Property and equipment, net	<u>22,189,835</u>	<u>23,200,675</u>
Total assets	<u>\$ 45,389,346</u>	<u>\$ 46,556,172</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 21,727	\$ 27,713
Accrued expenses	216,164	136,440
Security deposits and deferred rent	199,071	190,014
Deferred membership revenue	330,867	276,293
Deferred travel, education, and other revenue	29,652	22,405
Real estate with life interest - deferred use revenue	164,300	-
Liability under deferred compensation plans	81,462	94,175
Liability under gift annuities	<u>408,697</u>	<u>421,471</u>
Total liabilities	<u>1,451,940</u>	<u>1,168,511</u>
Net assets:		
Unrestricted:		
Undesignated	21,956,734	22,968,871
Board designated	5,139,524	5,613,587
Temporarily restricted	5,469,002	5,634,038
Permanently restricted	<u>11,372,146</u>	<u>11,171,165</u>
Total net assets	<u>43,937,406</u>	<u>45,387,661</u>
Total liabilities and net assets	<u>\$ 45,389,346</u>	<u>\$ 46,556,172</u>

See accompanying notes to combined financial statements.

LEWIS GINTER BOTANICAL GARDEN, INC.

Combined Statement of Activities
Year Ended March 31, 2016

	<u>Undesignated</u>	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support:					
Public support:					
Contributions	\$ 11,136	\$ -	\$ 2,122,677	\$ 200,981	\$ 2,334,794
Trust income	266,402	-	-	-	266,402
Revenues:					
Memberships	742,895	-	-	-	742,895
Admissions	1,386,626	-	-	-	1,386,626
Educational	265,799	-	-	-	265,799
Sponsorships and special events	203,875	-	164,695	-	368,570
Gift shop and plant sales, net of costs of sales of \$599,188	549,786	-	-	-	549,786
Facility and rental income	594,138	-	36,243	-	630,381
Investment income	24,529	87,840	114,075	-	226,444
Change in value of real estate with life interest	-	-	30,368	-	30,368
Other	24,377	-	50,551	-	74,928
Total revenues, gains and other support	<u>4,069,563</u>	<u>87,840</u>	<u>2,518,609</u>	<u>200,981</u>	<u>6,876,993</u>
Net assets released from restrictions:					
Satisfaction of program restrictions	1,139,691	-	(1,139,691)	-	-
Satisfaction of capital asset acquisition restrictions	466,693	-	(466,693)	-	-
Investment return designated for operations	880,005	(310,268)	(569,737)	-	-
Total net assets released from restrictions	<u>2,486,389</u>	<u>(310,268)</u>	<u>(2,176,121)</u>	<u>-</u>	<u>-</u>

See accompanying notes to combined financial statements.

LEWIS GINTER BOTANICAL GARDEN, INC.

Combined Statement of Activities, Continued
Year Ended March 31, 2016

	<u>Undesignated</u>	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Expenses and losses:					
Program services:					
Operations	\$ 819,684	\$ -	\$ -	\$ -	\$ 819,684
Horticulture	1,696,277	-	-	-	1,696,277
Education	1,212,203	-	-	-	1,212,203
Conservatory	507,065	-	-	-	507,065
Volunteer programs	45,528	-	-	-	45,528
Visitor services	913,881	-	-	-	913,881
Public relations and events	606,299	-	-	-	606,299
Fundraising	243,965	-	-	-	243,965
Development	574,767	-	-	-	574,767
Gift shop	367,319	-	-	-	367,319
Administrative	585,527	-	-	-	585,527
Gifts in kind	2,369	-	-	-	2,369
	<u>7,574,884</u>	-	-	-	7,574,884
Total expenses	7,574,884	-	-	-	7,574,884
Net realized and unrealized loss on investments	(6,795)	251,635	484,420	-	729,260
Loss on gift annuities liability adjustment	-	-	23,104	-	23,104
	<u>7,568,089</u>	<u>251,635</u>	<u>507,524</u>	<u>-</u>	<u>8,327,248</u>
Total expenses and losses	7,568,089	251,635	507,524	-	8,327,248
Change in net assets	(1,012,137)	(474,063)	(165,036)	200,981	(1,450,255)
Net assets at beginning of year	<u>22,968,871</u>	<u>5,613,587</u>	<u>5,634,038</u>	<u>11,171,165</u>	<u>45,387,661</u>
Net assets at end of year	<u>\$ 21,956,734</u>	<u>\$ 5,139,524</u>	<u>\$ 5,469,002</u>	<u>\$ 11,372,146</u>	<u>\$ 43,937,406</u>

See accompanying notes to combined financial statements.

LEWIS GINTER BOTANICAL GARDEN, INC.

Combined Statement of Activities
Year Ended March 31, 2015

	<u>Undesignated</u>	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support:					
Public support:					
Contributions	\$ 51,696	\$ -	\$ 1,434,758	\$ 191,518	\$ 1,677,972
Trust income	243,226	-	-	-	243,226
Revenues:					
Memberships	762,166	-	-	-	762,166
Admissions	1,100,652	-	-	-	1,100,652
Educational	259,784	-	-	-	259,784
Sponsorships and special events	143,972	-	218,249	-	362,221
Gift shop and plant sales, net of costs of sales of \$569,863	499,301	-	-	-	499,301
Facility and rental income	585,423	-	38,257	-	623,680
Investment (loss) income	(286,317)	356,780	161,063	-	231,526
Net realized and unrealized gain on investments	82,721	596,720	1,189,234	-	1,868,675
Gain on fair value of interest rate swap	435	-	-	-	435
Other	46,733	-	43,389	-	90,122
Total revenues, gains and other support	<u>3,489,792</u>	<u>953,500</u>	<u>3,084,950</u>	<u>191,518</u>	<u>7,719,760</u>
Net assets released from restrictions:					
Satisfaction of program restrictions	1,772,753	-	(1,772,753)	-	-
Satisfaction of capital asset acquisition restrictions	1,551,080	-	(1,551,080)	-	-
Investment return designated for operations	<u>4,198,670</u>	<u>(3,653,689)</u>	<u>(544,981)</u>	<u>-</u>	<u>-</u>
Total net assets released from restrictions	<u>7,522,503</u>	<u>(3,653,689)</u>	<u>(3,868,814)</u>	<u>-</u>	<u>-</u>

See accompanying notes to combined financial statements.

LEWIS GINTER BOTANICAL GARDEN, INC.

Combined Statement of Activities, Continued
Year Ended March 31, 2015

	<u>Undesignated</u>	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Expenses and losses:					
Program services:					
Operations	\$ 815,145	\$ -	\$ -	\$ -	\$ 815,145
Horticulture	1,704,456	-	-	-	1,704,456
Education	1,248,236	-	-	-	1,248,236
Conservatory	580,634	-	-	-	580,634
Volunteer programs	40,433	-	-	-	40,433
Visitor services	888,549	-	-	-	888,549
Public relations and events	556,509	-	-	-	556,509
Fund raising	210,311	-	-	-	210,311
Development	690,424	-	-	-	690,424
Gift shop	364,173	-	-	-	364,173
Administrative	901,254	-	-	-	901,254
Gifts in kind	43,498	-	-	-	43,498
	<u>8,043,622</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,043,622</u>
Total expenses	8,043,622	-	-	-	8,043,622
Loss on gift annuities liability adjustment	<u>-</u>	<u>-</u>	<u>23,427</u>	<u>-</u>	<u>23,427</u>
Total expenses and losses	<u>8,043,622</u>	<u>-</u>	<u>23,427</u>	<u>-</u>	<u>8,067,049</u>
Change in net assets	2,968,673	(2,700,189)	(807,291)	191,518	(347,289)
Net assets at beginning of year	<u>20,000,198</u>	<u>8,313,776</u>	<u>6,441,329</u>	<u>10,979,647</u>	<u>45,734,950</u>
Net assets at end of year	<u>\$ 22,968,871</u>	<u>\$ 5,613,587</u>	<u>\$ 5,634,038</u>	<u>\$ 11,171,165</u>	<u>\$ 45,387,661</u>

See accompanying notes to combined financial statements.

LEWIS GINTER BOTANICAL GARDEN, INC.

Combined Statements of Cash Flows
Years Ended March 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (1,450,255)	\$ (347,289)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	1,527,049	1,838,063
Net realized and unrealized losses (gains) on investments	729,260	(1,868,675)
Net reinvested earnings on investments	(74,291)	(72,633)
Change in fair value of interest rate swap	(30,368)	(435)
Endowment contribution	(200,981)	(191,518)
Real estate with life interest	(889,234)	-
Change in value of real estate with life interest	30,368	-
(Increase) decrease in assets:		
Unconditional promises to give	119,696	210,141
Accounts and other receivables	35,079	(455)
Inventory, gift shop	8,875	(11,533)
Prepaid expenses	(107,809)	(4,623)
Increase (decrease) in liabilities:		
Accounts payable	(5,986)	(204,748)
Accrued expenses	79,724	(9,992)
Security deposits and deferred rent	9,057	24,701
Deferred membership revenue	54,574	(19,451)
Deferred travel and education revenue	7,247	15,108
Liability under deferred compensation plans	(12,713)	(551,603)
Net cash used in operating activities	(170,708)	(1,194,942)
Cash flows from investing activities:		
Purchase of property and equipment	(516,209)	(1,588,309)
Sales of investments, net	453,592	3,786,652
Net cash (used in) provided by investing activities	(62,617)	2,198,343

See accompanying notes to combined financial statements.

LEWIS GINTER BOTANICAL GARDEN, INC.

Combined Statements of Cash Flows, Continued
Years Ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from financing activities:		
Assets held in trust - deferred compensation plans	\$ 12,713	\$ 804,104
Assets held in trust - gift annuities	50,775	13,456
Liability under gift annuities	(12,774)	(12,452)
Payment on loan payable	-	(3,001,772)
Settlement of interest rate swap	-	(71,723)
Receipt of endowment contribution	<u>200,981</u>	<u>191,518</u>
Net cash provided by (used in) financing activities	<u>251,695</u>	<u>(2,076,869)</u>
Change in cash and cash equivalents	18,370	(1,073,468)
Cash and cash equivalents:		
Beginning of year	<u>2,157,225</u>	<u>3,230,693</u>
End of year	<u>\$ 2,175,595</u>	<u>\$ 2,157,225</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ -</u>	<u>\$ 97,146</u>
Supplemental disclosure of non-cash information:		
Gift of real estate with life interest	<u>\$ 858,866</u>	<u>\$ -</u>

See accompanying notes to combined financial statements.

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements

1. Summary of Significant Accounting Policies:

Nature of Organization: Lewis Ginter Botanical Garden, Inc. is a Virginia non-stock corporation located in Richmond, Virginia, established by court decree to create, operate, manage and improve the Lewis Ginter Botanical Garden as a public park and botanical garden consistent with the charitable intent expressed under the will of Grace E. Arents. Lewis Ginter Botanical Garden, Inc. is supported through contributions, trust income and grants, in addition to its membership, admissions and income from plant sales, gift shop operations, and similar activities.

During 2000, Lewis Ginter Botanical Garden Foundation was established as a 509(a)(3) supporting organization to exclusively support Lewis Ginter Botanical Garden, Inc. and its operations.

The accompanying combined financial statements include the resources and the financial activities of Lewis Ginter Botanical Garden, Inc. and its related organization, Lewis Ginter Botanical Garden Foundation (collectively, the "Organization"). The activities conducted by the related organization are reflected in the temporarily restricted activities in the accompanying combined financial statements. All significant transactions and accounts are eliminated.

Basis of Accounting: The combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP").

Estimates: The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Organization considers as cash equivalents all short-term, highly liquid investments with maturities of three months or less at date of acquisition.

Classification of Net Assets: The combined financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") accounting guidance for financial statements of not-for-profit organizations, which establishes standards for financial statements issued by nonprofit organizations. It requires that net assets and related revenue and expenses be classified in three classes of net assets – unrestricted, temporarily restricted, and permanently restricted reflected based upon the existence or absence of donor-imposed restrictions. A definition and description of each net asset class follows:

Unrestricted Net Assets: Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets include the revenues and expenses of the primary operations of the Organization. If the Board specifies a purpose where none has been stated by the original donor, such assets are classified as Board designated within unrestricted net assets. Board-designated assets totaled \$5,139,524 at March 31, 2016 and \$5,613,587 at March 31, 2015.

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Classification of Net Assets, Continued:

Temporarily Restricted Net Assets: Net assets that are subject to donor or grant-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets: Net assets that are subject to donor-imposed stipulations that require the Organization maintain them permanently.

Recognition of Contributions and Grants: Contributions and grants are recognized when the donor makes a promise to give to the Organization that is in substance unconditional. All other donor-restricted contributions and grants are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted.

The Organization uses the reserve method of accounting for bad debts. No reserve was considered necessary at March 31, 2016 and 2015.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the combined statements of financial position (See Notes 3 and 6). Certain less marketable investments are generally carried at values determined by the respective investment managers. Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the risks in the near term could materially affect amounts reported on the combined financial statements. Unrealized gains and losses are included in the combined statements of activities.

Concentrations of Credit Risk: Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and unconditional promises to give. The Organization places its cash and cash equivalents with financial institutions located in Richmond, Virginia. At times, these balances are in excess of the FDIC insurance limit.

Promises to give are from individuals, corporations and foundations located primarily in the Richmond metropolitan area. The Organization believes its credit risk related to these promises to give is limited due to the nature of its donors.

Inventory: Inventory is stated at the lower of cost (first-in, first-out basis) or market.

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Real Estate: The investment in real estate is carried at the lower of cost or fair value. Management evaluates the investments for impairment in accordance with GAAP. The Organization did not identify any impairments during 2016.

Property and Equipment: Purchased property and equipment is stated at cost. The Organization follows the practice of capitalizing all material expenditures for property and equipment. Material donated assets are stated at the lower of appraised or market value at the time of the donation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Estimated useful lives by asset class are as follows:

Antiques	Nondepreciable
Buildings	40 years
Leasehold improvements	15 years
Furniture and fixtures	5 years
Equipment	5 years
Library books	Nondepreciable
Master plan development	40 years
Vehicles	3 years

Deferred Financing Costs: Deferred financing costs were amortized over the term of the related borrowings by a method that approximates the effective interest method. The Organization obtained a loan payable during 2010 which resulted in deferred financing costs of \$83,500. During 2015, the Organization paid in full the outstanding loan payable balance of \$3,001,772 and amortized the remaining deferred financing costs of \$71,810.

Development Expenses: Development expenditures relate primarily to the management of membership benefits with goods and services and administration processing provided in return for dues.

Advertising Expenses: All costs related to marketing and advertising are charged to operations as incurred and amounted to \$200,499 in 2016 and \$187,724 in 2015.

Contributed Materials and Services: The value of contributed materials and the value of contributed services that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individuals possessing those skills, and would typically need to be purchased if they had not been contributed, amounted to \$2,369 in 2016 and \$43,498 in 2015 and have been recognized in the combined financial statements. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs, campaign solicitations and various committee assignments. The value of these services are not recognized in the combined financial statements, but are estimated by management to amount to \$726,737 in 2016 and \$662,197 in 2015.

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Tax Status: Lewis Ginter Botanical Garden, Inc. is exempt from income taxes under Section 509(a)(2) of the Internal Revenue Code, and Lewis Ginter Botanical Garden Foundation is exempt from income taxes under Section 509(a)(3) of the Internal Revenue Code. Lewis Ginter Botanical Garden, Inc. and Lewis Ginter Botanical Garden Foundation have been determined to be charitable organizations which qualifies contributions, bequests, and legacies as deductions by the donor for income, estate and gift tax purposes.

Management has evaluated the effect of guidance surrounding uncertain income tax positions and concluded that the Organization has no significant combined financial statement exposure to uncertain income tax positions at March 31, 2016 and 2015. The Organization is not currently under audit by any tax jurisdiction.

Reclassification: Certain prior year balances have been reclassified to conform with the current year presentation.

Subsequent Events: Management has evaluated subsequent events through September 13, 2016, the date the combined financial statements were available to be issued, and has determined there are no subsequent events to be reported in the accompanying combined financial statements.

2. Unconditional Promises to Give:

At March 31, 2016 and 2015, unconditional promises to give were as follows:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 85,000	\$ 140,195
Receivable in two to three years	9,000	75,000
	<u>94,000</u>	<u>215,195</u>
Less discount (2.20% in 2016 and 2.31% in 2015)	<u>194</u>	<u>1,693</u>
Total unconditional promises to give	<u>\$ 93,806</u>	<u>\$ 213,502</u>

Unconditional promises to give have been recognized as temporarily restricted net assets. Uncollectible promises are expected to be insignificant.

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

3. Investments:

At March 31, 2016 and 2015, the carrying value and market value of investments were as follows:

	2016		2015	
	Cost Value	Market Value	Cost Value	Market Value
Cash and cash equivalents	\$ 450,114	\$ 450,114	\$ 207,470	\$ 207,470
Equities	2,213,375	5,100,326	2,284,321	5,354,808
Fixed income	1,566,182	1,823,530	1,684,124	1,944,423
Richmond Fund	<u>11,024,995</u>	<u>11,413,650</u>	<u>10,991,095</u>	<u>12,389,480</u>
	<u>\$ 15,254,666</u>	<u>\$ 18,787,620</u>	<u>\$ 15,167,010</u>	<u>\$ 19,896,181</u>

The Organization invests its assets to preserve the purchasing power of the principal, and to earn a fair return relative to the risks of investing under the overall balanced approach to include cash equivalents, equities, and fixed income securities. A reasonable time frame is generally considered a full market or economic cycle, or a three- to five-year period. Due in part to the University of Richmond's (the "University") performance record in accomplishing these objectives with its own endowment, in 2011, the Organization entered into an investment partnership with the University called The Richmond Fund, L.P. (the "Richmond Fund"). The general partner of the Richmond Fund is the Richmond Fund Management Company, LLC, a subsidiary of Spider Management Company, LLC ("SMC"), the investment company for the University's endowment. A rate of return agreement is used to equalize the quarterly rate of return of the University's pooled endowment managed by SMC and the Richmond Fund's rate of return.

The Organization's investment in the Richmond Fund amounted to \$11,413,650 at March 31, 2016 and \$12,389,480 at March 31, 2015. The asset allocation of the Richmond Fund at March 31, 2016 is as follows:

Assets	Allocation
Equity	47.6 %
Private equity and venture capital	16.2
Credit	12.5
Multi-strategy	10.1
Real assets	6.5
Real estate	4.0
Cash	<u>3.1</u>
	<u>100.0 %</u>

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

3. **Investments, Continued:**

Under the Organization's endowment spending policy, a percentage of the trailing three-year average of the December 31st fair market value of General Endowment, as well as the restricted endowments, was appropriated to support current operations. The endowment draw percentage for the General Endowment in 2015-16 was 5%, and for the restricted endowments, including the Greenhouse Structure Endowment, was 4%.

4. **Grace E. Arents Trust:**

The Organization was established by court decree to carry out the charitable intent of a trust under the will of Grace E. Arents. Lewis Ginter Botanical Garden, Inc. received \$266,402 in 2016 and \$243,226 in 2015 in bequests from the Grace E. Arents Trust under the will of Grace E. Arents. Based upon unaudited information from the trustee, assets and invested income in the Grace E. Arents Trust account carried a cost value of \$5,232,457 and a market value of \$5,244,371 at March 31, 2016. At March 31, 2015, the account carried a cost value of \$5,538,233 and a market value of \$5,717,009. The assets of the Grace E. Arents Trust are not included in the accompanying combined financial statements.

5. **Real Estate with Life Interest:**

As part of a life estate, the Organization was gifted approximately 80 acres of real estate in Rockville, Virginia. The deed of gift was dated July 20, 2015 and the Organization valued the real estate at \$1,053,534. The gift included use restrictions on the property in the form of maintaining the residence and grounds located on the property including certain gardens, nature trails, and the habitat of indigenous animals and wildlife. The Organization entered into a lease agreement for the property less the personal residence used by the donors, and are responsible for maintenance and repair of the leased premises in its current physical condition in lieu of rental payments. Under the lease, the Organization is not allowed to use the property for public purposes, unless otherwise approved by the lessors. The Organization recognized \$194,668 at the date of gift as deferred revenue for the use obligation of the leased residence. The use obligation amounted to \$164,300 as of March 31, 2016.

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

6. Fair Value Measurements:

FASB has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal and most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The levels of the hierarchy are defined as follows:

Level 1 – Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 – Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets and liabilities carried or disclosed at fair value:

Cash and cash equivalents: Valued at the realizable cash value equivalent to the specific sum of cash held by the Organization at year end.

Equity and fixed income funds: Valued at the net asset value ("NAV") of shares held of the funds by the Organization at year end. The equity fund allocates assets across a broad spectrum of equity strategies, including common stock of U.S. companies and other equity securities of foreign companies in both developed and emerging markets. The fixed income fund allocates assets across a broad spectrum of fixed income sectors, including investing directly or indirectly in dollar-denominated investment grade bonds and other fixed income securities in an attempt to outperform the U.S. bond market. As of March 31, 2016 and 2015, the equity and fixed income funds have no unfunded commitments and can be redeemed within 30 calendar days upon notice with no other redemption restrictions.

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

6. Fair Value Measurements, Continued:

Richmond Fund: Valued by the general partner based on several criteria established in the Richmond Fund agreement. The Richmond Fund operates as a fund of funds and as such the general partner reviews the fair values of each underlying fund based on available information. The Richmond Fund undergoes semi-annual independent audit. Withdrawals from the Richmond Fund are limited to an amount not to exceed 10% of its capital account each quarter by informing the Richmond Fund within 60 days of the redemption date. The Organization must maintain a capital account balance of \$5 million for a period of five years from entering the Richmond Fund (March 31, 2011). The Organization values its investment in the Richmond Fund using NAV as a practical expedient.

Unconditional promises to give: Valued at the original gift amount, less payments and a discount to account for payments expected in future periods beyond one year.

Assets held in trust: Valued at the sum of underlying securities in the trust vehicle, which are valued at the closing price reported on the active market on which the individual securities are traded.

Liability under deferred compensation plans: Valued at the fair value of the related asset.

Liability under gift annuities: Valued at the sum of estimated future cash flows calculated using observable inputs including the IRC 7520 rate and the Internal Revenue Service mortality tables.

In May 2015, FASB issued Accounting Standards Update (“ASU”) No. 2015-07, “Disclosure for Investments in Certain Entities that Calculated Net Asset Value per Share (or Its Equivalent)”, which eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured using net asset value per share as a practical expedient. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016 with early adoption permitted. The Organization has elected to early adopt this ASU, and the adoption of this ASU is reflected in the fair value hierarchy table below where investments using NAV per share as a practical expedient are excluded from the categorization in the fair value hierarchy.

The following table summarizes investments measured at fair value based on NAV per share as of March 31, 2016:

<u>Investment</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
The Richmond Fund	\$11,413,650	No	Quarterly	60 calendar days advance written notice
The Commonfund	\$6,923,856	No	Daily	30 calendar days advance written notice

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

6. Fair Value Measurements, Continued:

The following table summarizes investments measured at fair value based on NAV per share as of March 31, 2015:

<u>Investment</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
The Richmond Fund	\$12,389,480	No	Quarterly	60 calendar days advance written notice
The Commonfund	\$7,299,231	No	Daily	30 calendar days advance written notice

Assets and liabilities measured at fair value on a recurring basis at March 31, 2016 include the following:

	<u>Fair Value Using</u>			<u>Asset/Liabilities at Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Investments:				
Cash and cash equivalents	\$ 450,114	\$ -	\$ -	\$ 450,114
Unconditional promises to give	-	-	93,806	93,806
Assets held in trust	-	639,446	-	639,446
Total assets in the fair value hierarchy	<u>\$ 450,114</u>	<u>\$ 639,446</u>	<u>\$ 93,806</u>	1,183,366
Investments measured at NAV				<u>18,337,506</u>
Total assets at fair value				<u>\$ 19,520,872</u>
Liabilities:				
Liability under deferred compensation plans	\$ -	\$ 81,462	\$ -	\$ 81,462
Liability under gift annuities	-	408,697	-	408,697
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 490,159</u>	<u>\$ -</u>	<u>\$ 490,159</u>

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

6. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at March 31, 2015 include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Cash and cash equivalents	\$ 207,470	\$ -	\$ -	\$ 207,470
Unconditional promises to give	-	-	213,502	213,502
Assets held in trust	-	702,934	-	702,934
Total assets in the fair value hierarchy	\$ 207,470	\$ 702,934	\$ 213,502	1,123,906
Investments measured at NAV				19,688,711
Total assets at fair value				\$ 20,812,617
Liabilities:				
Liability under deferred compensation plans	\$ -	\$ 94,175	\$ -	\$ 94,175
Liability under gift annuities	-	421,471	-	421,471
Total liabilities at fair value	\$ -	\$ 515,646	\$ -	\$ 515,646

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

6. Fair Value Measurements, Continued:

The following table provides reconciliation between the beginning and ending balances of assets measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3):

	Unconditional Promises to Give
Balance at April 1, 2014	\$ 423,643
New pledges	66,545
Payments	(280,000)
Writeoffs	(2,125)
Change in discount	5,439
Balance at March 31, 2015	213,502
New pledges	27,000
Payments	(142,195)
Writeoffs	(6,000)
Change in discount	1,499
Balance at March 31, 2016	\$ 93,806

7. Property and Equipment:

At March 31, 2016 and 2015, property and equipment consisted of the following:

	2016	2015
Antiques	\$ 517,746	\$ 504,721
Building and ground improvements	45,885,371	45,575,565
Furniture and fixtures	2,019,800	1,994,790
Equipment	1,605,876	1,585,602
Library books	57,513	57,513
Master plan	1,009,435	869,284
Vehicles	108,949	101,006
	51,204,690	50,688,481
Less accumulated depreciation	(29,014,855)	(27,487,806)
Net property and equipment	\$ 22,189,835	\$ 23,200,675

Depreciation expense amounted to \$1,527,049 in 2016 and \$1,766,253 in 2015.

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

8. Line of Credit:

The Organization has a \$500,000 revolving line of credit (the "Line") with a commercial bank which expires on December 5, 2016. The Line is unsecured with a negative pledge on substantially all of the Organization's assets and requires monthly interest payments at the one-month London Interbank Offered Rate ("LIBOR") plus 1.75% (2.19% at March 31, 2016 and 1.93% at March 31, 2015). There was no balance outstanding at March 31, 2016 and 2015.

9. Loan Payable:

During 2011, the Organization obtained a tax-exempt term loan (the "Loan") from a commercial bank with an original balance of \$3,300,000 and an amortization period of up to 25 years. The Loan was payable in monthly installments of approximately \$17,400 and bore interest at the sum of 68% of the one-month LIBOR plus 65% of 2%, subject to a floor of 2%. The Loan was unsecured with a negative pledge on substantially all of the Organization's assets. The Loan and interest rate swap (see below) were paid in full during 2015.

Interest Rate Swap: The Organization entered into an interest rate swap agreement on September 30, 2010. The notional amount was 70% of the balance of the Loan payable, mentioned above. Under this swap agreement, the Organization paid a fixed rate of 3.05% and receives a variable rate of 68% of LIBOR plus 1.3%. The change in the fair value of the interest rate swap was recognized as a yield adjustment and was included as gain in the fair value of the interest rate swap in the accompanying combined statements of activities to reflect the fair value of the interest rate swap and was settled with a payment of \$71,723 during 2015 as part of paying the loan payable in full.

FASB guidance requires the recognition of all derivative instruments as either assets or liabilities at fair value in the statements of financial position. In accordance with FASB guidance, the Organization designated the interest rate swap as a cash flow hedge of variable-rate borrowings.

Cash Flow Hedges: For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of the change in net assets in the same period or periods during which the hedged transaction affects net assets. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are also recognized in current change in net assets.

The effect on the Organization's combined financial statements of gains and losses on derivative instruments designated in cash flow hedging relationships amounted to a gain of \$435 for the year ended March 31, 2015. During 2015, the interest rate swap contract was determined to be effective.

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

10. Restrictions on Assets:

At March 31, 2016 and 2015, temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Annual fund gifts	\$ 450,114	\$ 207,470
Endowment fund income	1,680,988	2,757,154
Real estate with life interest	889,234	-
Employee benefits	142,914	148,810
Gift annuities	149,287	187,288
Capital improvements	1,417,021	1,555,585
Ethel C. Kelly Bequest	<u>739,444</u>	<u>777,731</u>
	<u>\$ 5,469,002</u>	<u>\$ 5,634,038</u>

Permanently restricted net assets consist of endowment fund investments to be held indefinitely, the income from which is expended to support the activities of the Organization (see Note 11).

11. Endowment Funds:

There are seven endowment funds at the Organization. These endowment funds were established for a variety of purposes. The endowment funds include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization 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 funds that are not classified as permanently restricted net assets are classified as temporarily restricted net assets until those amounts appropriated for expenditure are disbursed in accordance with the donor restrictions in a manner consistent with the standard of prudence prescribed by UPMIFA.

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

11. Endowment Funds, Continued:

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate funds in the endowment funds designated by the Board of Directors:

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

Return Objectives and Risk Parameters: The objective of the Organization's investment policy is to preserve the purchasing power of the principal, and to earn a return relative to the risks of investing under an overall balanced approach to include cash equivalents, fixed income securities, and equities. A reasonable time frame to achieve these objectives is generally considered a full market or economic cycle, or a three to five-year time period.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Organization 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 Organization 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. The following represents the target allocation of asset types through November 9, 2015:

	<u>Minimum</u>	<u>Maximum</u>
Fixed income	25%	50%
Equities	50%	75%
Cash equivalents	5%	30%

From November 9, 2015 onward, the target allocation of asset types is as follows:

	<u>Minimum</u>	<u>Maximum</u>
Fixed income	25%	60%
Equities	30%	75%
Alternative investments*	5%	20%
Cash equivalents	0%	30%

*Can include, but are not limited to marketable alternative strategies including: hedge funds, private capital, energy and natural resources, private equity real estate, and distressed debt.

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

11. Endowment Funds, Continued:

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

The Organization has a policy of appropriating for expenditure each year four percent of the endowment funds' average fair value. The average fair value is determined by calculating a trailing three-year average as of the calendar year-end preceding the fiscal year ended. In establishing this policy, the Organization considered the long-term expected return on the endowments. Accordingly, over the long term, the Organization expects the current spending policy to allow the endowments to continue to grow at an average of 3 – 4 percent annually.

Funds with Deficits: From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or the UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were (\$3,905) as of March 31, 2016 and were absorbed by the board designated investments within the combined statements of financial position. There were no endowment funds with deficiencies of this nature as of March 31, 2015.

Endowment net asset composition by type of fund was as follows as of March 31, 2016:

	Unrestricted		Temporarily	Permanently	
	Undesignated	Designated	Restricted	Restricted	Total
Donor-restricted endowment funds	\$ (3,905)	\$ -	\$ 1,680,988	\$ 11,372,146	\$ 13,049,229
Board-designated endowment funds	-	5,139,524	-	-	5,139,524
	<u>\$ (3,905)</u>	<u>\$ 5,139,524</u>	<u>\$ 1,680,988</u>	<u>\$ 11,372,146</u>	<u>\$ 18,188,753</u>

Endowment net asset composition by type of fund was as follows as of March 31, 2015:

	Unrestricted		Temporarily	Permanently	
	Undesignated	Designated	Restricted	Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 2,757,154	\$ 11,171,165	\$ 13,928,319
Board-designated endowment funds	-	5,613,587	-	-	5,613,587
	<u>\$ -</u>	<u>\$ 5,613,587</u>	<u>\$ 2,757,154</u>	<u>\$ 11,171,165</u>	<u>\$ 19,541,906</u>

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

11. Endowment Funds, Continued:

Changes in endowment net assets were as follows for the year ended March 31, 2016 and 2015:

	Unrestricted Undesignated	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
Net assets, April 1, 2014	\$ -	\$ 8,313,776	\$ 2,086,406	\$ 10,979,647	\$ 21,379,829
Investment income:					
Investment income	-	381,105	161,063	-	542,168
Unrealized gain on investments, net	-	596,720	133,333	-	730,053
Realized gain on investments, net	-	-	1,055,901	-	1,055,901
Fees	-	(24,325)	(134,568)	-	(158,893)
Total investment income	-	953,500	1,215,729	-	2,169,229
New gifts	-	-	-	191,518	191,518
Appropriations for expenditure	-	(3,653,689)	(544,981)	-	(4,198,670)
Net assets, March 31, 2015	-	5,613,587	2,757,154	11,171,165	19,541,906
Investment income:					
Investment income	-	107,814	114,075	-	221,889
Unrealized loss on investments, net	(3,905)	(251,635)	(1,081,358)	-	(1,336,898)
Realized gain on investments, net	-	-	593,033	-	593,033
Fees	-	(19,974)	(132,179)	-	(152,153)
Total investment income	(3,905)	(163,795)	(506,429)	-	(674,129)
New gifts	-	-	-	200,981	200,981
Appropriations for expenditure	-	(310,268)	(569,737)	-	(880,005)
Net assets, March 31, 2016	\$ (3,905)	\$ 5,139,524	\$ 1,680,988	\$ 11,372,146	\$ 18,188,753

12. Commitments and Contingencies:

The Organization has a perpetual lease on property willed to the City of Richmond (the "City"). The City was directed by Grace E. Arents, under her will, to establish a botanical garden and public park on the property. The lease is conditional upon the Organization maintaining the property as a botanical garden and public park; no other consideration is required under the lease.

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

12. Commitments and Contingencies, Continued:

From time to time, the Organization is involved in litigation arising from the normal course of business. The Organization believes it has sufficient insurance coverage to cover any potential losses incurred.

The Organization also leases a postage meter under an operating lease. The lease requires monthly payments of \$181 and expires in August 2018. Future minimum lease payments under the lease are as follows:

<u>Year Ending March 31,</u>	<u>Amount</u>
2017	\$ 2,172
2018	<u>814</u>
	<u>\$ 2,986</u>

Rental expense on operating leases amounted to \$2,172 for the years ended March 31, 2016 and 2015.

13. Retirement Plan:

The Organization has a defined contribution retirement plan covering all eligible employees. Contributions are made only by the Organization and are discretionary as determined by the Board of Directors annually. The Organization made contributions of \$69,642 in 2016 and \$74,664 in 2015.

14. Deferred Compensation Plans:

The Organization established deferred compensation plans for certain key employees under Section 457(b) and 457(f) of the Internal Revenue Code. The Organization contributes to the plans in accordance with Internal Revenue Service guidelines.

Under the 457(b) plans, the Organization will contribute annually the maximum permitted by IRS regulations until the key employees' retirement. The Organization contributed \$18,000 to these plans during 2016 and \$34,482 to these plans during 2015.

Under the 457(f) plan, the Organization made a one-time contribution of \$667,500 (funded by a restricted gift) to a trust, which will be invested and used to fund the plan's liability. The contribution and related investment income was earned by a key employee over approximately a three-year period, beginning December 29, 2011. On March 31, 2015, the trust was closed and subsequently the proceeds paid to the key employee.

LEWIS GINTER BOTANICAL GARDEN, INC.

Notes to Combined Financial Statements, Continued

14. **Deferred Compensation Plans, Continued:**

The balance in the deferred compensation plans' assets amounted to \$81,462 at March 31, 2016 and \$94,175 at March 31, 2015. The deferred compensation plans' liabilities amounted to \$81,462 at March 31, 2016 and \$94,175 at March 31, 2015.

15. **Guarantees:**

Pursuant to its Articles of Incorporation, the Organization has certain obligations to indemnify its officers and directors for certain events or occurrences that happen by reason of the fact that the officer or director is, was, or has agreed to serve as an officer or director of the Organization. The term of the indemnification period is for the officer's or director's lifetime. The maximum liability under these obligations is limited by the Code of Virginia. In addition, the Organization's insurance policies serve to limit its exposure.

16. **New Accounting Guidance**

In August 2016, FASB issued ASU No. 2016-14, "Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities", which both simplifies certain aspects of reporting required by not-for-profit organizations and increases disclosures with a goal to improve the usefulness of not-for-profit financial statements to the various stakeholders, including management, directors, lenders, and donors. Key changes include the following:

- Replaces the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two new classes of net assets—net assets with donor restrictions and net assets without donor restrictions
- Changes the net asset classification of the underwater amounts of donor-restricted endowment funds to be shown as a component of net assets with donor restrictions and requires additional disclosures for underwater endowment funds
- Requires all not-for-profits to provide expenses by nature and function
- Requires expansive disclosures (both quantitative and qualitative) of information about liquidity and availability of resources

The amendments in this ASU are effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Organization has elected not to early adopt this ASU and intends to adopt it prior to the required transition date.