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Board of Trustees
Minnesota Landscape Arboretum Foundation
Chaska, Minnesota

We have audited the financial statements of Minnesota Landscape Arboretum Foundation (the Foundation) for the year ended June 30, 2016, and have issued our report thereon dated October 24, 2016. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Foundation are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2016.

We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were valuation of investments, discount rates used in present value calculations, allowance for doubtful accounts, and the allocation of functional expenses.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. A passed adjustment of \$37,424 was made to increase investments and investment income based on the final investment results. The gain is reflected in the Foundation's internal August 2016 financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Corrected misstatements

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated October 24, 2016.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Other information in documents containing audited financial statements

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

This information is intended solely for the use of the audit committee, board of trustees, and management of Minnesota Landscape Arboretum Foundation, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 24, 2016

MINNESOTA LANDSCAPE ARBORETUM FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

**MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Minnesota Landscape Arboretum Foundation
Chaska, Minnesota

We have audited the accompanying financial statements of Minnesota Landscape Arboretum Foundation, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 a basis for our audit opinion.

Board of Trustees
Minnesota Landscape Arboretum Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota Landscape Arboretum Foundation as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 24, 2016

MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,984,925	\$ 49,097
Donated Securities	3,117	-
Pledges Receivable, Current	990,194	1,707,633
Due from University of Minnesota	42,153	116,323
Due from the State of Minnesota	2,970	6,787
Total Current Assets	3,023,359	1,879,840
Long-Term Pledges Receivable, Current (Net of \$54,604 and \$52,537 of Present Value Discount in 2016 and 2015, Respectively)	814,338	780,500
Investments	136,310	444,069
Investments Designated and Restricted for Endowments	32,560,639	32,725,627
Total Assets	\$ 36,534,646	\$ 35,830,036
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 65,495	\$ 68,214
Interest Payable	81,533	90,217
Current Portion of Land Payable	253,426	244,742
Deferred Membership	775,453	736,963
Total Current Liabilities	1,175,907	1,140,136
Land Payable	2,044,436	2,297,862
Total Liabilities	3,220,343	3,437,998
NET ASSETS		
Unrestricted	1,047,841	-
Temporarily Restricted	9,526,095	10,979,918
Permanently Restricted	22,740,367	21,412,120
Total Net Assets	33,314,303	32,392,038
Total Liabilities and Net Assets	\$ 36,534,646	\$ 35,830,036

See accompanying Notes to Financial Statements.

**MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016				2015			
	Unrestricted	Temporarily	Permanently	Total	Unrestricted	Temporarily	Permanently	Total
		Restricted	Restricted			Restricted	Restricted	
REVENUE, GAINS, AND OTHER SUPPORT								
Contributions	\$ 4,766,905	\$ 1,632,288	\$ 1,015,019	\$ 7,414,212	\$ 2,279,310	\$ 4,946,466	\$ 782,245	\$ 8,008,021
Membership Dues	1,502,855	-	-	1,502,855	1,289,239	-	-	1,289,239
Auxiliary Income	190,953	-	-	190,953	178,348	-	-	178,348
Other Income	53,600	-	-	53,600	29,167	-	-	29,167
Investment Income, Net of Fees	(196)	(1,418)	-	(1,614)	7,925	72,839	-	80,764
Net Unrealized and Realized Gain on Investments	33,226	430,427	-	463,653	137,265	1,447,356	-	1,584,621
Change in Value of Charitable Lead Annuity Trust	-	-	-	-	-	-	-	-
Reclassifications and Fund Transfers	11,905	(325,133)	313,228	-	(170,145)	(80,116)	250,261	-
Release from Restrictions	3,189,987	(3,189,987)	-	-	8,813,432	(8,813,432)	-	-
Total Revenue, Gains, and Other Support	9,749,235	(1,453,823)	1,328,247	9,623,659	12,564,541	(2,426,887)	1,032,506	11,170,160
GRANTS AND EXPENSES								
University of Minnesota	7,128,575	-	-	7,128,575	11,367,312	-	-	11,367,312
University of Minnesota - Land Payable Interest	81,533	-	-	81,533	90,217	-	-	90,217
University of Minnesota - Fund Raising	755,308	-	-	755,308	834,359	-	-	834,359
University of Minnesota Foundation - Business Service Fee	162,377	-	-	162,377	162,222	-	-	162,222
Improvements	400,635	-	-	400,635	386,243	-	-	386,243
Auxiliary	103,630	-	-	103,630	106,506	-	-	106,506
Other	69,336	-	-	69,336	64,980	-	-	64,980
Total Grants and Expenses	8,701,394	-	-	8,701,394	13,011,839	-	-	13,011,839
CHANGE IN NET ASSETS	1,047,841	(1,453,823)	1,328,247	922,265	(447,298)	(2,426,887)	1,032,506	(1,841,679)
Net Assets - Beginning of Year	-	10,979,918	21,412,120	32,392,038	447,298	13,406,805	20,379,614	34,233,717
NET ASSETS - END OF YEAR	\$ 1,047,841	\$ 9,526,095	\$ 22,740,367	\$ 33,314,303	\$ -	\$ 10,979,918	\$ 21,412,120	\$ 32,392,038

See accompanying Notes to Financial Statements.

MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 922,265	\$ (1,841,679)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Net Unrealized and Realized Gain on Investments	(463,653)	(1,584,621)
Noncash Contributions, Primarily Investment Securities	(231,878)	(849,732)
Contributions Received, Held for Long-Term Investment	(1,015,019)	(782,245)
Changes in Operating Assets and Liabilities:		
Donated Securities	(3,117)	5,842
Pledges Receivable	683,601	(892,985)
Accounts Payable	(2,719)	61,087
Due to/from University of Minnesota	74,170	212,746
Due from the State of Minnesota	3,817	(6,787)
Interest Payable	(8,684)	(8,387)
Deferred Membership Revenue	38,490	155,684
Net Cash Used by Operating Activities	(2,727)	(5,531,077)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	1,403,590	3,199,017
Purchase of Investments	(235,312)	(134,649)
Net Cash Provided by Investing Activities	1,168,278	3,064,368
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on Land Payable	(244,742)	(236,355)
Contributions Received, Held for Long-Term Investment	1,015,019	782,245
Net Cash Provided by Financing Activities	770,277	545,890
NET INCREASE (DECREASE) IN CASH	1,935,828	(1,920,819)
Cash - Beginning of Year	49,097	1,969,916
CASH - END OF YEAR	\$ 1,984,925	\$ 49,097

See accompanying Notes to Financial Statements.

MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Minnesota Landscape Arboretum Foundation (the Foundation) was incorporated as a nonprofit corporation in the state of Minnesota in 1970 and operated exclusively for the benefit of the Minnesota Landscape Arboretum of the University of Minnesota (the Arboretum).

The Auxiliary is a support group within the Foundation. The Auxiliary holds fund raising events for the benefit of the Foundation such as spring plant sales, summer garden tours, frog hollow projects, fall harvest, quilt raffle, and holiday sale.

Financial Statement Presentation

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board.

Net assets and revenues, gains and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of trustees has discretionary control. Designated amounts represent those revenues, which the board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor-imposed restrictions, which will be satisfied by actions of the Foundation or passage of time.

Permanently Restricted – Those resources subject to a donor-imposed restriction that they be maintained permanently by the Foundation. The donors of these resources permit the Foundation to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

Revenue received without donor restriction is reported as an increase in unrestricted net assets. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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. Restricted contributions whose restrictions are met in the same reporting period are recorded as restricted support and as net assets released from restriction.

MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

The Foundation maintains its cash accounts at one financial institution. At times throughout the year, the Foundation's cash and equivalents balances may exceed amounts insured by the Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity. There were no allowances for uncollectible contributions as of June 30, 2016 and 2015.

Contributions to be received after one year are discounted using a rate of 4%. Amortization of discounts is included in contribution revenue.

Contributed Services

A number of volunteers have made significant donations of time to program, fundraising, and support functions. In addition, the Arboretum provides various administrative and support services to the Foundation. The value of the contributed does not meet the criteria for recognition of contributed services and, accordingly, is not reflected in the accompanying financial statements.

Investments

Investments are carried at fair value. Investments are subject to market fluctuations. All investments are held by the University of Minnesota Foundation.

Realized and unrealized gains and losses are recognized in the period in which they occur and are recorded in the statements of activities. Investment income is presented net of investment management fees. Investment income is pooled and allocated to unrestricted and temporarily net assets balances in proportion to their average monthly equity in the pooled investment portfolio.

It is the Foundation's policy to sell donated securities as soon as possible after receipt. Donated securities are recorded at fair value as determined on the date of donation.

Property and Equipment

The Arboretum buildings, which are used as an education and research center, are owned by the University of Minnesota. Accordingly, expenditures by the Foundation for property additions and improvements are expensed as incurred. Additions to this building and the other Arboretum facilities are generally financed from contributions received by the Foundation.

MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Membership Fees

Membership fees are recognized as revenue pro rata over the one-year period for which memberships are effective. Deferred membership revenue is the unamortized portion of membership fees to be recognized as revenue in the subsequent year.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Development costs as shown in the accompanying statements of activities represent the Foundation's cost of fund-raising activities.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws. The Foundation is a public charity under Internal Revenue Code Section 509(a)(1) and contributions to the Foundation qualify as a charitable tax deduction by the contributor. The Foundation assesses any uncertain tax provisions and, if necessary, would record a tax asset or liability, and the related income tax expense, for any uncertain tax provisions. The Foundation does not have any uncertain tax positions or unrelated business income. The Foundation's tax returns are subject to review and examination by federal and state authorities.

Accounting Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Fair Value Measurement

The Foundation measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Foundation may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

The inputs used to measure fair value into the following three categories:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that Foundation has the ability to access as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the Foundation's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

Accounting standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Foundation carries all non-publicly traded equity securities at the lower of cost or market unless the election under this accounting standard has been made. To date the Foundation has elected to carry all non-publicly traded equity securities at fair value. The Foundation may elect to measure newly acquired financial instruments at fair value in the future.

Concentrations of Credit Risk Due to Pledges Receivable

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of pledges receivable. Management believes concentrations of credit risk with respect to pledges receivable are limited due to their nature and contributors.

Reclassifications and Transfers

The Foundation raises money for a variety of projects such as named buildings or gardens where the donor agreements stipulate that any funds remaining after the project is completed are to be held as an endowment for future maintenance of the facility and grounds as determined by the Arboretum. Prior to completion of the project these funds are treated as temporarily restricted as the amounts are available for project costs. Upon completion of the project any residual funds are transferred to endowment funds in accordance with the donor agreements. Reclassification and fund transfers were made in the amount of \$313,228 and \$250,261 during June 30, 2016 and 2015, respectively, primarily as a result of residual project funds transferred to endowment funds.

Subsequent Events

The Foundation has evaluated events and transactions for potential recognition or disclosure in these financial statements through October 24, 2016, the date the financial statements were available to be issued.

**MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 2 AFFILIATION WITH THE UNIVERSITY OF MINNESOTA

Support Services

The Foundation is one of the three foundations officially recognized by the University of Minnesota Board of Regents to receive gifts on behalf of the University of Minnesota (the University). The Foundation also provides financial support to the University and reimburses the University for certain operating expenses, capital projects management by the University of Minnesota facilities management and fund raising and development expenses of the Foundation paid on its behalf by the University. Such amounts are reported in the statement of activities as expenses and totaled \$7,965,416 and \$12,291,888 for the years ended June 30, 2016 and 2015, respectively, including \$755,308 and \$834,359, respectively, reported as fund raising and development. The Foundation had amounts due from the University of Minnesota of \$42,153 and \$116,323 at June 30, 2016 and 2015.

Land Payable

Land payable is comprised of the amount the Foundation has promised to pay the University of Minnesota for land purchased during fiscal 2009. The total land payable amount was \$2,297,862 and \$2,542,604 at June 30, 2016 and 2015, respectively. The promise involves annual payments of \$334,959 for 13 years starting July 1, 2011. The annual payments of \$334,959 include interest at an effective rate of approximately 3.5%. Interest expense was \$81,533 and \$90,217 for the years ended June 30, 2016 and 2015, respectively. Future maturities are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 253,426
2018	262,418
2019	271,729
2020	281,370
2021	291,354
Thereafter	937,565
Total	<u>\$ 2,297,862</u>

NOTE 3 PLEDGES RECEIVABLE

Pledges receivable as of June 30 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Unconditional Promises Expected to be Collected in:		
Less Than One Year	\$ 990,194	\$ 1,707,633
One to Five Years	868,942	833,037
Total	<u>1,859,136</u>	<u>2,540,670</u>
Discount at Rate of 4%	<u>(54,604)</u>	<u>(52,537)</u>
Pledges Receivable, Net	<u>\$ 1,804,532</u>	<u>\$ 2,488,133</u>

At June 30, 2016, one pledge comprised approximately 13% of pledges receivable. As of June 30, 2015, two pledges comprised approximately 50% of pledges receivable.

MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 4 INVESTMENTS

The investments are maintained in pooled funds by the University of Minnesota Foundation. The fair value of investments as of June 30 is as follows:

	2016	2015
Management Agency Funds	\$ 32,670,221	\$ 33,135,467
Committed Funds	26,728	34,229
Total	\$ 32,696,949	\$ 33,169,696

Management Agency Funds

The Foundation has invested the Management Agency Funds in the University of Minnesota Foundation's Endowment Pool. As of June 30, this pool is invested in the following:

	2016	2015
Global Equities	33.10%	25.10%
Fixed Income	9.70%	6.00%
Non-Investment Grade Credit	14.20%	12.10%
Marketable Alternatives	0.00%	16.30%
Private Equity	15.90%	25.30%
Inflation Hedge	6.70%	6.30%
Reinsurance	6.20%	0.00%
Real Estate	3.10%	3.00%
Natural Resources	6.30%	6.40%
Cash and Equivalents	4.80%	-0.50%

Valuation Policy of the University of Minnesota Foundation Investment Advisors

Investments are stated at fair value and are recorded on the trade or contract date. The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments include private equity interests, mutual and commingled alternative investments, bonds, notes, and other investments. The estimated fair value of certain alternative investments, such as private equity interests, is based on valuations provided by the general partner. The University of Minnesota Foundation Investment Advisors review and evaluate the values provided by the general partner and assess the valuation methods and assumptions used in determining the fair value of private equity investments. Other alternative investments are valued in a variety of ways including various pricing models. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

Committed Funds

The Foundation has invested these funds in the University of Minnesota Foundation's Committed Funds Pool. This Pool is invested in cash, cash equivalents, and short-term fixed-income securities.

MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 4 INVESTMENTS (CONTINUED)

Investment Income

Net investment income consisted of the following for the years ended June 30:

	2016	2015
Interest and Dividends	\$ 99,618	\$ 150,225
Net Realized Gains	477,484	389,499
Net Unrealized Gains	(13,831)	1,195,122
Investment Management Fees	(101,232)	(69,461)
Total	<u>\$ 462,039</u>	<u>\$ 1,665,385</u>

NOTE 5 FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at June 30, 2016 and 2015 are as follows:

	2016			
	Level 1	Level 2	Level 3	Total
Donated Securities	\$ 3,117	\$ -	\$ -	\$ 3,117
Investments:				
Management Agency Funds	-	-	32,670,221	32,670,221
Committed Funds	-	-	26,728	26,728
Total	<u>\$ 3,117</u>	<u>\$ -</u>	<u>\$ 32,696,949</u>	<u>\$ 32,700,066</u>
	2015			
	Level 1	Level 2	Level 3	Total
Donated Securities	\$ -	\$ -	\$ -	\$ -
Investments:				
Management Agency Funds	-	-	33,135,467	33,135,467
Committed Funds	-	-	34,229	34,229
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,169,696</u>	<u>\$ 33,169,696</u>

Certain assets of the Foundation are recorded at fair value based upon Level 3 inputs. A portion of the Foundation's investments are held in collective/common pooled funds and do not have an active market price. The underlying investments of these common/collective pooled funds are global equities, fixed income, credit, marketable alternatives, private equity, inflation hedge, real estate, natural resources, and cash and cash equivalents.

MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables provides a summary of changes in fair value of the Foundation's Level 3 investments and interest in charitable lead annuity trust for the years ended June 30:

	Investments	
	Management Agency Funds	Committed Funds
BALANCE - JUNE 30, 2014	\$ 32,273,271	\$ 1,526,440
Net Realized and Unrealized Gains	1,584,621	-
Purchases of Investments	618,228	366,153
Proceeds from Sales of Investments	(1,340,653)	(1,858,364)
Receipts from Charitable Lead Trust	-	-
BALANCE - JUNE 30, 2015	33,135,467	34,229
Net Realized and Unrealized Gains	463,653	-
Purchases of Investments	314,751	152,439
Proceeds from Sales of Investments	(1,243,650)	(159,940)
Receipts from Charitable Lead Trust	-	-
BALANCE - JUNE 30, 2016	<u>\$ 32,670,221</u>	<u>\$ 26,728</u>

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of June 30:

	2016	2015
General Maintenance Purposes	\$ 1,142,458	\$ 917,336
Endowments	7,243,528	8,000,294
Capital Improvements	311,913	1,261,289
Land Grant Research Chair	313,243	333,404
Support of Andersen Horticultural Library	394,153	425,099
Other Programs	120,800	42,496
Total Temporarily Restricted Net Assets	<u>\$ 9,526,095</u>	<u>\$ 10,979,918</u>

When a 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. Restricted contributions whose restrictions are met in the same reporting period are recorded as restricted support and as net assets released from restriction.

MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets were available for the following purposes as of June 30:

	2016	2015
General Operations Endowment	\$ 20,933,321	\$ 19,609,774
Land Grant Research Endowment	267,589	267,089
Peter J. Olin Directorship Endowment	1,380,672	1,376,672
Andersen Horticultural Library Endowment	158,785	158,585
Total Permanently Restricted Net Assets	\$ 22,740,367	\$ 21,412,120

NOTE 8 ENDOWMENT FUNDS

The Foundation's endowments consist of funds established to provide for building and ground maintenance, library, education, research, directorship, and general operations. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Pursuant to the requirements of Minnesota's Uniform Prudent Management of Institutional Funds Act (UPMIFA), and as interpreted by management, the Foundation must preserve the original value of the gift from the donor absent any explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of any subsequent gifts to the permanent endowment. 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 Foundation.

In accordance with UMPIFA, the Foundation considers the following factors in making a determination to appropriate donor-restricted endowment funds:

- The duration and preservation of the fund,
- The purposes of the Foundation 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 Foundation, and
- The investment policies of the Foundation.

The Foundation has adopted an investment strategy for the endowment fund to provide an annualized return of five percentage points in excess of inflation. The investments of the endowment fund are rebalanced at the discretion of the investment manager.

It is the policy of the Foundation to distribute a percentage of the endowment fund based upon the endowment funds' fair value. For fiscal 2016 and 2015, the Foundation distributed 4.50% of the average fair value for the prior five years. Accordingly, it is the Foundation's goal over the long term to achieve a return in excess of the spending policy to allow the endowment funds to grow.

MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8 ENDOWMENT FUNDS (CONTINUED)

The composition of endowment assets as of June 30, 2016 and 2015 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Fund Assets by Type of Fund as of June 30, 2016:				
Donor-Restricted Endowment Funds	\$ -	\$ 7,918,032	\$ 22,740,367	\$ 30,658,399
Board Restricted Endowment Funds	2,480,732	-	-	2,480,732
Total Endowment Funds	<u>\$ 2,480,732</u>	<u>\$ 7,918,032</u>	<u>\$ 22,740,367</u>	<u>\$ 33,139,131</u>
Endowment Fund Assets by Type of Fund as of June 30, 2015:				
Donor-Restricted Endowment Funds	\$ -	\$ 8,707,206	\$ 21,412,120	\$ 30,119,326
Board Restricted Endowment Funds	2,606,301	-	-	2,606,301
Total Endowment Funds	<u>\$ 2,606,301</u>	<u>\$ 8,707,206</u>	<u>\$ 21,412,120</u>	<u>\$ 32,725,627</u>

From time to time, the fair value of assets associated with individual donor-restricted endowments may fall below the level that the donor requires the Foundation to retain as a balance for perpetual duration. Deficiencies of this nature are reported above as donor-restricted unrestricted net assets. Such deficiencies were caused by unfavorable market fluctuations. Management believes the markets will recover over time and the deficiencies will be recovered.

The changes in endowment assets for the years ended June 30 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Assets, July 1, 2015	\$ 2,606,301	\$ 8,707,206	\$ 21,412,120	\$ 32,725,627
Earnings:				
Investment Income, Net of Fees	(251)	(1,429)	-	(1,680)
Realized and Unrealized Gains	31,743	432,340	-	464,083
Total Investment Returns	31,492	430,911	-	462,403
Reclassifications	(29,019)	-	313,228	284,209
Contributions and Additions	364,304	1,000	1,015,019	1,380,323
Appropriations for Expenditure	(492,346)	(1,221,085)	-	(1,713,431)
Endowment Assets, June 30, 2016	<u>\$ 2,480,732</u>	<u>\$ 7,918,032</u>	<u>\$ 22,740,367</u>	<u>\$ 33,139,131</u>

MINNESOTA LANDSCAPE ARBORETUM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8 ENDOWMENT FUNDS (CONTINUED)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Assets, July 1, 2014	\$ 3,274,284	\$ 8,343,942	\$ 20,379,614	\$ 31,997,840
Earnings:				
Investment Income, Net of Fees	7,599	70,890	-	78,489
Realized and Unrealized Gains	137,772	1,431,991	-	1,569,763
Total Investment Returns	<u>145,371</u>	<u>1,502,881</u>	<u>-</u>	<u>1,648,252</u>
Reclassifications	36,164	-	250,261	286,425
Contributions and Additions	184,397	-	782,245	966,642
Appropriations for Expenditure	<u>(1,033,915)</u>	<u>(1,139,617)</u>	<u>-</u>	<u>(2,173,532)</u>
Endowment Assets, June 30, 2015	<u>\$ 2,606,301</u>	<u>\$ 8,707,206</u>	<u>\$ 21,412,120</u>	<u>\$ 32,725,627</u>

NOTE 9 FUNCTIONAL EXPENSE

Expenses reported in the financial statements are classified among program services and supporting activities as follows:

	<u>2016</u>	<u>2015</u>
Program Services	\$ 6,938,351	\$ 11,299,546
Supporting Activities:		
Management and General	904,105	771,429
Fund Raising and Auxiliary	<u>858,938</u>	<u>940,864</u>
Total	<u>\$ 8,701,394</u>	<u>\$ 13,011,839</u>