

**COASTAL MAINE
BOTANICAL GARDENS, INC**

FINANCIAL STATEMENTS

December 31, 2011

With Independent Auditors' Report

COASTAL MAINE BOTANICAL GARDENS, INC.

December 31, 2011

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Coastal Maine Botanical Gardens, Inc.

We have audited the accompanying statement of financial position of Coastal Maine Botanical Gardens, Inc. (a non-profit organization) as of December 31, 2011, and the related statements of activities and functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Coastal Maine Botanical Gardens' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the Organization's 2010 financial statements, and in our report dated May 5, 2011, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coastal Maine Botanical Gardens, Inc. as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Edwards, Faust + Smith

February 8, 2012, except for Note 4 as to which the date is May 11, 2012.

Coastal Maine Botanical Gardens, Inc.

Statement of Financial Position

December 31, 2011
(With Comparative Totals for 2010)

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 37,623	\$ 1,334,658
Accounts receivable	3,268	50,690
Prepaid expenses and other current assets	29,160	11,274
Inventory	49,151	36,417
Current portion of pledges and grants receivable	<u>927,935</u>	<u>1,439,701</u>
Current assets	<u>1,047,137</u>	<u>2,872,740</u>
Investments		
Maine Community Foundation accounts	2,591,881	1,739,433
Other investments	91,265	120,964
Pledges and grants receivable, less current portion	859,980	1,535,399
Property and equipment	16,221,569	13,237,348
Other assets	<u>269,820</u>	<u>146,742</u>
Noncurrent assets	<u>20,034,515</u>	<u>16,779,886</u>
Total assets	<u>\$ 21,081,652</u>	<u>\$ 19,652,626</u>
LIABILITIES		
Accounts payable	\$ 122,457	\$ 275,587
Accrued expenses	55,591	93,374
Deferred revenue	<u>52,500</u>	<u>16,000</u>
Current liabilities	<u>230,548</u>	<u>384,961</u>
Liability for charitable gift annuities	50,638	55,714
Borrowing under line of credit	<u>2,187,000</u>	<u>1,377,306</u>
Long term liabilities	<u>2,237,638</u>	<u>1,433,020</u>
Total liabilities	<u>2,468,186</u>	<u>1,817,981</u>
NET ASSETS		
Unrestricted		
Undesignated	14,106,002	11,859,789
Board designated	<u>628,740</u>	<u>75,966</u>
Total unrestricted net assets	14,734,742	11,935,755
Temporarily restricted net assets	1,624,574	4,184,960
Permanently restricted net assets	<u>2,254,150</u>	<u>1,713,930</u>
Total net assets	<u>18,613,466</u>	<u>17,834,645</u>
Total liabilities and net assets	<u>\$ 21,081,652</u>	<u>\$ 19,652,626</u>

See notes to financial statements

Coastal Maine Botanical Gardens, Inc.

Statement of Activities

Year Ended December 31, 2011
(With Comparative Totals for 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2011</u>	<u>2010</u>
Revenue and other support					
Capital campaign contributions and grants	\$	\$ 1,041,119	\$ 540,220	\$ 1,581,339	\$ 5,072,783
Gift of tapestry	100,000			100,000	
Other contributions and grants	240,250			240,250	212,021
Special events	156,613			156,613	136,218
Program revenue	672,391			672,391	546,546
Membership dues	352,724			352,724	339,659
Merchandise sales, net of costs of \$513,332 in 2011 and \$510,966 in 2010	106,466			106,466	149,743
Rental and other income	76,752			76,752	81,408
Investment income (loss)	(17,808)			(17,808)	185,272
Net assets released from restrictions	<u>3,601,505</u>	<u>(3,601,505)</u>			
Total revenue and other support	<u>5,288,893</u>	<u>(2,560,386)</u>	<u>540,220</u>	<u>3,268,727</u>	<u>6,723,650</u>
Expenses					
Program	1,749,332			1,749,332	1,489,712
Management and general	303,466			303,466	288,818
Fundraising	<u>437,108</u>			<u>437,108</u>	<u>400,954</u>
Total expenses	<u>2,489,906</u>	<u>-</u>	<u>-</u>	<u>2,489,906</u>	<u>2,179,484</u>
Changes in net assets	<u>2,798,987</u>	<u>(2,560,386)</u>	<u>540,220</u>	<u>778,821</u>	<u>4,544,166</u>
Net assets, beginning of year	<u>11,935,755</u>	<u>4,184,960</u>	<u>1,713,930</u>	<u>17,834,645</u>	<u>13,290,479</u>
Net assets, end of year	<u>\$ 14,734,742</u>	<u>\$ 1,624,574</u>	<u>\$ 2,254,150</u>	<u>\$ 18,613,466</u>	<u>\$ 17,834,645</u>

See notes to financial statements

Coastal Maine Botanical Gardens, Inc.

Statement of Functional Expenses

Year Ended December 31, 2011

(With comparative totals for 2010)

	<u>Programs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>2011</u>	<u>2010</u>
Wages	\$ 639,262	\$ 139,483	\$ 51,420	\$ 830,165	\$ 746,678
Payroll taxes	55,627	11,682	4,295	71,604	70,189
Retirement plan	4,678	1,135	639	6,452	7,370
Fringe benefits	41,601	5,482	3,557	50,640	58,634
Workers compensation	12,158	917	265	13,340	10,736
Hiring expense	4,737	544	36	5,317	
Total wages and overhead	758,063	159,243	60,212	977,518	893,607
Professional services		22,489		22,489	19,388
Consultants	5,750	10,045		15,795	4,600
Contract services	13,000	3,110		16,110	31,879
Lecture and speaker fees	19,638		19,249	38,887	39,060
Advertising	36,700	20,208	2,172	59,080	47,921
Materials and supplies	68,607	10,242	26,438	105,287	94,766
Postage and printing	51,666	21,513	35,014	108,193	87,481
Telephone and internet	2,507	8,932		11,439	10,557
Utilities	44,983			44,983	33,349
Training and conferences	6,094	530	215	6,839	6,104
Travel and vehicle expenses	20,547	2,014	407	22,968	18,476
Repairs and maintenance	29,675	6,979		36,654	93,534
Grounds and gardens	69,691			69,691	65,340
Leased equipment rentals			5,580	5,580	7,103
Insurance expense	20,220	3,268		23,488	17,107
Licenses and fees	1,351	25	575	1,951	1,963
Dues and publications	5,173	1,369	205	6,747	5,599
Bank service charges	13,312	569	8,728	22,609	14,292
Miscellaneous expense	9,831	13,659	(14)	23,476	1,687
Cost of sales	3,091			3,091	1,007
Catering and decorating	15,896	727	11,140	27,763	7,073
Capital campaign costs			257,174	257,174	243,737
Depreciation	553,537	18,544	10,013	582,094	433,854
Total expenses	\$ 1,749,332	\$ 303,466	\$ 437,108	\$ 2,489,906	\$ 2,179,484

See notes to financial statements

Coastal Maine Botanical Gardens, Inc.

Statement of Cash Flows

Year Ended December 31, 2011
(With Comparative Totals for 2010)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Changes in net assets	\$ 778,821	\$ 4,544,166
Adjustments to reconcile to changes in net assets to net cash from operating activities		
Depreciation (including amounts classified as cost of goods sold)	600,083	448,684
Gift of tapestry	(100,000)	
Investment income retained in endowment and unrealized (gains) losses	51,016	(171,027)
Decrease (increase) in		
Accounts receivable	47,422	(36,882)
Pledges and grants receivable	1,187,184	(740,663)
Inventory	(12,734)	2,355
Prepaid expenses and other current assets	(17,886)	(2,224)
Increase (decrease) in		
Accounts payable	(153,130)	(36,844)
Accrued expenses	(37,782)	25,181
Liability for charitable gift annuities	(5,076)	(924)
Deferred revenues	36,500	13,500
	<u>2,374,418</u>	<u>4,045,322</u>
Net cash from operating activities		
Cash flows from investing activities		
Additions to other assets	(23,078)	(6,822)
Purchases of investments	(873,765)	(627,017)
Additions to property and equipment	<u>(3,584,304)</u>	<u>(2,263,121)</u>
Net cash from investing activities	<u>(4,481,147)</u>	<u>(2,896,960)</u>
Cash flows from financing activities		
Net change in borrowing under line of credit	<u>809,694</u>	<u>74,296</u>
Net cash from financing activities	<u>809,694</u>	<u>74,296</u>
Net change in cash	(1,297,035)	1,222,658
Cash and cash equivalents, beginning of year	<u>1,334,658</u>	<u>112,000</u>
Cash and cash equivalents, end of year	<u>\$ 37,623</u>	<u>\$ 1,334,658</u>
Additional disclosure items		
Interest paid in cash and expensed	\$ 70,920	\$ 50,448
Noncash financing activities		
Gift of tapestry	100,000	

See notes to financial statements

Coastal Maine Botanical Gardens, Inc

Notes to Financial Statements

December 31, 2011

1. Summary of Significant Accounting Policies

Nature of the Operations

Coastal Maine Botanical Gardens, Inc., founded in 1991, is a not-for-profit corporation organized as a publicly-supported organization under Internal Revenue Code Section 509(a)(1). Officially opened to the public in 2007 as Maine's first major botanical garden, it is the largest public garden in Northern New England with 248 acres, including one mile of tidal shorefront. The mission of the Gardens is to protect, preserve, and enhance the botanical heritage and natural landscapes of coastal Maine for people of all ages through horticulture, education and research.

Financial Statement Presentation

The Organization follows the financial statement presentation proscribed in professional accounting standards. Accordingly, information regarding its financial position and activities is reported under three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Information regarding these net asset classes follows:

- Unrestricted net assets – These assets are not subject to donor imposed stipulations. They may be used at the discretion of the organization, and certain assets may be designated by the board for various purposes.
- Temporarily restricted net assets – These assets are subject to donor stipulations that will either be met by the passage of time or use of funds for donor designated purposes. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. These net assets also include funds that are subject to legal restrictions, such as the unappropriated appreciation of donor-restricted endowment funds.
- Permanently restricted net assets – These assets must be permanently maintained in an endowment fund.

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 December 31, 2010, from which the summarized information was derived. Certain reclassifications have been made to prior year amounts to permit comparison. Assets and liabilities are recorded and revenues and expenses are recognized by the accrual method of accounting.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Cash Flow Information

The Organization considers money market mutual funds as well as securities having a maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Coastal Maine Botanical Gardens, Inc

Notes to Financial Statements

December 31, 2011

1. Summary of Significant Accounting Policies

Nature of the Operations

Cash Flow Information

The Organization is conducting a major fund raising campaign that is expected to continue through 2012. Funds raised are to develop the botanical gardens, build the endowment, and to help cover operating costs. Because funds are available for all purposes, funds raised are currently being reported as operating cash flows in the financial statements.

Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received which is then treated as the asset's cost basis. Fair value is determined by applying a discount rate to reflect the present value of future payments. Then the reduction in the discount over time is recorded as contribution revenue. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

The organization uses the allowance method to determine uncollectible pledges receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Pledges are written-off when management determines they are not collectible. Management has set a 2.5% allowance reserve for uncollectible pledges.

Inventory

Inventory consists of gift shop and café merchandise for sale. It is carried at the lower of cost, determined on the first-in, first-out basis, or market.

Investments

Investments consist of funds held by the Maine Community Foundation (MCF), funds held in bank trust departments, and funds held in brokerage accounts. The funds at MCF result from the Organization making nonreciprocal transfers of assets to MCF and specifying itself as the beneficiary. As such, the Organization receives distributions from these assets each year. Investments are carried at fair market value, with fair value of debt securities and marketable equity securities determined by quoted market prices and fair value of MCF accounts determined from statements supplied by MCF based on the fair values of underlying investments.

Property and Equipment

Property and equipment are stated at cost or, if acquired by gift, at appraised value at the gift date. Contributions of long-lived assets with no donor-imposed time restrictions are recognized as unrestricted support. Proceeds from the sale of assets, if unrestricted, are reported as an increase in unrestricted net assets or, if restricted, as an increase in temporarily or permanently restricted net assets, as appropriate. Depreciation is provided over the estimated useful lives of the respective assets on a straight line basis. Furniture and equipment are depreciated generally over 5 – 10 years, buildings are depreciated over 10 – 39 years, and gardens and other land improvements are depreciated over 25 – 39 years. The Organization capitalizes equipment costing over \$2,500 with estimated useful lives exceeding one year.

Coastal Maine Botanical Gardens, Inc

Notes to Financial Statements

December 31, 2011

1. Summary of Significant Accounting Policies

Other Assets

Other assets consist primarily of works of art and similar assets, which are stated at cost or, if acquired by gift, at the appraised value. In 2009 the organization decided to offer a sculpture for sale and accordingly adjusted the sculpture to its estimated fair market value of \$10,000. The sculpture was sold for that amount in March 2011. In 2011 the organization received a 16th century tapestry valued at \$100,000 that it intends to sell in a future year.

Charitable Gift Annuities

The Organization is party to various charitable gift annuities. Assets received from these arrangements are included in investments at the fair market value of the underlying assets. The present value of estimated future payments to beneficiaries is reported as a liability in the statement of financial position. The discount rate used to calculate the present value of estimated future payments to the beneficiaries is 5.00% for 2011 and 2010. Donor contributions to these agreements are recorded as contribution revenue in the year the gift is made. Subsequent changes in value are included with investment income.

Membership Dues

Membership dues generally allow members to visit the gardens during the membership year as well as to participate in certain other benefits. Dues are recorded as income during the year received since no significant future costs related to memberships are anticipated to be incurred.

Classification of Expenses

Expenses are classified as program, general and administrative, or fundraising, depending on the activities supported. Certain costs have been allocated among the programs and supporting services benefited.

Program services are the activities that fulfill the mission for which the organization exists.

General and administrative activities include oversight, business management, general record-keeping, budgeting, financing and related administrative activities, and all management and administration except for direct conduct of program services or fundraising activities.

Fundraising activities include publicizing and conducting fundraising campaigns, maintaining donor mailing lists, conducting special fundraising events, preparing and distributing fundraising materials, and conducting other activities involved with soliciting contributions from individuals, foundations, government agencies and others.

Income Taxes

Coastal Maine Botanical Gardens, Inc. qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not liable for income taxes. The Organization's federal Return of Organization Exempt from Income Tax for 2011, 2010, and 2009 are subject to examination by the IRS, generally for three years after they were filed.

Coastal Maine Botanical Gardens, Inc

Notes to Financial Statements

December 31, 2011

2. Investments

Investments consist primarily of funds held at the Maine Community Foundation (MCF) for endowment and board designated purposes. The funds at MCF result from the Organization making nonreciprocal transfers of assets to MCF and specifying itself as the beneficiary. In addition, investments consist of securities held in a bank trust account to fund the liability for charitable gift annuities and certain other contributed investments held pending sale. Following is a summary of investments:

	<u>2011</u>	<u>2010</u>
Maine Community Foundation pooled accounts	\$ 2,591,881	\$ 1,739,433
Bank Trust Department account	84,558	98,217
Other investments	<u>6,707</u>	<u>22,747</u>
	<u>91,265</u>	<u>120,964</u>
Total	\$ <u>2,683,146</u>	\$ <u>1,860,397</u>

The Maine Community Foundation (MCF) accounts are diversified investments managed by MCF that fund the Organization’s endowment funds, both board designated and permanently restricted. The MCF accounts spread investments across US and global asset classes and are managed to produce long-term growth while minimizing volatility. Income from the MCF accounts is typically distributed according to a distribution formula approved by the Organization’s board – currently 4% of a twelve quarter running average of endowment investments. Additional distributions may be requested by a 2/3 majority of the board of directors. Such requests will not be unreasonably withheld by MCF.

Bank trust department funds are invested primarily in global and alternative investment mutual funds and equities as well as cash. In 2011, approximately 80% was invested in fixed income investments and cash, and in 2010 approximately 30% was invested in fixed income investments and cash. Certain other investments are from contributors and are held awaiting sale as soon as practicable.

It is the Organization’s long term plan to grow its endowment fund to approximately five times annual cash operating costs. Annual distributions from the permanent endowment funds will be used for operations. Distributions from the board designated capital reserve fund will be made only for major capital items.

The board of directors has interpreted that Maine’s Uniform Prudent Management of Institutional Funds Act (UPMIFA), absent donor stipulations to the contrary, requires that appreciation of original permanent endowment funds be considered temporarily restricted until appropriated. Restrictions related to endowment investments (including board designated amounts) are as follows:

	<u>2011</u>	<u>2010</u>
Endowment fund principal – permanent	\$ 1,863,194	\$ 1,504,049
Endowment fund appreciation – temporarily restricted	99,947	159,417
Board designated capital reserve fund	<u>628,740</u>	<u>75,967</u>
Total endowment investments	\$ <u>2,591,881</u>	\$ <u>1,739,433</u>

Coastal Maine Botanical Gardens, Inc

Notes to Financial Statements

December 31, 2011

2. Investments

Changes in endowment investments were as follows for the years ended December 31, 2011 and 2010:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investments at beginning of 2010	\$ 33,509	\$	\$ 934,241	\$ 967,750
Contributions	35,731		568,950	604,681
Income received	730	12,657	858	14,245
Gains (losses)	6,818	170,395		177,213
Fees	(476)	(9,116)		(9,592)
Appropriations – regular	(345)	(14,520)		(14,865)
	<hr/>	<hr/>	<hr/>	<hr/>
Investments at end of 2010	75,967	159,416	1,504,049	1,739,432
Contributions	532,532		359,145	891,677
Income received	2,768	19,611		22,379
Gains (losses)	18,087	(35,655)		(17,568)
Fees	(614)	(10,215)		(10,829)
Appropriations – regular		(33,210)		(33,210)
	<hr/>	<hr/>	<hr/>	<hr/>
Investments at end of 2011	\$ <u>628,740</u>	\$ <u>99,947</u>	\$ <u>1,863,194</u>	\$ <u>2,591,881</u>

3. Property and Equipment

Property and equipment consists of the following:

	<u>2011</u>	<u>2010</u>
Land held for conservation	\$ 1,456,428	\$ 1,456,428
Land improvements	2,398,625	2,373,490
Gardens	5,724,464	5,554,530
Furniture and equipment	997,844	754,241
Buildings	<u>7,736,132</u>	<u>4,590,500</u>
	18,313,493	14,729,189
Less: Accumulated depreciation	<u>(2,091,924)</u>	<u>(1,491,841)</u>
	\$ <u>16,221,569</u>	\$ <u>13,237,348</u>

Depreciation expense totaled \$600,083 for 2011 and \$448,684 in 2010. Of this total \$10,013 relates to database software utilized for the capital campaign in 2011 and 2010, respectively.

Coastal Maine Botanical Gardens, Inc

Notes to Financial Statements

December 31, 2011

4. Contributions and Grants

The Organization is currently conducting a major capital campaign, Planting a Living Legacy, which has a current campaign goal of \$24.5 million through 2012 with campaign goals as follows: Complete Phase 1 Master Plan, build endowment to \$5 million (including board designated funds), retire all debt, and build an education center. Of this total, approximately \$22.4 million has been raised through 2011, not including the tapestry gift discussed below.

Pledges and grants receivable consist of the following:

	2011	2010
Current	\$ 951,728	\$ 1,476,616
1-5 years	1,090,969	1,890,716
	2,042,697	3,367,332
Less: Discount to present value at 5%	(176,424)	(308,049)
Allowance for uncollectible pledges at 2.5%	(78,358)	(84,183)
	1,787,915	2,975,100
Less: Current portion	(927,935)	(1,439,701)
Long-term portion	\$ 859,980	\$ 1,535,399
Pledges and grants receivable are restricted as follows:		
	2011	2010
Timing	\$ 1,396,959	\$ 2,765,248
Permanent endowment	390,956	209,881
Unrestricted	(29)	(29)
	\$ 1,787,915	\$ 2,975,100

Major contributors to the campaign have been as follows:

- In 2007, a group of three donors made a \$1,000,000 challenge pledge based on overall receipts, of which \$600,000 was earned in 2007 and the balance was earned during 2008.
- In 2008, a foundation made a \$1,500,000 challenge pledge, of which \$780,000 was earned in 2008 and \$720,000 was earned during 2009 (\$500,000 of which went to the endowment fund).
- In 2009, a challenge pledge of \$1,000,000 was received to be used to develop and construct an education building that meets the LEED platinum criteria for energy efficiency. The Organization had until December 31, 2012 to raise sufficient additional funds to sign a contract for the building, except that the first \$200,000 of the pledge was to be provided for design and preliminary work in connection with the building. Accordingly, \$200,000 was recorded in 2009 as a restricted contribution. During 2010, the Organization met the terms of the challenge and the remaining \$800,000 of the pledge was recorded.
- In 2010, a pledge of \$2,000,000 was received to be used for the education building. Of the total, \$500,000 was unconditional and \$1,500,000 was conditioned on the Organization raising \$1,500,000. The challenge was met in 2010.

Coastal Maine Botanical Gardens, Inc

Notes to Financial Statements

December 31, 2011

4. Contributions and Grants

- In 2011, a challenge grant of \$500,000 was made by the Kresge Foundation to the capital reserve fund in order to maintain the properties. The Organization has until December 31, 2012 to demonstrate that it will be able to raise an additional \$500,000 to match the original grant. The Organization believes it can achieve that objective and has recorded the grant as a 2011 contribution. The amount received in 2011 has been added to the board designated capital reserve fund.

In 2011, a 16th Century tapestry was contributed to the Organization. The tapestry is currently being held in storage and is expected to be sold at auction in 2013. The proceeds from this sale will be included in the overall capital campaign fundraising totals at that time. The market value of the tapestry has been estimated by the auction house as of May 11, 2012 at between \$100,000 and \$150,000, and the Organization has recorded the gift at \$100,000. The tapestry is included in Other Assets.

5. Borrowing

Debt consists of the following:

	<u>2011</u>	<u>2010</u>
Prime rate note payable to bank, credit line to be converted to term loan	\$ <u>2,187,000</u>	\$ <u>1,377,306</u>

The Organization has a construction line of credit of \$4,000,000. The construction phase runs until February 2015. In the event there is a balance on the line as of February 15, 2015, the bank has agreed to amortize it over 15 years with interest equal to the Federal Home Loan Bank (FHLB) rate plus 3%, fixed for the initial five years then readjusted. The loan is secured by a first mortgage and assignment of leases on property owned by the Organization and by outstanding pledges. The Organization incurred total interest costs of \$70,920 in 2011 and \$50,448 in 2010, which is included in capital campaign costs since the borrowing is necessary to fund construction until campaign pledges are paid.

6. Net Assets

Temporarily restricted net assets are as follows at December 31:

	<u>2011</u>	<u>2010</u>
Restricted for purpose		
Garden exhibits	\$ 41,021	\$ 55,194
Educational materials	7,401	12,710
Education building		1,119,378
Other	<u>79,246</u>	<u>73,013</u>
Total restricted for purpose	127,668	1,260,295
Restricted for timing of pledge payments – Note 4	1,396,959	2,765,248
Endowment fund appreciation – Note 2	<u>99,947</u>	<u>159,417</u>
	\$ <u>1,624,574</u>	\$ <u>4,184,960</u>

Permanently restricted net assets consist of the following:

	<u>2011</u>	<u>2010</u>
Pledges receivable, net of allowance and discount - Note 4	\$ 390,956	\$ 209,881
Investments – Note 2	<u>1,863,194</u>	<u>1,504,049</u>
	\$ <u>2,254,150</u>	\$ <u>1,713,930</u>

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6. Net Assets

Board designated net assets at the end of 2011 totaling \$628,740 are for a capital reserves sinking fund to be available for major maintenance items.

7. Retirement plan

The Organization has a 403(b) deferred salary plan. Effective January 1, 2008, the Organization began making discretionary matching contributions up to 1.5% of an employee's gross compensation. The matching rate is determined annually. Retirement expense was \$7,390 (including \$938 charged to capital campaign) and \$8,267 (including \$897 charged to capital campaign) for 2011 and 2010.

8. Commitments

The Organization has certain operating leases for equipment. Lease expense of \$5,793 and \$5,347 was incurred for 2011 and 2010, respectively.

Scheduled payments on operating lease obligations for the next five years are as follows:

2012	\$	5,347
2013		5,347
2014		5,347
2015		891
2016		-
Thereafter		-

9. Fair Values

Certain assets are recorded at fair value to provide additional insight into the Organization's financial position. Some of these assets are measured on a recurring basis while others are measured on a nonrecurring basis. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy of three levels of inputs to fair value has been established requiring the entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A brief description of each level follows:

- Level 1 – Valuation is based on quoted prices for identical instruments in active markets.
- Level 2 – Valuation is based on observable inputs other than quoted active market prices, such as quoted prices for similar instruments or on prices determined from inactive markets or on other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Valuation is based on unobservable inputs that reflect the entity's best information available about the assumptions market participants would use in pricing.

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9. Fair Values

Fair values of assets measured on a recurring basis as of December 31, 2011 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Beneficial interest	\$ 2,591,881	\$	\$ 2,591,881	\$
Other investments (See Note 2)	<u>91,265</u>	<u>91,265</u>	<u></u>	<u></u>
Total	\$ <u>2,683,146</u>	\$ <u>91,265</u>	\$ <u>2,591,881</u>	\$ <u></u>

Fair values of assets measured on a recurring basis as of December 31, 2010 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Beneficial interest	\$ 1,739,433	\$	\$ 1,739,433	\$
Other investments (See Note 2)	<u>120,964</u>	<u>\$ 120,964</u>	<u></u>	<u></u>
Total	\$ <u>1,860,397</u>	\$ <u>120,964</u>	\$ <u>1,739,433</u>	\$ <u></u>

Level 2 assets are valued based on the fair values of the underlying assets as provided by MCF.

The tapestry received in 2011 as discussed in Note 4 was measured at fair value based on an estimate of its value by the auction house where it is expected to be sold. The value was determined by comparing the tapestry to similar items that have been sold at auction. This represents an other observable input. Pledges received in 2011 were measured at fair value using other observable inputs at the date of the pledges as discussed in Note 1.

10. Subsequent Events

Subsequent events have been evaluated through February 8, 2012, which is the date the financial statements were available to be issued, and no additional matters were determined to require adjustment or disclosure, except for the adjustment of fair value on the tapestry determined as of May 11, 2012 as discussed in Note 4.