



AMERICAN HORTICULTURAL SOCIETY

Financial Statements and Supplemental Information

For The Year Ended June 30, 2016



**and
Report Thereon**



THE AMERICAN HORTICULTURAL SOCIETY

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
American Horticultural Society

Report on the Financial Statements

We have audited the accompanying financial statements of the American Horticultural Society (the Society), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matter

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Raffa, P.C.

Raffa, P.C.

Washington, DC
January 31, 2017

THE AMERICAN HORTICULTURAL SOCIETY

STATEMENT OF FINANCIAL POSITION

June 30, 2016

ASSETS

Cash and cash equivalents	\$ 161,353
Investments	2,224,109
Pledges receivable, net	53,617
Prepaid expenses	105,518
Inventory	1,190
Property and equipment, net	<u>2,205,358</u>

TOTAL ASSETS \$ 4,751,145

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued expenses	\$ 160,716
Deferred revenue	830,703
Capital lease obligations	4,483
Note payable	<u>984,839</u>

TOTAL LIABILITIES 1,980,741

Net Assets

Unrestricted	1,749,014
Temporarily restricted	481,671
Permanently restricted	<u>539,719</u>

TOTAL NET ASSETS 2,770,404

TOTAL LIABILITIES AND NET ASSETS \$ 4,751,145

The accompanying notes are an integral part of these financial statements.

THE AMERICAN HORTICULTURAL SOCIETY

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Membership dues	\$ 762,443	\$ -	\$ -	\$ 762,443
Contributions	609,626	121,004	-	730,630
Educational events	644,586	-	-	644,586
River Farm rentals	318,714	-	-	318,714
Donated goods and services	86,457	-	-	86,457
Gala	121,254	-	-	121,254
Less: Direct benefit costs	<u>(36,592)</u>	<u>-</u>	<u>-</u>	<u>(36,592)</u>
Gala, Net	84,662			84,662
Books and services	64,282	-	-	64,282
Investment income	22,449	12,470	-	34,919
Royalty income	2,006	-	-	2,006
Miscellaneous income	121	-	-	121
Net assets released from restrictions:				
Satisfaction of purpose restrictions	<u>286,375</u>	<u>(286,375)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>2,881,721</u>	<u>(152,901)</u>	<u>-</u>	<u>2,728,820</u>
EXPENSES				
Program Services:				
Educational programs	866,460	-	-	866,460
Membership	464,010	-	-	464,010
Communications	409,973	-	-	409,973
Gardens and buildings	<u>400,609</u>	<u>-</u>	<u>-</u>	<u>400,609</u>
Total Program Services	<u>2,141,052</u>	<u>-</u>	<u>-</u>	<u>2,141,052</u>
Supporting Services:				
Management and general	387,435	-	-	387,435
Fundraising and development	<u>246,493</u>	<u>-</u>	<u>-</u>	<u>246,493</u>
Total Supporting Services	<u>633,928</u>	<u>-</u>	<u>-</u>	<u>633,928</u>
TOTAL EXPENSES	<u>2,774,980</u>	<u>-</u>	<u>-</u>	<u>2,774,980</u>
CHANGE IN NET ASSETS	106,741	(152,901)	-	(46,160)
NET ASSETS, BEGINNING OF YEAR	<u>1,642,273</u>	<u>634,572</u>	<u>539,719</u>	<u>2,816,564</u>
NET ASSETS, END OF YEAR	<u>\$ 1,749,014</u>	<u>\$ 481,671</u>	<u>\$ 539,719</u>	<u>\$ 2,770,404</u>

The accompanying notes are an integral part of these financial statements.

THE AMERICAN HORTICULTURAL SOCIETY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016
Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (46,160)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	83,265
Realized and unrealized gain on investments	(3,035)
Changes in assets and liabilities	
Pledges receivable	(5,925)
Prepaid expenses	(50,423)
Deposits	21,400
Accounts payable and accrued expenses	(88,401)
Deferred revenue	<u>363,677</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>274,398</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(2,475,539)
Proceeds from sales of investments	2,639,710
Purchases of property and equipment	<u>(196,830)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(32,659)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayments on note payable	(23,119)
Borrowings on line of credit	150,025
Repayments on line of credit	(320,025)
Payments on capital lease obligation	<u>(8,566)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(201,685)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	40,054
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>121,299</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 161,353</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION	
Cash payments for interest	<u><u>\$ 17,338</u></u>

The accompanying notes are an integral part of these financial statements.

THE AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2016

1. Organization and Summary of Significant Accounting Policies

Organization

The American Horticultural Society (the Society) was organized in the District of Columbia as a not-for-profit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the IRC). The Society's purpose is to unite and supplement the many phases and efforts of American horticulture, to represent them nationally and internationally, and to encourage and promote American horticulture. The Society's significant sources of support include membership dues, contributions, educational events and River Farm rentals.

The Society's major programs are as follows:

Educational programs – These activities focus on sharing the art and science of horticulture, with a special emphasis on gardening with children and youth. Since 1993, the Society has hosted the National Children and Youth Garden Symposium that is committed to bridging the growing divide that separates young people from the natural world. The Society's internship program provides valuable hands-on experience for college students, helping to shape the horticultural leaders of tomorrow. Online, reciprocal admissions, travel study, seed exchange and other special programs offer members the opportunity to explore their passion for gardens and gardening. The Society's national awards programs encourage excellence and honor the achievements of individuals and organizations that have made significant contributions to horticulture in America.

Membership – This program includes providing services and outreach in support of the Society's members throughout the United States and internationally. Member communications and other benefits provide supporters with the information and inspiration they need to be successful gardeners – enriching their lives and having a positive impact on their communities. In addition, these activities contribute to the organizational objectives of helping more Americans enjoy the rewards of gardens and gardening, celebrating the diversity of horticulture in America, and encouraging earth-friendly gardening practices. Reciprocal agreements with public gardens and horticultural organizations extend the Society's reach.

Communications – This program includes the Society's flagship publication, *The American Gardener* magazine. Providing useful and authoritative information, *The American Gardener* demonstrates the Society's commitment to communicating, standardizing and enriching the language of horticulture through a variety of media. The Society's website and internet presence provides a wealth of gardening information, as well as updates on the Society's programs. With more than 100 books devoted to the world of ornamental plants published under the Society banner, the Society is a leader in creating authoritative gardening reference books that put the most current horticultural information in the hands of professional and amateur gardeners across America.

THE AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Organization (continued)

Gardens and Buildings – This program includes the operation, stewardship and ongoing enhancement of the Society's 25-acre headquarters property, River Farm. A site of regional, national, horticultural and historic significance, River Farm is open to visitors and serves as a venue for educational programs, exhibits, civic meetings and special events. The property's gardens and natural areas include many demonstration areas and models promoting horticultural innovation, practical experimentation sustainability and conservation. The Gardens and Buildings staff also provides content and coordination in support of the Society's on-site and national programs.

Basis of Accounting

The financial statements of the Society are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned, and expenses are recognized when the obligations are incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits.

Investments

Investments are measured at fair value and are composed of common stock, corporate bonds, mutual funds and money market funds. Fair value is 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. Realized and unrealized gains and losses are included with investment income in the statement of activities. Investment income is reported as an increase or decrease in unrestricted net assets, unless restricted by donor or law. However, investment earnings are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the investment earnings are recognized.

Fair Value Measurements

Accounting standards define fair value, establish a framework for measuring fair value in accordance with GAAP and expand disclosures about fair value measurements for those assets and liabilities that are measured at fair value on a recurring basis. Accounting standards determine fair value using assumptions that market participants would use to determine the price of the asset or liability, as opposed to measurements determined based upon information specific to the entity holding those assets and liabilities. To determine those market participant assumptions, accounting standards established a fair value hierarchy of inputs that the entity must consider, including both independent market data inputs and the entity's own assumptions about the market participant assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to

THE AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument. The three levels of the fair value hierarchy are described as follows:

Level 1 – Based on unadjusted quoted market prices in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Based on inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Based on unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining fair value.

The Society's assets that are measured at fair value on a recurring basis are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, in Note 3.

Pledges Receivable

The Society records pledges receivable at estimated fair value. An allowance for doubtful accounts is recorded based on the length of time balances have remained outstanding and past history with donors. Pledges receivable are written off against the allowance when deemed uncollectible by management.

Property and Equipment and Related Depreciation

Property and equipment are recorded at cost. The Society capitalizes property and equipment purchases greater than \$500. Depreciation is provided on the straight-line basis over the estimated useful lives of the respective assets (10 to 40 years for the buildings and building improvements, and three to 10 years for furniture and equipment). Maintenance and repairs, including planned major maintenance activities, are charged to expenses when incurred; major renewals and improvements are capitalized. Donated property and equipment are recorded at fair value at the date of donation. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation, and any gain or loss is reflected in revenue and support or expenses in the accompanying statement of activities.

Net Assets

The net assets of the Society are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Society's operations.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or time periods.

Continued

THE AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Net Assets (continued)

- Permanently restricted net assets represent gifts requiring that the principal be invested in perpetuity and that only the income be expended as designated by the donor.

Revenue Recognition

Membership dues received in excess of listed dues amounts for various types of membership levels represent a contribution. Dues received in advance of the membership period are deferred and recognized as revenue over the members' respective membership year. The contribution component is recognized as revenue when received.

The Society recognizes all unconditional contributed support in the period in which the commitment is made. Contributions are considered unrestricted revenue and support and available for general operations unless specifically restricted by the donor. The Society reports contributions as temporarily restricted revenue and support if they are received with donor stipulations that limit the use of the donated assets as to a particular purpose or to future periods. When the stipulated time restriction ends or the purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions. Temporarily restricted contributions for which the restriction is met in the same period as the contribution is received are recorded as unrestricted.

The Society records donated investments at the estimated fair value on the date received and generally sells them immediately; unsettled sales of contributed securities are reported as receivable.

Revenue from educational events, sale of books, reciprocal admission programs with other member gardens, rental of mailing lists, various horticulture consulting and River Farm rental are recognized when earned. Amounts received in advance are reported as deferred revenue.

Donated Goods and Services

Donated goods and services consist of food and supplies for various events as well as merchandise for auction and for sale at the River Farm store. These contributions are recorded at the estimated retail value at the date of donation, which approximates fair value. Retail value of the items donated is determined based on management's best estimate using information provided by donors and other third parties. All donated items are considered unrestricted support.

Volunteers also provided various services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria are not met.

THE AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, costs have been allocated among the programs and supporting services benefited based upon the function directly benefited or based upon management's estimates of the proportion of these costs applicable to each function.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Investments

Investments consisted of the following as of June 30, 2016:

Common stock	\$ 1,431,139
Corporate bonds	591,942
Mutual funds	157,748
Money market funds	<u>43,280</u>
Total Investments	<u>\$ 2,224,109</u>

Investment income is summarized as follows for the year ended June 30, 2016:

Interest and dividends	\$ 45,235
Realized gains	808,506
Unrealized losses	<u>(805,471)</u>
Total Investment Income	48,270
Less: Investment Fees	<u>(13,351)</u>
Investment Income, Net	<u>\$ 34,919</u>

Continued

THE AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

3. Fair Value Measurements

The following table summarizes the Society's assets measured at fair value on a recurring basis as of June 30, 2016, aggregated by the fair value hierarchy level with which those measurements were made:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock				
Consumer discretionary	\$ 289,222	\$ 289,222	\$ -	\$ -
Consumer staples	142,175	142,175	-	-
Energy	76,925	76,925	-	-
Financials	323,058	323,058	-	-
Healthcare	116,733	116,733	-	-
Industrials	179,548	179,548	-	-
Information technology	105,449	105,449	-	-
Materials	62,916	62,916	-	-
Miscellaneous	3,167	3,167	-	-
Real estate	99,135	99,135	-	-
Telecommunications	25,797	25,797	-	-
Utilities	<u>7,014</u>	<u>7,014</u>	<u>-</u>	<u>-</u>
Total Common Stock	1,431,139	1,431,139	-	-
Corporate bonds	591,942	-	591,942	-
Mutual funds	157,748	157,748	-	-
Money market funds	<u>43,280</u>	<u>43,280</u>	<u>-</u>	<u>-</u>
Total Investments Measured at Fair Value	<u>\$ 2,224,109</u>	<u>\$ 1,632,167</u>	<u>\$ 591,942</u>	<u>\$ -</u>

The Society used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

Common stock – Valued at the closing price reported in the active market in which the individual stocks are traded.

Corporate bonds – Valued based on current yields, the securities' terms and conditions, and market activity. Information used includes market sources, credit information, observed market movement and sector news.

Mutual funds and money market funds – Valued using the net asset value of shares held at year-end and based on quoted market prices in active markets. Where quoted prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy.

Continued

THE AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

4. Pledges Receivable

The Society had pledges receivable as of June 30, 2016, of \$53,617, which is net of an allowance for doubtful accounts of \$7,500. Pledges receivable include \$45,787 of in-kind plants and merchandise from a nursery that has been pledged by its owner, a former member of the Society's Board of Directors. During the year ended June 30, 2016, the Society did not receive any in-kind plants and merchandise; however, in September 2016, the Society received in-kind merchandise of \$8,541 under the agreement.

5. Property and Equipment

The Society's property and equipment consisted of the following as of June 30, 2016:

Land	\$ 647,008
Land improvements	1,078,144
Building and building improvements	997,142
Furniture and equipment	<u>229,504</u>
Total Property and Equipment	2,951,798
Less: Accumulated Depreciation and Amortization	<u>(746,440)</u>
Property and Equipment, Net	<u>\$ 2,205,358</u>

Depreciation and amortization expense totaled \$83,265 for the year ended June 30, 2016. Capitalized interest in the amount of \$60,733 is included with land improvements.

6. Note Payable

On November 29, 2011, the Society secured approximately \$1,200,000 (the Loan) from a bank to finance water, sewer and technology infrastructure improvements. The proceeds of the Loan were to be disbursed as construction progressed. The Loan was payable in monthly installments of interest only at an interest rate of 5.25% on the outstanding principal balance until May 29, 2013 (the Conversion Date). From the Conversion Date through November 29, 2022, the Loan is payable in monthly payments of principal and interest at 5.25%. On November 29, 2022, and every five years thereafter, the interest rate will be adjusted to the greater of the weekly average yield on five-year United States Treasury securities plus 2.75% or 4.5%. The Loan will mature on November 29, 2037, and is secured by the Society's property, all improvements and fixtures. In addition, the Society has assigned the right, title and interest to all of the rents issued and profits of the premises as security under the Loan. The Loan contains various restrictive covenants pertaining to insurance, property maintenance and financial records. As of June 30, 2016, the Society is in compliance with these restrictive covenants.

THE AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

6. Note Payable (continued)

In addition, as part of the note payable agreement, the Society was required to maintain an irrevocable letter of credit in the amount of \$146,100, with the beneficiary being the Board of Supervisors of Fairfax County, Virginia, relating to the infrastructure improvements. The irrevocable letter of credit was released by Fairfax County during the year ended June 30, 2016.

Maturities of the note payable for each of the next five years and thereafter are as follows:

<u>For the Year Ending June 30,</u>	
2017	\$ 24,533
2018	25,872
2019	27,283
2020	28,639
2021	30,333
Thereafter	<u>848,179</u>
Total	<u>\$ 984,839</u>

Interest expense relating to the note payable agreement totaled \$17,338, for the year ended June 30, 2016.

7. Line of Credit

At June 30, 2016, the Society had available an unsecured line of credit of \$200,000 with a bank, to be drawn upon as needed with a variable interest rate equal to the greater of the U.S. Prime Rate as quoted in the Wall Street Journal or 5%. The line of credit is scheduled to expire on January 13, 2018. During the year ended June 30, 2016, the Society had draws on the line of credit of \$150,025, and then paid down the entire line of credit as of June 30, 2016. Interest expense relating to the line of credit totaled \$6,878 for the year ended June 30, 2016.

8. Commitments and Risks

Hotel Commitments

The Society has entered into several agreements with hotels providing for room accommodations for its annual conference in 2017. These agreements contain clauses whereby the Society is liable for liquidated damages in the event of cancellation. Management is of the opinion that no material liability is likely. The maximum possible amount of liquidated damages totaled approximately \$32,000 as of June 30, 2016.

THE AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

9. Temporarily Restricted Net Assets

The temporarily restricted net assets of the Society were available for the following programs or purposes as of June 30, 2016:

Watkins water feature	\$ 247,746
Estate House restoration	79,811
Gardening on the Web initiative	55,546
Monrovia plants	45,787
Driveway repairs and paving	25,099
Carriage House improvements	19,052
Children's Garden	4,000
Garden brick wall and arch restoration	3,000
The Endowment Fund	<u>1,630</u>
Total Temporarily Restricted Net Assets	<u>\$ 481,671</u>

Net assets were released from donor-imposed restrictions by incurring expenses which satisfied the restricted purposes and through the passage of time. For the year ended June 30, 2016, net assets released from restrictions were as follows:

Satisfaction of purpose restrictions:	
Estate House restoration	\$ 154,043
Gardening on the Web initiative	89,390
Driveway repairs and paving	18,905
Carriage House improvements	12,021
The Endowment Fund	10,840
Watkins water feature	<u>1,176</u>
Total Net Assets Released from Restrictions	<u>\$ 286,375</u>

10. Permanently Restricted Net Assets and Endowments

Permanently restricted net assets consisted of the following as of June 30, 2016:

Wilma L. Pickard Endowment Fund	\$ 220,000
Jane Steffey Endowment #1	83,349
Frances Poetker Endowment	50,000
Marks Endowment	50,000
Jane Steffey Endowment #2	50,000
H. Marc Cathey Award Endowment Fund	30,870
Hunt Endowment	25,000
Jane Taylor Teaching Award Endowment Fund	20,500
Youth Gardening Intern Endowment	<u>10,000</u>
Total Permanently Restricted Net Assets	<u>\$ 539,719</u>

Continued

THE AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2016

10. Permanently Restricted Net Assets and Endowments (continued)

The Society's endowments consist of numerous individual funds established for a variety of purposes. The endowments consist of donor-restricted funds and, as required by GAAP, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Society has interpreted the District of Columbia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of the initial 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 accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

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

Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the market while assuming a moderate level of investment risk.

THE AMERICAN HORTICULTURAL SOCIETY

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

10. Permanently Restricted Net Assets and Endowments (continued)

Strategies Employed for Achieving Objectives

To satisfy its provision for annual income objectives, the Society relies on a fixed-income strategy in which investment returns are achieved through current yield (interest and dividends) and to a lesser extent capital appreciation (realized and unrealized). The Society targets a diversified fixed-income-based asset allocation to provide reasonable and predictable funds for the Society's program purposes supported by its permanently restricted endowments and to maintain a balance between the Society's spending and the protection of the principal.

Endowment Spending Policy

The Society has adopted a spending policy for the endowment funds that states that 95% of the actual interest and dividends earned, less investment fees, for the prior calendar year are available to be spent in accordance with donor restrictions.

Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2016.

Changes in endowment net assets were as follows for the year ended June 30, 2016:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2015	\$ -	\$ 539,719	\$ 539,719
Investment return:			
Investment income, net	12,470	-	12,470
Appropriations for expenditure	(10,840)	-	(10,840)
Endowment Net Assets, June 30, 2016	\$ 1,630	\$ 539,719	\$ 541,349

Temporarily restricted endowment net assets were as follows as of June 30, 2016:

The portion of perpetual endowment funds that was subject to purpose restriction under UPMIFA	<u>\$ 1,630</u>
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Permanently restricted net assets were as follows as of June 30, 2016:

The portion of perpetual endowment funds that was required to be retained permanently, either by explicit donor stipulation or by UPMIFA	<u>\$ 539,719</u>
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THE AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

10. Permanently Restricted Net Assets and Endowments (continued)

Composition of Endowments by Net Asset Category

The Society's endowment net asset composition by fund type was as follows as of June 30, 2016:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 1,630	\$ 539,719	\$ 541,349

11. Employee Benefit Plan

The Society maintains a tax-deferred annuity plan that covers all employees meeting certain age and length-of-service requirements. Employees may elect to defer and contribute to the plan a portion of their compensation in amounts up to the maximum permitted by law. The Society matches elective employee deferrals on a dollar-for-dollar basis up to an additional 1% of compensation after one year of employment, with the maximum increasing for each additional year going forward up to 5%. The Society's contribution to the Plan was \$32,614 for the year ended June 30, 2016.

12. Income Taxes

The Society is exempt from the payment of taxes on income other than net unrelated business income under Section 501(c)(3) of the IRC. No provision for income taxes is required for the year ended June 30, 2016, because the Society had no net taxable unrelated business income.

The Society adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and de-recognition of tax positions taken or expected to be taken in a tax return. The Society performed an evaluation of uncertain tax positions for the year ended June 30, 2016, and determined that there were no matters that would require recognition in the financial statements, or that may have any effect on its tax-exempt status. As of June 30, 2016, the statute of limitations for tax years 2012 through 2014 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Society files tax returns. It is the Society's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2016, the Society had no accruals for interest and/or penalties.

Continued

THE AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

13. Related Party Transactions

During the year ended June 30, 2016, the spouse of the Executive Director of the Society was paid compensation as an employee, the Volunteer Program Manager and Horticulturist, for the performance of services.

14. Subsequent Events

In preparing the financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through January 31, 2017, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

THE AMERICAN HORTICULTURAL SOCIETY

SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Program Services				Supporting Services				Total
	Educational Programs	Membership	Communications	Gardens and Buildings	Total Program Services	Management and General	Fundraising and Development	Total Supporting Services	
Salaries and wages	\$ 211,303	\$ 104,471	\$ 199,633	\$ 174,497	\$ 689,904	\$ 82,321	\$ 90,896	\$ 173,217	\$ 863,121
Meetings	533,148	-	-	53,565	586,713	2,703	21	2,724	589,437
Benefits and taxes	50,158	24,762	43,174	39,365	157,459	22,330	21,587	43,917	201,376
Printing	10,789	72,846	53,912	1,460	139,007	100	17,190	17,290	156,297
Postage	8,287	73,198	45,898	4,983	132,366	2,586	9,437	12,023	144,389
Consulting and professional fees	3,700	70,229	46,950	902	121,781	-	5,870	5,870	127,651
Donated goods	12,293	-	-	5,064	17,357	-	69,100	69,100	86,457
Depreciation and amortization	-	-	-	-	-	83,265	-	83,265	83,265
Accounting	-	-	-	-	-	60,662	-	60,662	60,662
Mail services	206	42,755	6,211	-	49,172	-	3,712	3,712	52,884
Outside services	6,844	12,214	3,537	13,743	36,338	3,432	8,988	12,420	48,758
Bank fees	-	-	-	-	-	41,219	-	41,219	41,219
Computer supplies and service	259	17,781	69	-	18,109	18,346	595	18,941	37,050
Insurance	-	-	-	-	-	33,587	-	33,587	33,587
Repairs and maintenance	-	-	-	32,724	32,724	82	-	82	32,806
Cost of merchandise	1,635	12,263	-	14,772	28,670	-	-	-	28,670
Travel	13,821	2,345	27	319	16,512	3,770	4,038	7,808	24,320
Taxes and licenses	-	-	1,776	5,628	7,404	5,251	10,465	15,716	23,120
Supplies – operations	1,681	-	-	19,086	20,767	700	732	1,432	22,199
List rentals	-	20,229	-	-	20,229	-	-	-	20,229
Interest	-	-	-	4,468	4,468	12,870	-	12,870	17,338
Utilities	3,770	1,861	3,245	2,958	11,834	1,813	1,622	3,435	15,269
Training	-	4,675	2,282	5,422	12,379	315	107	422	12,801
Telephone	2,088	1,031	1,797	1,639	6,555	1,004	899	1,903	8,458
Housekeeping	-	-	-	8,320	8,320	-	-	-	8,320
Supplies – office	2,514	762	1,328	1,211	5,815	742	839	1,581	7,396
Advertising	25	2,588	-	4,581	7,194	45	-	45	7,239
Legal	-	-	-	-	-	6,216	-	6,216	6,216
Awards	3,939	-	-	25	3,964	1,862	-	1,862	5,826
Temporary help	-	-	-	4,805	4,805	-	-	-	4,805
Dues and subscriptions	-	-	134	1,072	1,206	541	395	936	2,142
Miscellaneous	-	-	-	-	-	1,123	-	1,123	1,123
Donations	-	-	-	-	-	550	-	550	550
TOTAL EXPENSES	\$ 866,460	\$ 464,010	\$ 409,973	\$ 400,609	\$ 2,141,052	\$ 387,435	\$ 246,493	\$ 633,928	\$ 2,774,980