



AMERICAN HORTICULTURAL SOCIETY

Financial Statements and Supplemental Information

For The Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)



**and
Report Thereon**



AMERICAN HORTICULTURAL SOCIETY

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
American Horticultural Society

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, 2018, 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, 2018, 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.

Continued

Other Matters

Report on Summarized Comparative Information

We have previously audited the Society's 2017 financial statements, and in our report dated December 20, 2017, we expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 18 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
December 13, 2018

AMERICAN HORTICULTURAL SOCIETY
STATEMENT OF FINANCIAL POSITION
June 30, 2018
(With Summarized Financial Information as of June 30, 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 449,460	\$ 287,519
Investments	3,184,931	3,299,887
Pledges receivable	27,361	46,280
Prepaid expenses and other assets	107,346	78,204
Property and equipment, net	2,273,743	2,283,085
TOTAL ASSETS	\$ 6,042,841	\$ 5,994,975
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 158,899	\$ 153,420
Deferred revenue	646,062	646,470
Capital lease obligations	10,551	19,903
Note payable	934,190	960,314
TOTAL LIABILITIES	1,749,702	1,780,107
Net Assets		
Unrestricted		
Undesignated	2,530,948	2,315,580
Board-designated	850,000	1,000,000
Total Unrestricted	3,380,948	3,315,580
Temporarily restricted	372,472	359,569
Permanently restricted	539,719	539,719
TOTAL NET ASSETS	4,293,139	4,214,868
TOTAL LIABILITIES AND NET ASSETS	\$ 6,042,841	\$ 5,994,975

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

AMERICAN HORTICULTURAL SOCIETY

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
REVENUE AND SUPPORT					
Educational programs	\$ 1,053,132	\$ -	\$ -	\$ 1,053,132	\$ 937,496
Membership dues	809,114	-	-	809,114	788,959
Contributions	588,820	84,000	-	672,820	1,584,248
River Farm rentals	292,046	-	-	292,046	293,395
Gala	184,100	-	-	184,100	135,490
Less: Direct benefit costs	<u>(22,904)</u>	<u>-</u>	<u>-</u>	<u>(22,904)</u>	<u>(32,358)</u>
Gala, Net	161,196	-	-	161,196	103,132
Investment income, net	112,251	18,979	-	131,230	214,126
Donated goods and services	101,453	-	-	101,453	158,296
Books and services	61,844	-	-	61,844	67,296
Royalty income	1,441	-	-	1,441	4,261
Other income	1,100	-	-	1,100	-
Sale of domain name	-	-	-	-	350,000
Net assets released from restrictions:					
Satisfaction of purpose restrictions	<u>90,076</u>	<u>(90,076)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>3,272,473</u>	<u>12,903</u>	<u>-</u>	<u>3,285,376</u>	<u>4,501,209</u>
EXPENSES					
Program Services:					
Educational programs	1,025,429	-	-	1,025,429	1,000,151
Membership	477,331	-	-	477,331	494,553
Gardens and Buildings	451,469	-	-	451,469	434,529
Communications	<u>404,835</u>	<u>-</u>	<u>-</u>	<u>404,835</u>	<u>395,155</u>
Total Program Services	<u>2,359,064</u>	<u>-</u>	<u>-</u>	<u>2,359,064</u>	<u>2,324,388</u>
Supporting Services:					
Management and general	552,736	-	-	552,736	401,136
Fundraising and development	<u>295,305</u>	<u>-</u>	<u>-</u>	<u>295,305</u>	<u>331,221</u>
Total Supporting Services	<u>848,041</u>	<u>-</u>	<u>-</u>	<u>848,041</u>	<u>732,357</u>
TOTAL EXPENSES	<u>3,207,105</u>	<u>-</u>	<u>-</u>	<u>3,207,105</u>	<u>3,056,745</u>
CHANGE IN NET ASSETS	65,368	12,903	-	78,271	1,444,464
NET ASSETS, BEGINNING OF YEAR	<u>3,315,580</u>	<u>359,569</u>	<u>539,719</u>	<u>4,214,868</u>	<u>2,770,404</u>
NET ASSETS, END OF YEAR	<u>\$ 3,380,948</u>	<u>\$ 372,472</u>	<u>\$ 539,719</u>	<u>\$ 4,293,139</u>	<u>\$ 4,214,868</u>

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

AMERICAN HORTICULTURAL SOCIETY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)

Increase (Decrease) in Cash and Cash Equivalents

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 78,271	\$ 1,444,464
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	79,443	76,023
Loss on disposal of property and equipment	-	1,644
Realized and unrealized gain on investments	(91,729)	(180,013)
Bad debt expense	9,034	-
Changes in assets and liabilities:		
Pledges receivable	9,885	7,337
Prepaid expenses and other assets	(29,142)	28,504
Accounts payable and accrued expenses	5,479	2,454
Deferred revenue	(408)	(184,233)
NET CASH PROVIDED BY OPERATING ACTIVITIES	60,833	1,196,180
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(503,832)	(1,658,995)
Proceeds from sales of investments	710,517	763,988
Purchases of property and equipment	(70,101)	(135,062)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	136,584	(1,030,069)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on note payable	(25,871)	(24,525)
Borrowings on lines of credit	-	238,000
Repayments on lines of credit	-	(238,000)
Payments on capital lease obligation	(9,605)	(15,420)
NET CASH USED IN FINANCING ACTIVITIES	(35,476)	(39,945)
NET INCREASE IN CASH AND CASH EQUIVALENTS	161,941	126,166
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	287,519	161,353
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 449,460	\$ 287,519
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	\$ 51,133	\$ 59,595
NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired under a capital lease	\$ -	\$ 22,992
Obligation of equipment acquired under a capital lease	-	(22,992)
	\$ -	\$ -

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

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

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 practice 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. Reciprocal admissions, travel study 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.

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. River Farm Gardens and Buildings staff work with an engaged local volunteer base to maintain the property. The Gardens and Buildings staff also provide interpretive educational content, tours and coordination in support of the Society's on-site and national programs.

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 educating and communicating about horticulture through a variety of media.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2018

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

Organization (continued)

The Society's website and Internet presence provide 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.

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, certificates of deposit, 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 accompanying 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 Measurement

Accounting standards define fair value, establish a framework for measuring fair value in accordance with GAAP, and expand disclosures about fair value measurement 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 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.

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2018

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

Fair Value Measurement (continued)

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 \$1,000. 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. A portion of the unrestricted net assets has been designated by the Society's Board of Directors for specific projects or purposes.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or future periods.
- 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.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

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

Revenue Recognition

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 is recognized when earned. Amounts received in advance are reported as deferred revenue.

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 to give 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 to particular purposes 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 reporting period in which the contribution is received are recorded as unrestricted.

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

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 their 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 ended June 30, 2018, that are not recognized as contributions in the financial statements since the recognition criteria are not met.

Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the accompanying 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.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

2. Investments

Investments consisted of the following as of June 30, 2018:

Common stock	\$ 1,598,565
Corporate bonds	897,036
Certificates of deposit	398,581
Mutual funds	218,617
Money market funds	<u>72,132</u>
Total Investments	<u>\$ 3,184,931</u>

Investment income is summarized as follows for the year ended June 30, 2018:

Interest and dividends	\$ 60,175
Realized gains	71,052
Unrealized gains	<u>20,677</u>
Total Investment Income	151,904
Less: Investment Fees	<u>(20,674)</u>
Investment Income, Net	<u>\$ 131,230</u>

3. Fair Value Measurement

The following table summarizes the Society's assets measured at fair value on a recurring basis as of June 30, 2018, 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	\$ 205,518	\$ 205,518	\$ -	\$ -
Consumer staples	99,876	99,876	-	-
Energy	94,246	94,246	-	-
Financials	340,550	340,550	-	-
Healthcare	166,320	166,320	-	-
Industrials	205,435	205,435	-	-
Information technology	262,171	262,171	-	-
Materials	136,764	136,764	-	-
Real estate	74,902	74,902	-	-
Telecommunications	5,283	5,283	-	-
Utilities	<u>7,500</u>	<u>7,500</u>	<u>-</u>	<u>-</u>
Total Common Stock	1,598,565	1,598,565	-	-

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

3. Fair Value Measurement (continued)

<i>(continued)</i>	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Corporate bonds	\$ 897,036	\$ -	\$ 897,036	\$ -
Certificates of deposit	398,581	-	398,581	-
Mutual funds	218,617	218,617	-	-
Money market funds	<u>72,132</u>	<u>72,132</u>	<u>-</u>	<u>-</u>
Total Investments Measured at Fair Value	<u>\$ 3,184,931</u>	<u>\$ 1,889,314</u>	<u>\$ 1,295,617</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 on the basis of current yields, the securities' terms and conditions, and market activity. Information used includes market sources, credit information, observed market movement and sector news.

Certificates of deposit – Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable characteristics. These investments are classified within Level 2 of the valuation hierarchy.

Mutual funds and money market funds – Valued using the net asset value of shares held at year-end and on the basis of 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.

4. Pledges Receivable

The Society had pledges receivable of \$27,361 as of June 30, 2018. All pledges are due in less than one year. The Society has not recorded an allowance for uncollectible accounts, as management believes all amounts are fully collectible.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

5. Property and Equipment

The Society's property and equipment consisted of the following as of June 30, 2018:

Land	\$ 647,008
Land improvements	1,167,355
Building and building improvements	1,055,737
Furniture and equipment	<u>245,031</u>
Total Property and Equipment	3,115,131
Less: Accumulated Depreciation and Amortization	<u>(841,388)</u>
Property and Equipment, Net	<u><u>\$ 2,273,743</u></u>

Depreciation and amortization expense totaled \$79,443 for the year ended June 30, 2018. Capitalized interest in the amount of \$60,733 is included in 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, including 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, 2018, the Society was in compliance with these restrictive covenants.

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

For the Year Ending June 30,	
2019	\$ 27,283
2020	28,639
2021	30,333
2022	31,988
2023	33,732
Thereafter	<u>782,215</u>
Total	<u><u>\$ 934,190</u></u>

Interest expense relating to the note payable agreement totaled \$51,133, for the year ended June 30, 2018.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

7. Lines of Credit

At the beginning of fiscal year 2018, 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%. In March 2018, the Society closed this line of credit and opened a secured line of credit of \$300,000. The new line of credit is secured by a blanket UCC lien on all business assets of the Society. Funds drawn on the line are subject to various restrictive covenants pertaining to financial records and bank accounts opened. As of June 30, 2018, the Society was in compliance with these restrictive covenants. During the year ended June 30, 2018, the Society had no draws on either line of credit.

8. Net Assets

Unrestricted Net Assets

Unrestricted net assets consist of undesignated unrestricted net assets and board-designated net assets that have been established by the Society's Board of Directors. The Board retains the rights to use these funds for operational issues at its discretion.

Temporarily Restricted Net Assets

The temporarily restricted net assets of the Society were available for the following programs or purposes as of June 30, 2018:

Watkins water feature	\$ 247,746
Rental tent and fixtures	37,465
Estate House restoration	33,227
Monrovia plants	16,370
Carriage House improvements	15,048
Driveway repairs and paving	13,229
Children's Garden	4,000
The Endowment Fund	3,387
Garden brick wall and arch restoration	<u>2,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 372,472</u>

Net assets were released from donor-imposed restrictions by incurring expenses which satisfied the restricted purposes. For the year ended June 30, 2018, net assets released from restrictions were as follows:

Satisfaction of purpose restrictions:	
Rental tent and fixtures	\$ 34,535
Monrovia plants	20,876
The Endowment Fund	18,030
Garden brick wall and arch restoration	13,000
Estate House restoration	<u>3,635</u>
Total Net Assets Released from Restrictions	<u>\$ 90,076</u>

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

8. Net Assets (continued)

Permanently Restricted Net Assets and Endowments

Permanently restricted net assets consisted of the following as of June 30, 2018:

Wilma L. Pickard Endowment Fund	\$ 220,000
Jane Steffey Endowment #1	83,349
Jane Steffey Endowment #2	50,000
Frances Poetker Endowment	50,000
Marks Endowment	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>

9. Endowments

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 at which the 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.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2018

9. Endowments (continued)

Interpretation of Relevant Law (continued)

- 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.

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, 2018.

Composition of Endowments by Net Asset Category

The Society's endowment net asset composition by fund type was as follows as of June 30, 2018:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 3,387	\$ 539,719	\$ 543,106

Continued

AMERICAN HORTICULTURAL SOCIETY

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

9. Endowments (continued)

Composition of Endowments by Net Asset Category (continued)

Changes in endowment net assets were as follows for the year ended June 30, 2018:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2017	\$ 2,438	\$ 539,719	\$ 542,157
Investment return:			
Investment income, net	18,979	-	18,979
Appropriations for expenditure	<u>(18,030)</u>	<u>-</u>	<u>(18,030)</u>
Endowment Net Assets, June 30, 2018	<u>\$ 3,387</u>	<u>\$ 539,719</u>	<u>\$ 543,106</u>

Temporarily restricted endowment net assets were as follows as of June 30, 2018:

The portion of perpetual endowment funds that was subject to purpose restriction under UPMIFA	<u>\$ 3,387</u>
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Permanently restricted net assets were as follows as of June 30, 2018:

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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10. Commitments and Risks

Concentration of Credit Risk

The Society maintains its cash and cash equivalents with certain commercial financial institutions in the U.S., which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of June 30, 2018, the Society had approximately \$980,000 composed of operating accounts, money markets and certificates of deposit, which exceeded the maximum limit insured by the FDIC by approximately \$184,000. The Society monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

11. Deferred Compensation Plan

AHS's contract with its Chief Executive Officer (the CEO) requires the organization to establish a deferred compensation plan (the Plan) for the CEO. This plan is to be set up as an IRC Section 457(f) deferred compensation plan. The contract further stipulated that, for the CEO's first year of employment, AHS was to contribute to the Plan a maximum of 3.3% of her base salary. Thereafter, AHS is required to contribute to the CEO's retirement in amounts consistent with that which is available to all other AHS employees. As of June 30, 2018, the Plan had not yet been established, but AHS had set aside \$4,950 per the contract's terms. This amount is included in accounts payable and accrued expenses in the accompanying statement of financial position.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

12. 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. Employees may begin to contribute on the first of the month following employment. After one year of employment, the Society matches elective employee deferrals in whole percentage amounts (1%, 2%, 3%, 4% or 5%) up to 5% of the employee's compensation. The Society's contribution to the Plan totaled \$21,232 for the year ended June 30, 2018.

13. 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, 2018, because the Society had no material net taxable unrelated business income.

The Society adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB 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 derecognition of tax positions taken or expected to be taken in a tax return. The Society performed an evaluation of uncertainty in income taxes for the year ended June 30, 2018, 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, 2018, the statute of limitations for tax years 2014 through 2016 remained 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 uncertainty in income taxes, if any, in income tax expense. As of June 30, 2018, the Society had no accruals for interest and/or penalties.

14. Prior Year Summarized Financial Information

The accompanying 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 GAAP. Accordingly, such information should be read in conjunction with the Society's audited financial statements for the year ended June 30, 2017, from which the summarized information was prepared.

15. Subsequent Events

In preparing the financial statements, the Society has evaluated for potential recognition or disclosure, events and transactions through December 13, 2018, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.

SUPPLEMENTAL INFORMATION

AMERICAN HORTICULTURAL SOCIETY
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)

	Program Services				Supporting Services				2018 Total	2017 Total
	Educational Programs	Membership	Gardens and Buildings	Communications	Total Program Services	Management and General	Fundraising and Development	Total Supporting Services		
Meetings, tours, and activities	\$ 782,603	\$ -	\$ 38,463	\$ 35	\$ 821,101	\$ 2,083	\$ 38,514	\$ 40,597	\$ 861,698	\$ 791,864
Salaries and wages	146,672	108,488	199,840	199,267	654,267	120,235	78,385	198,620	852,887	824,565
Consulting and professional fees	3,409	71,128	-	41,569	116,106	88,753	5,301	94,054	210,160	143,264
Benefits and taxes	31,470	23,310	42,847	38,899	136,526	30,105	16,824	46,929	183,455	185,759
Printing	12,355	78,505	954	54,854	146,668	243	16,026	16,269	162,937	161,370
Postage	12,502	65,628	5,203	48,604	131,937	2,307	11,419	13,726	145,663	163,441
Donated goods and services	-	1,820	23,430	-	25,250	-	97,079	97,079	122,329	158,297
Depreciation and amortization	-	-	-	-	-	79,443	-	79,443	79,443	76,023
Accounting	-	-	-	-	-	76,927	-	76,927	76,927	67,792
Outside services	7,461	16,591	6,988	3,308	34,348	1,510	17,008	18,518	52,866	46,117
Bank fees	-	-	-	-	-	51,154	-	51,154	51,154	40,835
Interest	-	-	50,633	-	50,633	500	-	500	51,133	59,595
Mail services	240	44,536	-	3,329	48,105	-	2,390	2,390	50,495	51,019
Computer supplies and service	358	17,486	-	-	17,844	23,200	-	23,200	41,044	38,860
Supplies – office	5,026	3,561	10,439	5,877	24,903	3,666	2,673	6,339	31,242	7,987
Miscellaneous	-	-	60	-	60	26,049	-	26,049	26,109	1,335
Insurance	-	-	-	-	-	25,434	-	25,434	25,434	28,580
Cost of merchandise	2,665	12,393	9,623	-	24,681	-	-	-	24,681	38,287
List rentals	-	20,917	-	-	20,917	-	-	-	20,917	22,283
Travel	11,528	791	611	1,381	14,311	5,204	1,318	6,522	20,833	14,962
Utilities	3,308	2,453	4,517	4,110	14,388	3,986	1,764	5,750	20,138	15,221
Supplies – operations	1,598	563	15,874	-	18,035	-	375	375	18,410	29,506
Taxes and licenses	344	-	4,839	2,011	7,194	3,654	4,908	8,562	15,756	21,343
Temporary help	75	-	9,332	-	9,407	-	-	-	9,407	3,738
Repairs and maintenance	-	-	9,124	-	9,124	-	-	-	9,124	7,111
Training	350	5,330	2,839	392	8,911	-	55	55	8,966	13,375
Advertising	40	3,265	4,887	50	8,242	90	390	480	8,722	9,289
Housekeeping	-	-	8,160	-	8,160	-	-	-	8,160	8,068
Awards	2,561	-	-	-	2,561	2,609	98	2,707	5,268	4,534
Telephone	764	566	1,039	945	3,314	1,145	408	1,553	4,867	9,566
Dues and subscriptions	100	-	1,767	204	2,071	1,349	370	1,719	3,790	3,356
Legal	-	-	-	-	-	3,090	-	3,090	3,090	7,759
Loss on disposal of property and equipment	-	-	-	-	-	-	-	-	-	1,644
TOTAL EXPENSES	\$ 1,025,429	\$ 477,331	\$ 451,469	\$ 404,835	\$ 2,359,064	\$ 552,736	\$ 295,305	\$ 848,041	\$ 3,207,105	\$ 3,056,745