



AMERICAN HORTICULTURAL SOCIETY

Financial Statements

For The Year Ended June 30, 2019

(With Summarized Financial Information for the Year Ended June 30, 2018)



**and
Report Thereon**



AMERICAN HORTICULTURAL SOCIETY

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For the Year Ended June 30, 2019

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INDEPENDENT AUDITORS' 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, 2019, and the related statements of activities, functional expenses 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.

Auditors' 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 from material misstatement.

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

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

Continued

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Opinion

In our opinion, the 2019 financial statements referred to above present fairly, in all material respects, the financial position of the American Horticultural Society as of June 30, 2019, 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 Summarized Comparative Information*

The Society's 2018 financial statements were audited by Raffa, P.C., whose practice was combined with Marcum LLP and whose report dated December 13, 2018, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Handwritten signature of Marcum LLP in cursive script.

Washington, DC
November 14, 2019

AMERICAN HORTICULTURAL SOCIETY
STATEMENT OF FINANCIAL POSITION
June 30, 2019
(With Summarized Financial Information as of June 30, 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 627,478	\$ 449,460
Investments	3,178,563	3,184,931
Pledges receivable	16,371	27,361
Prepaid expenses and other assets	180,023	107,346
Property and equipment, net	2,253,800	2,273,743
TOTAL ASSETS	\$ 6,256,235	\$ 6,042,841
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 99,106	\$ 158,899
Deferred revenue	806,072	646,062
Capital lease obligations	-	10,551
Note payable	907,004	934,190
TOTAL LIABILITIES	1,812,182	1,749,702
Net Assets		
Without donor restrictions	3,560,722	3,380,948
With donor restrictions	883,331	912,191
TOTAL NET ASSETS	4,444,053	4,293,139
TOTAL LIABILITIES AND NET ASSETS	\$ 6,256,235	\$ 6,042,841

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

AMERICAN HORTICULTURAL SOCIETY

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

(With Summarized Financial Information for the Year Ended June 30, 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
REVENUE AND SUPPORT				
Educational programs	\$ 1,051,173	\$ -	\$ 1,051,173	\$ 1,053,132
Membership dues and contributions	1,299,883	53,000	1,352,883	1,481,934
River Farm rentals	265,674	-	265,674	292,046
Gala	265,130	-	265,130	184,100
Less: Direct benefit costs	<u>(22,090)</u>	<u>-</u>	<u>(22,090)</u>	<u>(22,904)</u>
Gala, Net	243,040	-	243,040	161,196
Investment income, net	183,742	12,108	195,850	131,230
Donated goods and services	71,646	-	71,646	101,453
Books and services	57,083	-	57,083	61,844
Royalty income	2,969	-	2,969	1,441
Other income	1,300	-	1,300	1,100
Net assets released from restrictions:				
Satisfaction of purpose restrictions	<u>93,968</u>	<u>(93,968)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>3,270,478</u>	<u>(28,860)</u>	<u>3,241,618</u>	<u>3,285,376</u>
 EXPENSES				
Program Services:				
Educational programs	974,542	-	974,542	1,025,429
Membership	453,799	-	453,799	477,331
Communications	449,158	-	449,158	404,835
Gardens and Buildings	<u>428,573</u>	<u>-</u>	<u>428,573</u>	<u>451,469</u>
Total Program Services	<u>2,306,072</u>	<u>-</u>	<u>2,306,072</u>	<u>2,359,064</u>
Supporting Services:				
Management and general	500,412	-	500,412	552,736
Fundraising and development	<u>284,220</u>	<u>-</u>	<u>284,220</u>	<u>295,305</u>
Total Supporting Services	<u>784,632</u>	<u>-</u>	<u>784,632</u>	<u>848,041</u>
TOTAL EXPENSES	<u>3,090,704</u>	<u>-</u>	<u>3,090,704</u>	<u>3,207,105</u>
CHANGE IN NET ASSETS	179,774	(28,860)	150,914	78,271
NET ASSETS, BEGINNING OF YEAR	<u>3,380,948</u>	<u>912,191</u>	<u>4,293,139</u>	<u>4,214,868</u>
NET ASSETS, END OF YEAR	<u>\$ 3,560,722</u>	<u>\$ 883,331</u>	<u>\$ 4,444,053</u>	<u>\$ 4,293,139</u>

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

AMERICAN HORTICULTURAL SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019
(With Summarized Financial Information for the Year Ended June 30, 2018)

	Program Services				Supporting Services			2019 Total	2018 Total	
	Educational Programs	Membership	Communications	Gardens and Buildings	Total Program Services	Management and General	Fundraising and Development			Total Supporting Services
Salaries and wages	\$ 171,337	\$ 106,161	\$ 222,366	\$ 227,313	\$ 727,177	\$ 153,344	\$ 88,468	\$ 241,812	\$ 968,989	\$ 852,887
Meetings, tours, and activities	687,576	-	-	5,928	693,504	5,413	45,141	50,554	744,058	861,698
Benefits and taxes	35,399	21,972	42,723	45,164	145,258	31,737	18,310	50,047	195,305	183,455
Consulting and professional fees	4,598	72,451	44,902	-	121,951	44,024	1,468	45,492	167,443	210,160
Printing	4,321	75,477	64,076	60	143,934	924	15,911	16,835	160,769	162,937
Postage	4,260	85,451	48,335	2,758	140,804	2,070	11,840	13,910	154,714	145,663
Depreciation and amortization	-	-	-	-	-	97,754	-	97,754	97,754	79,443
Donated goods and services	525	-	-	11,845	12,370	-	59,275	59,275	71,645	122,329
Outside services	5,498	11,241	13,321	6,391	36,451	344	17,127	17,471	53,922	52,866
Interest	-	-	-	49,604	49,604	1,355	-	1,355	50,959	51,133
Accounting	-	-	-	-	-	48,128	-	48,128	48,128	76,927
Bank fees	-	-	-	-	-	43,325	-	43,325	43,325	51,154
Mail services	-	40,670	560	-	41,230	-	-	-	41,230	50,495
Computer supplies and service	348	15,572	1,020	-	16,940	13,292	195	13,487	30,427	41,044
Utilities	4,593	2,851	5,543	5,860	18,847	4,298	2,376	6,674	25,521	20,138
Travel	17,444	1,995	-	3,328	22,767	670	1,461	2,131	24,898	20,833
Insurance	-	-	-	-	-	24,268	-	24,268	24,268	25,434
Temporary help	-	-	-	9,064	9,064	14,980	-	14,980	24,044	9,407
List rentals	23,648	-	-	-	23,648	-	-	-	23,648	20,917
Cost of merchandise	2,819	11,347	2,385	6,478	23,029	-	-	-	23,029	24,681
Supplies – operations	-	299	-	15,300	15,599	3,548	2,072	5,620	21,219	18,410
Taxes and licenses	-	-	851	5,880	6,731	3,804	8,876	12,680	19,411	15,756
Repairs and maintenance	-	-	-	8,282	8,282	-	8,718	8,718	17,000	9,124
Advertising	579	6,944	75	7,352	14,950	450	-	450	15,400	8,722
Supplies – office	3,197	766	1,790	4,799	10,552	1,255	722	1,977	12,529	31,242
Awards	7,829	-	-	-	7,829	1,375	-	1,375	9,204	5,268
Housekeeping	-	-	-	8,082	8,082	-	-	-	8,082	8,160
Dues and subscriptions	180	-	235	3,863	4,278	2,679	983	3,662	7,940	3,790
Telephone	391	243	472	499	1,605	351	202	553	2,158	4,867
Training	-	359	500	533	1,392	4	-	4	1,396	8,966
Miscellaneous	-	-	4	190	194	-	1,075	1,075	1,269	26,109
Legal	-	-	-	-	-	1,020	-	1,020	1,020	3,090
Total Expenses Excluding Direct Benefit Costs	974,542	453,799	449,158	428,573	2,306,072	500,412	284,220	784,632	3,090,704	3,207,105
Direct benefit costs	-	-	-	-	-	-	22,090	22,090	22,090	22,904
TOTAL EXPENSES	\$ 974,542	\$ 453,799	\$ 449,158	\$ 428,573	\$ 2,306,072	\$ 500,412	\$ 306,310	\$ 806,722	\$ 3,112,794	\$ 3,230,009

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

AMERICAN HORTICULTURAL SOCIETY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2019

(With Summarized Financial Information for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 150,914	\$ 78,271
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	97,754	79,443
Realized and unrealized gain on investments	(217,222)	(91,729)
Bad debt expense	-	9,034
Changes in assets and liabilities:		
Pledges receivable	10,990	9,885
Prepaid expenses and other assets	(72,677)	(29,142)
Accounts payable and accrued expenses	(59,793)	5,479
Deferred revenue	<u>160,010</u>	<u>(408)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>69,976</u>	<u>60,833</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,677,550)	(503,832)
Proceeds from sales of investments	3,901,140	710,517
Purchases of property and equipment	<u>(77,811)</u>	<u>(70,101)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>145,779</u>	<u>136,584</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on note payable	(27,186)	(25,871)
Payments on capital lease obligation	<u>(10,551)</u>	<u>(9,605)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(37,737)</u>	<u>(35,476)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	178,018	161,941
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>449,460</u>	<u>287,519</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 627,478</u>	<u>\$ 449,460</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 50,959</u>	<u>\$ 51,133</u>

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, 2019

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). Through its educational outreach and resources, national and local partnerships and programs, and publicly accessible on-site gardens, the Society connects people to gardening, raises awareness of earth-friendly gardening practices, introduces children to plants and the natural world, collaborates with partners to address important national issues, and showcases the art and practice of horticulture. The Society's membership includes nearly 20,000 avid gardeners, plant enthusiasts, and horticultural professionals, as well as numerous national and regional partner organizations. The Society's significant sources of support include membership dues, contributions, educational programs, and River Farm rentals.

The Society's activities and focus areas are as follows:

Educational Programs – These activities focus on sharing the art and practice of horticulture with people at all levels of gardening expertise, with a special emphasis on gardening for 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. The society partners with a range of nonprofit organizations and governmental agencies to educate and engage the public on issues at the intersection of horticulture, the environment, individual and community health. A reciprocal admission program offers members free or reduced admission to approximately 325 public gardens and arboreta nationwide and, along with international travel-study trips and other special programs, offers the opportunity for experiential, garden-based learning and appreciation. 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 – As a membership organization, the AHS provides services and outreach in support of its 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 inspiring them to have 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 membership agreements connect AHS members with a national network of public gardens and horticultural organizations extending the Society's educational reach.

Communications – Communications activities are a key part of the Society's educational outreach and member service offerings. The Society's flagship bimonthly member publication, The American Gardener magazine provides useful and authoritative information on a range of horticulture topics. In combination with other resources offered via the Society's website,

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2019

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

Organization (continued)

Communications (continued) – ahsgardening.org, an online magazine archive, with issues dating back to 1922, provides the general public with access to a vast trove of gardening information and ideas. With more than 100 books devoted to horticultural practice and 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 AHS engages a national community of gardeners and garden enthusiasts around the world via multiple social media platforms.

Gardens and Buildings – The AHS maintains, opens to the public, and enhances River Farm, the Society's 25-acre headquarters, which was one of five Virginia properties originally owned by George Washington. A site of regional, national, horticultural and historic significance, River Farm is open to visitors and serves as a venue for educational programs, botanically themed 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 staff work with an engaged local volunteer base to maintain the property. River Farm staff also provide interpretive educational content, tours and coordination in support of the Society's on-site and national programs. The AHS derives revenue to maintain River Farm and support its mission programs through its garden shop, exhibition program, tours, and site rentals for weddings, memorials, retreats, and special events.

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, bond funds, money market funds, certificates of deposit and mutual 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 net assets without donor restrictions, unless restricted by donor or law. However, investment earnings are reported as increases in net assets without donor restrictions if the restrictions are met in the reporting period in which the investment earnings are recognized.

AMERICAN HORTICULTURAL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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

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.

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

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2019

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

Property and Equipment and Related Depreciation (continued)

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.

Classification of Net Assets

The Society's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of the Society at the discretion of the Society's management and the Board of Directors (the Board).

From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion. As of June 30, 2019, the board-designated net assets were \$736,869, and are included in investments in the accompanying statement of financial position.

- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of the Society or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Contributions with donor restrictions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the accompanying statement of activities.

Revenue Recognition

The Society reports gifts of cash and other assets as having donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose of a restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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

Membership payments received in excess of the base listed dues level represent a contribution. Dues received in advance of the membership period are deferred and recognized as revenue over the members' respective membership year. The unconditional contribution component is recognized as revenue when received.

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2019

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

Revenue Recognition (continued)

The Society recognizes all unconditional contributed support in the period in which the commitment to give is made. Contributions are considered revenue and support without donor restrictions and available for general operations unless specifically restricted by the donor. The Society reports contributions as revenue and support with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions. Contributions with donor restrictions for which the restriction is met in the same reporting period in which the contribution is received are recorded as without restriction.

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 a receivable.

Donated Goods and Services

Donated goods and services include food and supplies for events, merchandise for fundraising auctions, and landscape and arborist services. 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 without donor restrictions.

Volunteers also provided various services throughout the year ended June 30, 2019, that are not recognized as contributions in the financial statements since the required recognition criteria is not met.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Expenses directly attributed to a specific functional area of the Society are reported as expenses of those functional areas. Salaries are allocated to programs and supporting services based on employee's timesheets. Fringe benefits and shared costs (such as postage, supplies, telephone and utility) that benefit multiple functional areas have been allocated among the various functional areas based on actual time and effort expended on those functional areas.

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.

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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

New Accounting Pronouncement

On August 18, 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return for nonprofit organizations. The Society has adjusted the presentation of these statements accordingly. ASU has been applied retrospectively to the summarized comparative information presented for the year ended June 30, 2019.

2. Investments

Investments consisted of the following as of June 30, 2019:

Common stock	\$ 1,659,369
Bond funds	977,397
Money market funds	213,734
Certificate of deposits	200,049
Mutual funds	<u>128,014</u>
Total Investments	<u>\$ 3,178,563</u>

Investment income is summarized as follows for the year ended June 30, 2019:

Interest and dividends	\$ 61,065
Realized and unrealized gains	<u>156,157</u>
Total Investment Income	217,222
Less: Investment Fees	<u>(21,372)</u>
Investment Income, Net	<u>\$ 195,850</u>

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

3. Fair Value Measurement

The following table summarizes the Society's assets measured at fair value on a recurring basis as of June 30, 2019, aggregated by the fair value hierarchy level with which those measurements were made:

	<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>
Common stock:				
Financials	\$ 383,754	\$ 383,754	\$ -	\$ -
Information technology	268,785	268,785	-	-
Healthcare	160,006	160,006	-	-
Telecommunications	150,149	150,149	-	-
Industrials	145,799	145,799	-	-
Materials	131,038	131,038	-	-
Consumer discretionary	129,197	129,197	-	-
Consumer staples	122,488	122,488	-	-
Energy	82,495	82,495	-	-
Real estate	75,220	75,220	-	-
Utilities	<u>10,438</u>	<u>10,438</u>	<u>-</u>	<u>-</u>
Total Common Stock	1,659,369	1,659,369	-	-
Corporate bonds	749,094	-	749,094	-
US treasury bond	228,303	-	228,303	-
Money market funds	213,734	213,734	-	-
Certificates of deposit	200,049	-	200,049	-
Mutual funds	<u>128,014</u>	<u>128,014</u>	<u>-</u>	<u>-</u>
Total Investments Measured at Fair Value	<u>\$ 3,178,563</u>	<u>\$ 2,001,117</u>	<u>\$ 1,177,446</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.

Bond funds – 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.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

3. Fair Value Measurement (continued)

Money market funds and mutual 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. Property and Equipment

The Society's property and equipment consisted of the following as of June 30, 2019:

Land	\$ 647,008
Land improvements	1,170,355
Building and building improvements	1,055,737
Furniture and equipment	<u>319,842</u>
Total Property and Equipment	3,192,942
Less: Accumulated Depreciation and Amortization	<u>(939,142)</u>
Property and Equipment, Net	<u>\$ 2,253,800</u>

Depreciation and amortization expense totaled \$97,754 for the year ended June 30, 2019. Capitalized interest in the amount of \$60,733 is included in land improvements in the current year.

5. 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 financial covenants. The Society is in compliance with these financial covenants.

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

5. Note Payable (continued)

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>	
2020	\$ 28,639
2021	30,333
2022	31,988
2023	33,732
2024	32,486
Thereafter	<u>749,826</u>
Total	<u>\$ 907,004</u>

Interest expense relating to the note payable agreement totaled \$50,959 for the year ended June 30, 2019.

6. Lines of Credit

In March 2018, the Society opened a secured line of credit of \$300,000 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 5.5%. The 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 financial covenants. The Society is in compliance with these financial covenants. During the year ended June 30, 2019, the Society had no draws on the line of credit.

7. Net Assets

Net Assets Without Donor Restrictions

The Society's net assets without donor restrictions are composed of undesignated amounts and board-designated amounts for a working capital reserve. As of June 30, 2019, the Society's net assets without donor restrictions were as follows:

Undesignated	\$ 2,823,853
Board-designated reserve	<u>736,869</u>
Total Net Assets Without Donor Restrictions	<u>\$ 3,560,722</u>

The board-designated net assets for a working capital reserve were instituted to provide funding for various strategic initiatives of the Society.

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

7. Net Assets (continued)

Net Assets With Donor Restrictions

Net assets subject to expenditure for specified purposes as of June 30, 2019:

Watkins water feature	\$ 247,746
Estate House restoration	33,227
Monrovia plants	16,370
Carriage House improvements	15,048
Driveway repairs and paving	13,229
Brides Walkway	10,000
Children's Garden	4,000
The Endowment Fund	<u>3,992</u>
Total Subject to Expenditure for Specified Purpose	<u>343,612</u>

Net assets in perpetuity consisted of the following as of June 30, 2019:

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 Net Assets in Perpetuity	<u>539,719</u>
Total Net Assets With Donor Restrictions	<u>\$ 883,331</u>

Net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes. For the year ended June 30, 2019, net assets released from restrictions were as follows:

Satisfaction of restrictions specified for purpose:	
Patio restoration	\$ 43,000
Rental tent and fixtures	37,465
The Endowment Fund	11,503
Garden brick wall and arch restoration	<u>2,000</u>
Total Net Assets Released from Restrictions	<u>\$ 93,968</u>

8. 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.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2019

8. Endowments (continued)

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 net assets with donor restrictions to be held in perpetuity (a) the original value of the initial gifts donated to the endowment; (b) the original value of subsequent gifts to the endowment; and (c) accumulations to the 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 net assets with donor restrictions to be held in perpetuity is classified as net assets with donor restrictions subject to expenditure for a specified purpose as 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.

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 endowments held in perpetuity and to maintain a balance between the Society's spending and the protection of the principal.

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

8. Endowments (continued)

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, 2019.

Composition of Endowments by Net Asset Category

The Society's endowment net asset composition by fund type was as follows as of June 30, 2019:

	<u>For A Specified Purpose</u>	<u>Held In Perpetuity</u>	<u>Total</u>
Donor-restricted	<u>\$ 3,992</u>	<u>\$ 539,719</u>	<u>\$ 543,711</u>

Changes in endowment net assets were as follows for the year ended June 30, 2019:

	<u>For A Specified Purpose</u>	<u>Held In Perpetuity</u>	<u>Total</u>
Endowment net assets, July 1, 2018	\$ 3,387	\$ 539,719	\$ 543,106
Investment return:			
Investment income, net	12,108	-	12,108
Appropriations for expenditure	<u>(11,503)</u>	<u>-</u>	<u>(11,503)</u>
Endowment Net Assets, June 30, 2019	<u>\$ 3,992</u>	<u>\$ 539,719</u>	<u>\$ 543,711</u>

The endowment net assets with donor restrictions were as follows as of June 30, 2019:

The portion of perpetual endowment funds that was subject to purpose restriction under UPMIFA	<u>\$ 3,992</u>
The portion of perpetual endowment funds that was required to be retained in perpetuity either by explicit donor stipulation or by UPMIFA	<u>\$ 539,719</u>

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2019

9. 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, 2019, the Society had approximately \$844,580 composed of 2 operating accounts, money market accounts and certificates of deposit, which exceeded the maximum limit insured by the FDIC by approximately \$249,633. The Society monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

10. Availability and Liquidity

The Society regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. The Society's financial assets available within one year of the consolidated statement of financial position date for general expenditures at June 30, 2019, were as follows:

Cash and cash equivalents	\$ 627,478
Investments	3,178,563
Pledges receivable	<u>16,371</u>
Total Financial Assets Available Within One Year	3,822,412
Less amounts unavailable for general expenditures within one year:	
Amounts restricted by donors to be held in perpetuity	(539,719)
Amounts restricted by donors with purpose restrictions	(343,612)
Amounts unavailable to management without board approval:	
Board-designated	<u>(736,869)</u>
Financial Assets Available to Meet	
General Expenditures Within One Year	<u>\$ 2,202,202</u>

The Society has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of the Society throughout the year. This is done through monitoring and reviewing the Society's cash flow needs on a weekly basis. As a result, management is aware of the cyclical nature of the Society's cash flow related to the Society's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested in publicly traded investment vehicles, including mutual funds and equity securities, or to support organizational initiatives. The Society can liquidate its investments anytime, and therefore the investments are available to meet current cash flow needs. To help manage unanticipated liquidity needs, the Society has a committed line of credit of \$300,000 which is fully available to draw upon as of June 30, 2019.

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AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

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. 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 \$31,324 for the year ended June 30, 2019.

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, 2019, because the Society had no significant 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, 2019, 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. The statute of limitations with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Society files tax returns is open, however, there are currently no examinations in progress. It is the Society's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense or interest. As of June 30, 2019, the Society had no accruals for interest and/or penalties.

13. 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, 2018, from which the summarized information was prepared.

14. Subsequent Events

In preparing the financial statements, the Society has evaluated for potential recognition or disclosure, events and transactions through November 14, 2019, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.