

WORCESTER COUNTY HORTICULTURAL SOCIETY
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
AND
INDEPENDENT AUDITOR'S REPORT

WORCESTER COUNTY HORTICULTURAL SOCIETY

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Worcester County Horticultural Society

Report on the Financial Statements

We have audited the accompanying financial statements of the Worcester County Horticultural Society, which comprise the statement of financial position as of December 31, 2016, 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 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 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 Worcester County Horticultural Society as of December 31, 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.

Report on Summarized Comparative Information

We have previously audited the Worcester County Horticultural Society's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bollus Lynch, LLP

Worcester, Massachusetts
July 12, 2017

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

(With Summarized Financial Information for 2015)

	<u>2016</u>	<u>2015</u>
Assets		
Current assets		
Cash	\$ 78,448	\$ 94,601
Pledges receivable, net	386,916	109,192
Accounts receivable	315,450	219,065
Inventories	85,433	87,454
Prepaid expenses	<u>39,730</u>	<u>57,895</u>
Total current assets	905,977	568,207
Pledges receivable, net	923,699	72,024
Property, plant, and equipment, net	12,900,636	12,559,059
Investments	<u>20,582,372</u>	<u>20,066,157</u>
	<u>\$ 35,312,684</u>	<u>\$ 33,265,447</u>
Liabilities and Net Assets		
Current liabilities		
Note payable, bank	\$ -	\$ 41,554
Accounts payable	319,499	539,943
Accrued and other liabilities	199,390	81,380
Deferred revenue	<u>533,076</u>	<u>468,317</u>
Total current liabilities	<u>1,051,965</u>	<u>1,131,194</u>
Net assets		
Unrestricted	14,327,668	14,167,854
Temporarily restricted	6,266,698	4,590,253
Permanently restricted	<u>13,666,353</u>	<u>13,376,146</u>
Total net assets	<u>34,260,719</u>	<u>32,134,253</u>
	<u>\$ 35,312,684</u>	<u>\$ 33,265,447</u>

See accompanying independent auditor's report and notes to financial statements.

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016
(With Summarized Financial Information for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2016	2015
Operating activities:					
Support and revenue					
Membership dues	\$ 589,939	\$ -	\$ -	\$ 589,939	\$ 576,212
Admissions	601,594	-	-	601,594	441,518
Auxiliary activities, net of costs totaling \$398,879 and \$351,126 in 2016 and 2015	259,490	-	-	259,490	222,250
Garden shop revenue	501,154	-	-	501,154	441,483
Café revenue	529,722	-	-	529,722	509,800
Educational and related activities	202,551	-	-	202,551	225,091
Gifts and grants	598,704	183,177	-	781,881	1,146,079
Net investment return appropriated for operations	561,391	-	-	561,391	487,493
Net assets released from restrictions Satisfaction of program restrictions	83,796	(83,796)	-	-	-
Total	3,928,341	99,381	-	4,027,722	4,049,926
Expenses					
Program services	3,481,330	-	-	3,481,330	3,342,272
Fundraising	638,751	-	-	638,751	566,278
General administration	831,499	-	-	831,499	491,932
Total	4,951,580	-	-	4,951,580	4,400,482
Change in net assets from operating activities	(1,023,239)	99,381	-	(923,858)	(350,556)
Nonoperating activities:					
Net investment return, less amount appropriated for operations	220,146	557,052	2,150	779,348	(841,784)
Gifts for capital purposes	-	1,982,919	-	1,982,919	457,468
Gifts for endowment purposes	-	-	288,057	288,057	1,451,499
Net assets released from restrictions Satisfaction of capital restrictions	962,907	(962,907)	-	-	-
Change in net assets from nonoperating activities	1,183,053	1,577,064	290,207	3,050,324	1,067,183
Change in net assets	159,814	1,676,445	290,207	2,126,466	716,627
Net assets, beginning of year	14,167,854	4,590,253	13,376,146	32,134,253	31,417,626
Net assets, end of year	<u>\$ 14,327,668</u>	<u>\$ 6,266,698</u>	<u>\$ 13,666,353</u>	<u>\$ 34,260,719</u>	<u>\$ 32,134,253</u>

See accompanying independent auditor's report and notes to financial statements.

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

(With Summarized Financial Information for 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,126,466	\$ 716,627
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	542,989	519,689
Net investment (gains) losses	(1,054,408)	652,401
Bad debt recovery	(6,158)	(6,950)
Contributions and investment return restricted for long-term investment	(290,207)	(1,463,067)
Contributions restricted for capital improvements	(1,982,919)	(457,468)
(Increase) decrease in operating assets:		
Pledges receivable	57,069	56,747
Accounts receivable	(96,385)	751
Inventories	2,021	(29,162)
Prepaid expenses	18,165	(12,170)
Increase (decrease) in operating liabilities:		
Accounts payable, trade	(36,525)	23,942
Accrued and other liabilities	118,010	42,824
Deferred revenue	64,759	48,854
Total adjustments	<u>(2,663,589)</u>	<u>(623,609)</u>
Net cash provided by (used in) operating activities	<u>(537,123)</u>	<u>93,018</u>
Cash flows from investing activities:		
Expenditures for property, plant, and equipment	(1,068,485)	(768,075)
Proceeds from sales or maturities of investments	10,520,916	4,221,387
Payments for purchases of investments	<u>(9,982,723)</u>	<u>(5,532,840)</u>
Net cash used in investing activities	<u>(530,292)</u>	<u>(2,079,528)</u>
Cash flows from financing activities:		
Repayments on note payable	(41,554)	(7,728)
Contributions restricted for long-term investment	290,207	1,537,967
Contributions restricted for capital improvements	<u>802,609</u>	<u>477,397</u>
Net cash provided by financing activities	<u>1,051,262</u>	<u>2,007,636</u>
Net increase (decrease) in cash	(16,153)	21,126
Cash, beginning of year	<u>94,601</u>	<u>73,475</u>
Cash, end of year	<u>\$ 78,448</u>	<u>\$ 94,601</u>

See accompanying independent auditor's report and notes to financial statements.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Worcester County Horticultural Society (the "Society") is a Massachusetts nonprofit corporation incorporated in 1842. The Society's mission is to inspire the use and appreciation of horticulture to improve lives, enrich communities and strengthen commitment to the natural world.

Method of accounting

The financial statements of the Society have been prepared on the accrual basis of accounting. Accordingly, assets are recorded when the Society obtains the rights of ownership or is entitled to claims for receipt and liabilities are recorded when the obligation is incurred.

Accounting estimates

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

Subsequent events

The Society has evaluated the financial statement impact of subsequent events occurring through July 12, 2017, the date that the financial statements were available to be issued.

Financial statement presentation

The Society presents information regarding its financial position and activities according to three classifications of net assets described as follows:

Unrestricted - All resources over which the governing board has discretionary control. The governing board of the Society may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

Temporarily Restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Permanently Restricted - Endowment resources accumulated through donations or grants that are subject to the restriction in perpetuity that the principal be invested. Investment income and appreciation may be either an unrestricted, temporarily restricted, or permanently restricted resource when earned, determined according to the gift instruments and relevant state law.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Cash

The Society maintains its operating cash in bank deposit accounts which, at times, may exceed federally insured limits. The Society has not experienced any losses in such accounts. The Society believes it is not exposed to any significant credit risk on cash.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges receivable

Pledges are recorded as receivables in the year the pledge is made. Pledges for support of current operations are recorded as unrestricted support. Pledges for support of future operations, plant asset acquisitions, and endowment are recorded as temporarily restricted or permanently restricted support.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in revenue from gifts and grants. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Inventories

Inventories, which consist principally of educational and garden shop items, are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Investments

Investments in mutual funds and equity securities with readily determinable fair values and all debt securities are reported at fair value. Any alternative or other investments which are not readily marketable are carried at estimated fair values as provided by the investment managers. The Society reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Net gains or losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income is recorded in unrestricted assets unless its use is temporarily or permanently restricted by explicit donor stipulations.

Endowment funds

The Society's endowment consists of individual donor restricted funds established for a variety of purposes. Its endowment includes both donor restricted endowment funds and funds designated by the Society to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed or legal restrictions. Endowment funds include invested gifts.

As required by generally accepted accounting principles, the Society classifies as permanently restricted net assets (a) the original value of 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 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 state law.

In accordance with the Uniform Prudent Management of Institutional Funds Act, the Society can consider 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; and the investment policies of the Society.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds (continued)

The Society has adopted investment and spending policies applicable to the Society's donor restricted endowment fund assets and to the Trustee designated fund assets. The purpose of these policies is to provide financial support for the Society's activities while seeking to maintain the purchasing power of those endowment assets, with secondary expectation of moderate growth. The Society expects its endowment funds over time to provide an average total return of 8%. Although actual returns in any given year may vary from this amount, the S&P 500 equity index and the Barclays Aggregate Bond index provide the broad measures of benchmark performance.

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and dividend and interest yield. The Society has invested in several mutual funds to provide diversified asset allocation with moderate risk. The allocation places a greater emphasis on equity-based investments with consideration given to long-term objectives and risk.

The Society has a present policy of appropriation for distribution each year of 4.5% of its endowment fund's average market value over the prior twenty quarters through the third quarter of the year proceeding the year in which the distribution is to be made. This policy takes into consideration the long-term expected return on its endowment and the objective to maintain its purchasing power. Depending upon market conditions and the needs and available resources of the Society, appropriations for expenditure may be temporarily suspended to facilitate preservation of the endowment or be made in excess of the spending policy as deemed prudent by the Board. In 2015, the Board approved \$566,771 as the draw based on the 4.5% policy, and an additional draw of \$950,000 to fund expanding operations. Of this budgeted \$950,000, \$383,229 was needed. In 2016, the Board approved \$596,834 as the draw based on the 4.5% policy, and an additional draw of \$720,000. Of this \$720,000, only \$303,166 was needed. These amounts are reflected in net investment return, less amount appropriated for operations on the 2016 and 2015 statement of activities.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor imposed restrictions require the Society to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. Such deficiencies amounted to (\$382) and (\$1,267) as of December 31, 2016 and 2015, respectively.

Property, plant, and equipment

All acquisitions of property, plant, and equipment in excess of \$5,000 are capitalized. Property, plant, and equipment are carried at cost or at fair value as of the date of the gift. Depreciation and amortization are computed using the straight-line method.

Impairment of long-lived assets and long-lived assets to be disposed of

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Contributions, gifts, grants

Contributions received are to be recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Contributions may include actual gifts or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Contributions of assets other than cash are recorded at their fair value on the date of the gift. Restricted gifts or promises to give are required to be reported as restricted support in the period received and are then reclassified to unrestricted net assets upon satisfaction of the donor restriction. Contributions that the donor requires to be used to acquire long-lived assets reported as temporarily restricted until the long-lived assets have been acquired, at which time the Society reflects the expiration of the donor-imposed restriction as a reclassification included in net assets released from restrictions.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred revenue

Deferred revenue principally consists of certain prepayments of venue rental fees for the ensuing months and are recognized as revenue when the event occurs.

Functional expenses

The cost of providing the various programs and other activities of the Society has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated to the program services and supporting services benefited.

Advertising and promotion

All costs associated with advertising and promoting the Society are expensed in the year incurred. Advertising and public relations expense was \$184,717 and \$142,548 in 2016 and 2015, respectively.

2 - PLEDGES RECEIVABLE

Payments of pledges are expected to be received as follows:

2017	\$ 386,916
2018	308,000
2019	300,000
2020	<u>350,000</u>
	1,344,916
Less: Unamortized discount	<u>34,301</u>
	<u>\$ 1,310,615</u>

The Society was named as a recipient of a \$2,500,000 intention to give in 2015. This gift is a conditional promise to give and is being recognized as the funds are received. \$500,000 has been received as of December 31, 2016.

3 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2016</u>	<u>2015</u>
Donor restricted endowment funds:		
Unrestricted	\$ (382)	\$ (1,267)
Temporarily restricted	2,858,768	2,324,380
Permanently restricted	13,595,558	13,295,101
Board-designated endowment funds	<u>2,602,434</u>	<u>3,180,298</u>
Endowment funds	19,056,378	18,798,512
Expendable Capital Campaign funds and other funds	<u>1,525,994</u>	<u>1,267,645</u>
	<u>\$ 20,582,372</u>	<u>\$ 20,066,157</u>

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - INVESTMENTS (Continued)

Investments are composed of the following:

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Money market funds	\$ 3,135,445	\$ 3,135,445	\$ 2,566,905	\$ 2,566,905
Mutual funds:				
Equity based	12,046,353	12,882,812	12,874,552	12,808,513
Fixed income	2,885,798	2,731,094	3,096,041	2,853,401
Asset allocation	2,029,503	1,833,021	2,115,339	1,837,338
	<u>\$ 20,097,099</u>	<u>\$ 20,582,372</u>	<u>\$ 20,652,837</u>	<u>\$ 20,066,157</u>

Net investment return reflected in the financial statements is comprised of:

	2016	2015
Interest and dividend income	\$ 298,636	\$ 298,110
Realized gains (losses)	(29,850)	998,976
Unrealized gains (losses)	1,071,953	(1,651,377)
Net investment return	<u>\$ 1,340,739</u>	<u>\$ (354,291)</u>

Changes in endowment assets for the year ended December 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 3,179,031	\$ 2,324,380	\$ 13,295,101	\$ 18,798,512
Investment return:				
Investment income	32,378	215,062	2,150	249,590
Net realized and unrealized gains	150,550	881,601	-	1,032,151
Total investment return	182,928	1,096,663	2,150	1,281,741
Additions	136,921	-	298,307	435,228
Reclassification of deficient funds	884	(884)	-	-
Appropriation for expenditure	561,391	(561,391)	-	-
Withdrawals	(1,459,103)	-	-	(1,459,103)
Endowment assets, end of year	<u>\$ 2,602,052</u>	<u>\$ 2,858,768</u>	<u>\$ 13,595,558</u>	<u>\$ 19,056,378</u>

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment, together with estimated useful lives, consist of the following:

	Estimated Useful Lives	2016	2015
Land	-	\$ 746,456	\$ 746,456
Land improvements	27 to 33 years	4,706,881	3,626,764
Buildings and improvements	27 to 33 years	16,631,212	16,352,947
Equipment	5 to 15 years	674,323	579,885
Furniture and fixtures	5 to 15 years	988,303	948,771
Motor vehicles	5 years	28,738	28,738
Construction in progress	-	579,114	1,186,900
		24,355,027	23,470,461
Less: Accumulated depreciation and amortization		11,454,391	10,911,402
		<u>\$ 12,900,636</u>	<u>\$ 12,559,059</u>

Depreciation and amortization for property, plant, and equipment was \$542,989 and \$519,689 in 2016 and 2015, respectively.

5 - NOTE PAYABLE, BANK

The Society has a \$250,000 line of credit agreement with a bank, secured by certain assets of the Society, due on demand. Interest is charged monthly at the bank's prime rate (3.75% as of December 31, 2016). There were no borrowings outstanding as of December 31, 2016. The balance outstanding on this line of credit was \$41,554 as of December 31, 2015.

6 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2016	2015
Building and improvements	\$ 2,216,714	\$ 1,174,341
Various activities	1,191,216	1,091,532
Appreciation on permanently restricted net assets available for distribution:		
General operations	1,457,150	1,158,252
Orchard and garden maintenance	417,389	313,291
Book purchases and refurbishing	249,443	220,360
Prizes and awards	216,286	193,142
Other	518,500	439,335
	<u>\$ 6,266,698</u>	<u>\$ 4,590,253</u>

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - RESTRICTED NET ASSETS (Continued)

During 2016 and 2015, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as follows:

	<u>2016</u>	<u>2015</u>
Satisfaction of program or purpose restrictions		
Prizes and awards	\$ 500	\$ -
Book purchases and refurbishing	2,141	-
Education programs	60,676	8,000
Other expenses	20,479	-
	<u>\$ 83,796</u>	<u>\$ 8,000</u>
Appropriation of permanently restricted investment return		
General operations	\$ 406,002	\$ 362,511
Orchard and garden maintenance	121,466	94,080
Scholarship and education	20,913	19,489
Executive director position fund	13,010	11,413
	<u>\$ 561,391</u>	<u>\$ 487,493</u>
Satisfaction of capital restrictions	<u>\$ 962,907</u>	<u>\$ 767,843</u>
Permanently restricted net assets are restricted to:		
	<u>2016</u>	<u>2015</u>
Investment in perpetuity, from which a percentage of the income is invested in perpetuity and the remainder of which is expendable to support certain activities of the Society.	\$ 790,145	\$ 782,995
Investment in perpetuity, the income from which is expendable to support certain activities of the Society.	4,144,205	4,220,282
Investment in perpetuity, the income from which is expendable to support any activities of the Society.	<u>8,732,003</u>	<u>8,372,869</u>
	<u>\$ 13,666,353</u>	<u>\$ 13,376,146</u>

7 - RETIREMENT PLAN

The Society sponsors a defined contribution pension plan which covers all eligible employees. The Plan is funded on a current basis and is administered by Teachers Insurance Annuity Association – College Retirement Equities Fund (TIAA-CREF). Pension expense was \$41,743 and \$16,475 in 2016 and 2015, respectively.

8 - TAX-EXEMPT STATUS

The Society qualifies as a tax-exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax is required.

Management annually reviews for uncertain tax positions along with any related interest and penalties and believes that the Society has no uncertain tax positions that would have a material adverse effect, individually or in the aggregate, upon the Society's statement of financial position, or the related statements of activities, or cash flows.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

8 - TAX-EXEMPT STATUS (Continued)

The Society files income tax returns in the U.S. federal jurisdiction. The Society is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2013.

9 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The Society follows the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* (ASC Topic 820) which provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Mutual funds and money market funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds (privately managed): A portion of the Society's mutual fund holdings are invested in a family of funds sponsored by an organization that offers a family of no load mutual funds to foundations, endowments, other 501(c)(3) organizations, and certain other organizations meeting specified accreditation requirements. The Society estimates the fair value of these holdings using the net asset value issued by the fund sponsor on the balance sheet date. Although not traded on a national market, the unit value is the entry price for qualifying organizations on that date. The fund offers daily liquidity and has no redemption restrictions. As such, the Society believes the quoted unit value is reflective of fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The Society's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2016 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 3,135,445	\$ -	\$ -	\$ 3,135,445
Mutual funds				
Equity based	12,882,812	-	-	12,882,812
Fixed income	2,731,094	-	-	2,731,094
Asset allocation	-	1,833,021	-	1,833,021
Total investments	<u>\$ 18,749,351</u>	<u>\$ 1,833,021</u>	<u>\$ -</u>	<u>\$ 20,582,372</u>

The Society's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2015 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 2,566,905	\$ -	\$ -	\$ 2,566,905
Mutual funds				
Equity based	12,808,513	-	-	12,808,513
Fixed income	2,853,401	-	-	2,853,401
Asset allocation	-	1,837,338	-	1,837,338
Total investments	<u>\$ 18,228,819</u>	<u>\$ 1,837,338</u>	<u>\$ -</u>	<u>\$ 20,066,157</u>

The Society does not measure any liabilities at fair value on a recurring or non-recurring basis on the statement of financial position.

10 - RELATED PARTY TRANSACTIONS

During the normal course of business, the Society may purchase supplies or services from companies associated with Board members. These purchases are subject to prior approval by the Board and amounted to \$33,533 and \$31,153 in 2016 and 2015, respectively. Included in accounts payable is \$4,140 and \$2,606 related to these purchases as of December 31, 2016 and 2015, respectively.

11 - STATEMENT OF CASH FLOWS

Supplemental disclosures of cash flows information is as follows:

	<u>2016</u>	<u>2015</u>
Cash paid during the year for:		
Income taxes	\$ 1,969	\$ 1,600
Interest	1,847	1,349

12 - RECLASSIFICATIONS

Certain amounts in the 2015 comparative information have been reclassified to conform with the 2016 presentation. Such reclassifications had no effect on the change in net assets as previously reported.