

WORCESTER COUNTY HORTICULTURAL SOCIETY

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

AND

INDEPENDENT AUDITOR'S REPORT

WORCESTER COUNTY HORTICULTURAL SOCIETY

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Worcester County Horticultural Society
Boylston, Massachusetts

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, 2014, 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 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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 26, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bollus Lynch, LLP

Worcester, Massachusetts
September 17, 2015

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2014

(With Summarized Financial Information for 2013)

	<u>2014</u>	<u>2013</u>
Assets		
Current assets		
Cash	\$ 73,475	\$ 103,332
Pledges receivable, net	182,071	188,646
Accounts receivable	219,816	172,820
Inventories	58,292	54,834
Prepaid expenses	<u>45,725</u>	<u>41,013</u>
Total current assets	579,379	560,645
Pledges receivable, net	143,771	101,301
Property, plant, and equipment, net	11,999,518	12,540,411
Investments	<u>19,407,105</u>	<u>18,346,021</u>
	<u>\$ 32,129,773</u>	<u>\$ 31,548,378</u>
Liabilities and Net Assets		
Current liabilities		
Note payable, bank	\$ 49,282	\$ 116,800
Accounts payable	188,511	132,491
Accrued and other liabilities	54,891	155,925
Deferred revenue	<u>419,463</u>	<u>322,719</u>
Total current liabilities	<u>712,147</u>	<u>727,935</u>
Net assets		
Unrestricted	14,661,274	15,237,989
Temporarily restricted	4,843,273	4,196,983
Permanently restricted	<u>11,913,079</u>	<u>11,385,471</u>
Total net assets	<u>31,417,626</u>	<u>30,820,443</u>
	<u>\$ 32,129,773</u>	<u>\$ 31,548,378</u>

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

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

(With Summarized Financial Information for 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2014	2013
Operating activities:					
Support and revenue					
Membership dues	\$ 449,549	\$ -	\$ -	\$ 449,549	\$ 407,149
Auxiliary activities, net of costs totaling					
\$759,007 and \$719,007 in 2014 and 2013	227,414	-	-	227,414	202,204
Gift shop revenue	355,252			355,252	341,217
Educational and related activities	461,698	-	-	461,698	477,336
Gifts and grants	653,473	218,030	-	871,503	327,291
Net investment return appropriated					
for operations	487,492	-	-	487,492	422,639
Net assets released from restrictions					
Satisfaction of program restrictions	30,991	(30,991)	-	-	-
Total	<u>2,665,869</u>	<u>187,039</u>	<u>-</u>	<u>2,852,908</u>	<u>2,177,836</u>
Expenses					
Program services	2,332,726	-	-	2,332,726	2,238,715
Fundraising	583,439	-	-	583,439	575,697
General administration	421,714	-	-	421,714	441,008
Total	<u>3,337,879</u>	<u>-</u>	<u>-</u>	<u>3,337,879</u>	<u>3,255,420</u>
Change in net assets from operating activities	<u>(672,010)</u>	<u>187,039</u>	<u>-</u>	<u>(484,971)</u>	<u>(1,077,584)</u>
Nonoperating activities:					
Net investment return, less amount					
appropriated for operations	95,220	28,725	11,108	135,053	2,343,838
Gifts for capital purposes	-	430,601	-	430,601	175,924
Gifts for endowment purposes	-	-	516,500	516,500	426,108
Net assets released from restrictions					
Satisfaction of capital restrictions	75	(75)	-	-	-
Change in net assets from nonoperating activities	<u>95,295</u>	<u>459,251</u>	<u>527,608</u>	<u>1,082,154</u>	<u>2,945,870</u>
Change in net assets	(576,715)	646,290	527,608	597,183	1,868,286
Net assets, beginning of year	<u>15,237,989</u>	<u>4,196,983</u>	<u>11,385,471</u>	<u>30,820,443</u>	<u>28,952,157</u>
Net assets, end of year	<u>\$ 14,661,274</u>	<u>\$ 4,843,273</u>	<u>\$ 11,913,079</u>	<u>\$ 31,417,626</u>	<u>\$ 30,820,443</u>

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

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2014

(With Summarized Financial Information for 2013)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 597,183	\$ 1,868,286
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	593,675	710,755
Net investment gains	(313,612)	(2,470,914)
Bad debt expense (recovery)	(5,000)	21,250
Contributions and investment return restricted for long-term investment	(527,608)	(435,101)
Contributions restricted for capital improvements	(430,601)	(175,924)
(Increase) decrease in operating assets:		
Pledges receivable	(180,471)	-
Accounts receivable	(46,996)	(22,553)
Inventories	(3,458)	(6,166)
Prepaid expenses	(4,712)	(2,663)
Increase (decrease) in operating liabilities:		
Accounts payable, trade	56,020	17,694
Accrued and other liabilities	(101,034)	(16,782)
Deferred revenue	96,744	18,472
Total adjustments	<u>(867,053)</u>	<u>(2,361,932)</u>
Net cash used in operating activities	<u>(269,870)</u>	<u>(493,646)</u>
Cash flows from investing activities:		
Expenditures for property, plant, and equipment	(52,782)	(49,523)
Proceeds from sales or maturities of investments	9,945,237	5,758,109
Payments for purchases of investments	<u>(10,692,709)</u>	<u>(6,222,476)</u>
Net cash used in investing activities	<u>(800,254)</u>	<u>(513,890)</u>
Cash flows from financing activities:		
Borrowings (repayments) on note payable	(67,518)	41,800
Contributions restricted for long-term investment	601,708	477,101
Contributions restricted for capital improvements	<u>506,077</u>	<u>413,708</u>
Net cash provided by financing activities	<u>1,040,267</u>	<u>932,609</u>
Net decrease in cash	(29,857)	(74,927)
Cash, beginning of year	<u>103,332</u>	<u>178,259</u>
Cash, end of year	<u><u>\$ 73,475</u></u>	<u><u>\$ 103,332</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 6,959	\$ 757

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 primary purpose is to operate as an educational organization for the purpose of advancing the science and encouraging and improving the practice of horticulture.

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 September 17, 2015, 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, 2013, 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 gift 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 preceding 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.

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. There were no such deficiencies as of December 31, 2014 and 2013.

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 hall 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 \$135,503 and \$171,932 in 2014 and 2013, respectively.

2 - PLEDGES RECEIVABLE

Payments of pledges are expected to be received as follows:

2015	\$ 198,321
2016	71,000
2017	67,000
2018	<u>8,000</u>
	344,321
Less: Unamortized discount	2,229
Allowance for uncollectible pledges	<u>16,250</u>
	<u>\$ 325,842</u>

3 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2014</u>	<u>2013</u>
Donor restricted endowment funds:		
Temporarily restricted	\$ 3,101,353	\$ 3,095,297
Permanently restricted	11,758,854	11,157,146
Board-designated endowment funds	<u>3,268,221</u>	<u>3,383,130</u>
Endowment funds	18,128,428	17,635,573
Expendable Capital Campaign funds and other funds	<u>1,278,677</u>	<u>710,448</u>
	<u>\$ 19,407,105</u>	<u>\$ 18,346,021</u>

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - INVESTMENTS (Continued)

Investments are composed of the following:

	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Money market funds	\$ 2,326,297	\$ 2,326,297	\$ 1,532,433	\$ 1,532,433
Mutual funds:				
Equity based	11,342,825	12,650,938	9,568,524	11,226,954
Fixed income	2,820,821	2,721,277	3,904,471	3,895,002
Asset allocation	1,852,465	1,708,593	1,735,611	1,691,632
	<u>\$ 18,342,408</u>	<u>\$ 19,407,105</u>	<u>\$ 16,741,039</u>	<u>\$ 18,346,021</u>

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

	2014	2013
Interest and dividend income	\$ 308,933	\$ 295,563
Realized gains	853,894	605,990
Unrealized gains (losses)	<u>(540,282)</u>	<u>1,864,924</u>
Net investment return	<u>\$ 622,545</u>	<u>\$ 2,766,477</u>

Changes in endowment assets for the year ended December 31, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 3,383,130	\$ 3,095,297	\$ 11,157,146	\$ 17,635,573
Investment return:				
Investment income	47,345	240,132	11,108	298,585
Net realized and unrealized gains	<u>38,631</u>	<u>253,416</u>	<u>-</u>	<u>292,047</u>
Total investment return	<u>85,976</u>	<u>493,548</u>	<u>11,108</u>	<u>590,632</u>
Additions	275,200	-	590,600	865,800
Appropriation for expenditure	487,492	(487,492)	-	-
Withdrawals	<u>(963,577)</u>	<u>-</u>	<u>-</u>	<u>(963,577)</u>
Endowment assets, end of year	<u>\$ 3,268,221</u>	<u>\$ 3,101,353</u>	<u>\$ 11,758,854</u>	<u>\$ 18,128,428</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	2014	2013
Land	-	\$ 746,456	\$ 746,456
Land improvements	27 to 33 years	3,626,764	3,626,764
Buildings and improvements	27 to 33 years	16,321,514	16,321,514
Equipment	5 to 15 years	543,585	535,345
Furniture and fixtures	5 to 15 years	948,771	948,770
Motor vehicles	5 years	28,738	28,738
Construction in progress	-	175,403	130,862
		22,391,231	22,338,449
Less: Accumulated depreciation and amortization		10,391,713	9,798,038
		<u>\$ 11,999,518</u>	<u>\$ 12,540,411</u>

Depreciation and amortization for property, plant, and equipment was \$593,675 and \$710,755 in 2014 and 2013, 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 (3.25% as of December 31, 2014). The balance outstanding on this line of credit was \$49,282 and \$116,800 as of December 31, 2014 and 2013, respectively.

6 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2014	2013
Building and improvements	\$ 1,436,122	\$ 1,006,453
Various activities	305,798	95,233
Appreciation on permanently restricted net assets available for distribution:		
General operations	1,706,876	1,739,580
Orchard and garden maintenance	463,405	456,948
Book purchases and refurbishing	227,827	217,447
Prizes and awards	198,990	193,067
Other	504,255	488,255
	<u>\$ 4,843,273</u>	<u>\$ 4,196,983</u>

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS (Continued)

6 - RESTRICTED NET ASSETS (Continued)

During 2014 and 2013, 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:

	2014	2013
Satisfaction of program or purpose restrictions		
Prizes and awards	\$ 16,083	\$ 3,905
Book purchases and refurbishing	4,233	1,239
Education programs	8,000	-
CCIV project and other expenses	2,675	570
	<u>\$ 30,991</u>	<u>\$ 5,714</u>
Appropriation of permanently restricted investment return		
General operations	\$ 362,510	\$ 320,700
Orchard and garden maintenance	94,080	75,925
Scholarship and education	19,489	17,897
Executive director position fund	11,413	8,117
	<u>\$ 487,492</u>	<u>\$ 422,639</u>
Satisfaction of capital restrictions	<u>\$ 75</u>	<u>\$ 129,210</u>
Permanently restricted net assets are restricted to:		
	2014	2013
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.	\$ 766,427	\$ 749,319
Investment in perpetuity, the income from which is expendable to support certain activities of the Society.	3,930,783	3,422,283
Investment in perpetuity, the income from which is expendable to support any activities of the Society.	7,215,869	7,213,869
	<u>\$ 11,913,079</u>	<u>\$ 11,385,471</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 \$39,170 and \$33,967 in 2014 and 2013, 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 2011. The Society's sales and meals tax returns for the period from October, 2010 through March, 2013 were examined during 2014, resulting in additional taxes and penalties of \$51,117.

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, 2014 and 2013.

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): The Society, as a practical expedient, estimates the fair value of certain investments based on the net asset value (or its equivalent) as reported by the fund manager. The Society has evaluated the audited financial statements of its holdings as of the balance sheet date and believes that reported net asset value (or its equivalent) is calculated consistent with the guidance of FASB ASC Topic 946. Classification within the fair value hierarchy is based on the existence of restrictions on the Society's ability to access its holdings.

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, 2014 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 2,326,297	\$ -	\$ -	\$ 2,326,297
Mutual funds				
Fixed income	2,721,277	-	-	2,721,277
Equity based	12,650,938	-	-	12,650,938
Asset allocation	-	1,708,593	-	1,708,593
Total investments	<u>\$ 17,698,512</u>	<u>\$ 1,708,593</u>	<u>\$ -</u>	<u>\$ 19,407,105</u>

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

As disclosed in footnote 1 to the financial statements, the Society estimates the fair value of its investments in certain entities using the net asset value per share of the investment. Further information about these investments is presented below.

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Mutual funds - asset allocation (a)	\$ 1,708,593	\$ -	daily	-
Total	<u>\$ 1,708,593</u>	<u>\$ -</u>		

- (a) This fund invests in common stocks, convertible bonds, subordinated convertible notes, corporate bonds, asset-backed securities, mortgage-backed securities, bank loans, US Treasury securities, exchange-traded funds and mutual funds, private investment funds, preferred stocks, purchased options, rights, warrants and short term investments. The fund also includes common stocks sold short, financial futures contracts and swap contracts. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.

10 - COMMITMENTS AND CONTINGENCIES

The Society has construction in progress for a significant capital project. Remaining commitments on the construction contract were approximately \$900,000 at December 31, 2014.

11 - RECLASSIFICATIONS

Certain amounts in the 2013 summarized financial information have been reclassified to conform with the 2014 presentation. Such reclassifications had no effect on the change in net assets as previously reported.