

WORCESTER COUNTY HORTICULTURAL SOCIETY

***FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION***

YEAR ENDED DECEMBER 31, 2017

AND

INDEPENDENT AUDITOR'S REPORT

WORCESTER COUNTY HORTICULTURAL SOCIETY

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2017

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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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bollus Lynch, LLP

Worcester, Massachusetts
May 21, 2018

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

(With Summarized Financial Information for 2016)

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash	\$ 469,206	\$ 78,448
Pledges receivable, net	373,426	386,916
Accounts receivable	121,083	315,450
Inventories	78,607	85,433
Prepaid expenses	<u>70,693</u>	<u>39,730</u>
Total current assets	1,113,015	905,977
Pledges receivable, net	402,636	923,699
Property, plant, and equipment, net	13,540,638	12,900,636
Investments	<u>26,963,593</u>	<u>20,582,372</u>
	<u>\$ 42,019,882</u>	<u>\$ 35,312,684</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 136,020	\$ 319,499
Accrued and other liabilities	155,676	199,390
Deferred revenue	<u>1,061,521</u>	<u>533,076</u>
Total current liabilities	<u>1,353,217</u>	<u>1,051,965</u>
Net assets		
Unrestricted	15,054,602	14,327,668
Temporarily restricted	11,903,545	6,266,698
Permanently restricted	<u>13,708,518</u>	<u>13,666,353</u>
Total net assets	<u>40,666,665</u>	<u>34,260,719</u>
	<u>\$ 42,019,882</u>	<u>\$ 35,312,684</u>

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

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017
(With Summarized Financial Information for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2017	2016
Operating activities:					
Support and revenue					
Membership dues	\$ 651,891	\$ -	\$ -	\$ 651,891	\$ 589,939
Admissions	694,903	-	-	694,903	601,594
Auxiliary activities, net of costs totaling \$433,560 and \$398,879 in 2017 and 2016	289,927	-	-	289,927	259,490
Garden shop revenue	517,180	-	-	517,180	501,154
Café revenue	420,286	-	-	420,286	529,722
Educational and related activities	220,976	-	-	220,976	202,551
Gifts and grants	389,459	203,875	-	593,334	781,881
Net investment return appropriated for operations	607,987	-	-	607,987	561,391
Net assets released from restrictions Satisfaction of program restrictions	245,919	(245,919)	-	-	-
Total	4,038,528	(42,044)	-	3,996,484	4,027,722
Expenses					
Program services	3,501,882	-	-	3,501,882	3,480,016
Fundraising	509,448	-	-	509,448	540,514
General administration	821,078	-	-	821,078	931,050
Total	4,832,408	-	-	4,832,408	4,951,580
Change in net assets from operating activities	(793,880)	(42,044)	-	(835,924)	(923,858)
Nonoperating activities:					
Net investment return, less amount appropriated for operations	457,547	2,426,471	20,121	2,904,139	779,348
Gifts for capital purposes	-	4,315,687	-	4,315,687	1,982,919
Gifts for endowment purposes	-	-	22,044	22,044	288,057
Net assets released from restrictions Satisfaction of capital restrictions	1,063,267	(1,063,267)	-	-	-
Change in net assets from nonoperating activities	1,520,814	5,678,891	42,165	7,241,870	3,050,324
Change in net assets	726,934	5,636,847	42,165	6,405,946	2,126,466
Net assets, beginning of year	14,327,668	6,266,698	13,666,353	34,260,719	32,134,253
Net assets, end of year	\$ 15,054,602	\$ 11,903,545	\$ 13,708,518	\$ 40,666,665	\$ 34,260,719

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

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

(With Summarized Financial Information for 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,405,946	\$ 2,126,466
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	582,208	542,989
Net investment gains	(2,856,860)	(1,054,408)
Bad debt recovery	-	(6,158)
Contributions and investment return restricted for long-term investment	(42,165)	(290,207)
Contributions restricted for capital improvements	(4,315,687)	(1,982,919)
(Increase) decrease in operating assets:		
Pledges receivable	9,290	57,069
Accounts receivable	194,367	(96,385)
Inventories	6,826	2,021
Prepaid expenses	(30,963)	18,165
Increase (decrease) in operating liabilities:		
Accounts payable, trade	(56,243)	(36,525)
Accrued and other liabilities	(43,714)	118,010
Deferred revenue	528,445	64,759
Total adjustments	<u>(6,024,496)</u>	<u>(2,663,589)</u>
Net cash provided by (used in) operating activities	<u>381,450</u>	<u>(537,123)</u>
Cash flows from investing activities:		
Expenditures for property, plant, and equipment	(1,349,446)	(1,068,485)
Proceeds from sales or maturities of investments	11,415,545	10,520,916
Payments for purchases of investments	<u>(14,939,906)</u>	<u>(9,982,723)</u>
Net cash used in investing activities	<u>(4,873,807)</u>	<u>(530,292)</u>
Cash flows from financing activities:		
Repayments on note payable	-	(41,554)
Contributions and investment return restricted for long-term investment	42,165	290,207
Contributions restricted for capital improvements	<u>4,840,950</u>	<u>802,609</u>
Net cash provided by financing activities	<u>4,883,115</u>	<u>1,051,262</u>
Net increase (decrease) in cash	390,758	(16,153)
Cash, beginning of year	<u>78,448</u>	<u>94,601</u>
Cash, end of year	<u>\$ 469,206</u>	<u>\$ 78,448</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 May 21, 2018, 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, 2016, from which the summarized information was derived.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds (continued)

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.

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. 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 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. In 2017, the Board approved \$632,229 as the draw based on the 4.5% policy, and an additional draw of \$540,000 to fund expanding operations. Of this budgeted \$540,000, only \$417,771 was needed. These draws have been taken under a Board-approved plan calculated to eliminate the additional draw by 2020. The additional draws were taken from the Board designated portion of the endowment. These amounts are reflected in net investment return, less amount appropriated for operations on the 2017 and 2016 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. There were no such deficiencies as of December 31, 2017. Such deficiencies amounted to (\$382) as of December 31, 2016.

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.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 \$84,909 and \$206,466 in 2017 and 2016, respectively.

2 - PLEDGES RECEIVABLE

Payments of pledges are expected to be received as follows:

2018	\$ 373,426
2019	370,100
2020	25,100
2021	20,100
2022	<u>14,100</u>
	802,826
Less: Unamortized discount	<u>26,764</u>
	<u>\$ 776,062</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. \$1,000,000 has been received as of December 31, 2017.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

3 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2017</u>	<u>2016</u>
Donor restricted endowment funds:		
Unrestricted	\$ -	\$ (382)
Temporarily restricted	5,190,419	2,858,768
Permanently restricted	13,641,941	13,595,558
Board-designated endowment funds	<u>2,447,126</u>	<u>2,602,434</u>
Endowment funds	21,279,486	19,056,378
Expendable Capital Campaign funds and other funds	<u>5,684,107</u>	<u>1,525,994</u>
	<u>\$ 26,963,593</u>	<u>\$ 20,582,372</u>

Investments are composed of the following:

	<u>2017</u>		<u>2016</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Money market funds	\$ 7,298,684	\$ 7,298,684	\$ 3,135,445	\$ 3,135,445
Mutual funds:				
Equity based	12,498,896	14,525,985	12,046,353	12,882,812
Fixed income	3,250,793	3,101,680	2,885,798	2,731,094
Asset allocation	<u>2,210,521</u>	<u>2,037,244</u>	<u>2,029,503</u>	<u>1,833,021</u>
	<u>\$ 25,258,894</u>	<u>\$ 26,963,593</u>	<u>\$ 20,097,099</u>	<u>\$ 20,582,372</u>

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

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 655,266	\$ 298,636
Realized gains (losses)	1,637,434	(29,850)
Unrealized gains	<u>1,219,426</u>	<u>1,071,953</u>
Net investment return	<u>\$ 3,512,126</u>	<u>\$ 1,340,739</u>

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - INVESTMENTS (Continued)

Changes in endowment assets for the year ended December 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 2,602,052	\$ 2,858,768	\$ 13,595,558	\$ 19,056,378
Investment return:				
Investment income	60,232	520,040	20,121	600,393
Net realized and unrealized gains	342,793	2,511,733	-	2,854,526
Total investment return	403,025	3,031,773	20,121	3,454,919
Additions	61,532	-	26,262	87,794
Reclassification of deficient funds	382	(382)	-	-
Appropriation for expenditure	607,987	(607,987)	-	-
Releases from restriction	-	(91,753)	-	(91,753)
Endowment draw	(1,050,000)	-	-	(1,050,000)
Releases of Board designations	(177,852)	-	-	(177,852)
Endowment assets, end of year	<u>\$ 2,447,126</u>	<u>\$ 5,190,419</u>	<u>\$ 13,641,941</u>	<u>\$ 21,279,486</u>

4 - PROPERTY, PLANT, AND EQUIPMENT

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

	<u>Estimated Useful Lives</u>	<u>2017</u>	<u>2016</u>
Land	-	\$ 792,372	\$ 746,456
Land improvements	27 to 33 years	4,760,217	4,706,881
Buildings and improvements	27 to 33 years	16,666,173	16,631,212
Equipment	5 to 15 years	719,714	674,323
Furniture and fixtures	5 to 15 years	992,834	988,303
Motor vehicles	5 years	28,738	28,738
Construction in progress	-	1,617,189	579,114
		25,577,237	24,355,027
Less: Accumulated depreciation and amortization		12,036,599	11,454,391
		<u>\$ 13,540,638</u>	<u>\$ 12,900,636</u>

Depreciation and amortization for property, plant, and equipment was \$582,208 and \$542,989 in 2017 and 2016, respectively.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

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 (4.50% as of December 31, 2017). There were no borrowings outstanding as of December 31, 2017 and 2016.

6 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Building and improvements	\$ 6,371,445	\$ 3,119,025
Various activities	341,681	288,905
Appreciation on permanently restricted net assets available for distribution:		
General operations	2,948,692	1,457,150
Orchard and garden maintenance	883,064	417,389
Book purchases and refurbishing	298,909	249,443
Prizes and awards	277,551	216,286
Other	782,203	518,500
	<u>\$ 11,903,545</u>	<u>\$ 6,266,698</u>

During 2017 and 2016, 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>2017</u>	<u>2016</u>
Satisfaction of program or purpose restrictions		
Prizes and awards	\$ 4,289	\$ 500
Book purchases and refurbishing	31,700	2,141
Café improvements	47,500	-
Education programs	96,034	60,676
Other expenses	66,396	20,479
	<u>\$ 245,919</u>	<u>\$ 83,796</u>
Appropriation of permanently restricted investment return		
General operations	\$ 435,870	\$ 406,002
Orchard and garden maintenance	136,581	121,466
Scholarship and education	21,695	20,913
Executive director position fund	13,841	13,010
	<u>\$ 607,987</u>	<u>\$ 561,391</u>
Satisfaction of capital restrictions	<u>\$ 1,063,267</u>	<u>\$ 962,907</u>

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - RESTRICTED NET ASSETS (Continued)

Permanently restricted net assets are restricted to:

	<u>2017</u>	<u>2016</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.	\$ 815,267	\$ 790,145
Investment in perpetuity, the income from which is expendable to support certain activities of the Society.	4,145,204	4,144,205
Investment in perpetuity, the income from which is expendable to support any activities of the Society.	<u>8,748,047</u>	<u>8,732,003</u>
	<u>\$ 13,708,518</u>	<u>\$ 13,666,353</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 \$41,665 and \$41,743 in 2017 and 2016, 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.

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 2014.

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.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

9 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

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, 2017 and 2016.

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 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.

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, 2017 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 7,298,684	\$ -	\$ -	\$ 7,298,684
Mutual funds				
Equity based	14,525,985	-	-	14,525,985
Fixed income	3,101,680	-	-	3,101,680
Asset allocation	-	2,037,244	-	2,037,244
Total investments	<u>\$ 24,926,349</u>	<u>\$ 2,037,244</u>	<u>\$ -</u>	<u>\$ 26,963,593</u>

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 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 \$58,659 and \$33,533 in 2017 and 2016, respectively. Included in accounts payable is \$6,742 and \$4,140 related to these purchases as of December 31, 2017 and 2016, respectively.

Total contributions received from board members were \$1,260,195 in 2017.

11 - STATEMENT OF CASH FLOWS

Supplemental disclosures of cash flows information is as follows:

	<u>2017</u>	<u>2016</u>
Cash paid during the year for:		
Income taxes	\$ 29,065	\$ 1,969
Interest	-	1,847

12 - RECLASSIFICATIONS

Certain amounts in the 2016 comparative information have been reclassified to conform with the 2017 presentation. Such reclassifications had no effect on the change in net assets as previously reported.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Worcester County Horticultural Society

We have audited the financial statements of the Worcester County Horticultural Society as of and for the year ended December 31, 2017, and have issued our report thereon, dated May 21, 2018, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

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

Bollus Lynch, LLP

Worcester, Massachusetts
May 21, 2018

WORCESTER COUNTY HORTICULTURAL SOCIETY

SCHEDULE OF EXPENSES

YEAR ENDED DECEMBER 31, 2017
(With Summarized Financial Information for 2016)

	Program		General	Totals	
	Services	Fundraising	Administration	2017	2016
Salaries and wages	\$ 1,465,436	\$ 313,367	\$ 367,444	\$ 2,146,247	\$ 2,130,368
Employee benefits	96,924	16,421	35,682	149,027	142,145
Payroll taxes	135,815	24,893	36,681	197,389	159,590
Total salaries and related expenses	1,698,175	354,681	439,807	2,492,663	2,432,103
Advertising and public relations	10,824	6,134	62,716	79,674	202,858
Prizes and awards	-	-	-	-	500
Special events	7,434	12,632	-	20,066	260,346
Program services	82,936	-	-	82,936	97,648
Conferences and seminars	9,983	235	4,290	14,508	22,292
Dues and subscriptions	4,516	4,249	21,188	29,953	9,691
General insurance	66,725	1,554	2,332	70,611	72,482
Worker's compensation insurance	29,763	941	16,380	47,084	39,094
Garden shop and café purchases	428,794	-	-	428,794	411,770
Library materials and service	3,814	-	-	3,814	4,160
Motor vehicles and travel	11,273	2,583	6,967	20,823	2,102
Printing and postage	7,989	28,210	40,275	76,474	12,831
Professional fees and contract services	158,520	60,593	122,285	341,398	386,871
Real estate and other taxes	17,477	384	5,197	23,058	19,236
Repairs, maintenance, security	106,433	2,399	19,349	128,181	103,023
Equipment rental	4,520	-	-	4,520	1,633
Supplies	178,732	6,406	3,771	188,909	101,586
Telephone and utilities	110,526	2,575	3,862	116,963	106,368
Other	63,606	14,228	55,193	133,027	166,438
Total expenses before depreciation and amortization	3,002,040	497,804	803,612	4,303,456	4,453,032
Depreciation and amortization	499,842	11,644	17,466	528,952	498,548
	<u>\$ 3,501,882</u>	<u>\$ 509,448</u>	<u>\$ 821,078</u>	<u>\$ 4,832,408</u>	<u>\$ 4,951,580</u>

See accompanying independent auditor's report.

WORCESTER COUNTY HORTICULTURAL SOCIETY

AUXILIARY ACTIVITIES

YEAR ENDED DECEMBER 31, 2017
 (With Summarized Financial Information for 2016)

	Rental Activities	Bar	Totals	
			2017	2016
Revenues	\$ 495,685	\$ 227,802	\$ 723,487	\$ 658,369
Direct expenses				
Salaries and related expenses	170,072	36,071	206,143	182,310
Cost of goods sold	-	41,353	41,353	43,587
Other expenses	8,951	38,911	47,862	37,755
Total expenses before overhead	179,023	116,335	295,358	263,652
Allocated overhead	94,687	43,515	138,202	135,227
Total expenses	273,710	159,850	433,560	398,879
Excess of revenue over expenses	\$ 221,975	\$ 67,952	\$ 289,927	\$ 259,490

See accompanying independent auditor's report.