

WORCESTER COUNTY HORTICULTURAL SOCIETY
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018
AND
INDEPENDENT AUDITOR'S REPORT

WORCESTER COUNTY HORTICULTURAL SOCIETY

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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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 (the "Society"), which comprise the statement of financial position as of December 31, 2018, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As disclosed in Note 2 to the financial statements, the Society adopted the provisions of ASU 2016-14 - Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Worcester County Horticultural Society's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bollus Lynch, LLP

Worcester, Massachusetts
July 10, 2019

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

(With Summarized Comparative Information for 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash	\$ 240,772	\$ 469,206
Contributions receivable, net	788,944	373,426
Accounts receivable	22,067	121,083
Inventories	54,298	78,607
Prepaid expenses	<u>104,145</u>	<u>70,693</u>
Total current assets	1,210,226	1,113,015
Contributions receivable, net of current portion	1,181,100	402,636
Property and equipment, net	13,980,308	13,540,638
Investments	<u>24,805,108</u>	<u>26,963,593</u>
	<u>\$ 41,176,742</u>	<u>\$ 42,019,882</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 208,994	\$ 136,020
Accrued and other liabilities	137,567	155,676
Deferred revenue	203,898	1,061,521
Capital lease obligation, current portion	<u>4,254</u>	<u>-</u>
Total current liabilities	554,713	1,353,217
Long-term liabilities		
Capital lease obligation, net of current portion	<u>13,827</u>	<u>-</u>
Total liabilities	<u>568,540</u>	<u>1,353,217</u>
Net assets		
Without donor restrictions	15,342,584	15,054,602
With donor restrictions	<u>25,265,618</u>	<u>25,612,063</u>
Total net assets	<u>40,608,202</u>	<u>40,666,665</u>
	<u>\$ 41,176,742</u>	<u>\$ 42,019,882</u>

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

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

(With Summarized Comparative Information for 2017)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2018	2017
Operating activities:				
Support and revenue				
Contributions, gifts and grants	\$ 505,244	\$ 261,118	\$ 766,362	\$ 593,334
Membership dues	697,249	-	697,249	651,891
Admissions	892,594	-	892,594	694,903
Auxiliary activities, net of costs totaling \$245,379 in 2018 and \$433,560 in 2017	236,261	-	236,261	289,927
Garden shop revenue	504,229	-	504,229	517,180
Café revenue	-	-	-	420,286
Educational and related activities	202,594	-	202,594	220,976
Net investment return appropriated for operations	1,033,882	-	1,033,882	1,050,000
Net assets released from restrictions Satisfaction of program restrictions	408,599	(408,599)	-	-
Total	<u>4,480,652</u>	<u>(147,481)</u>	<u>4,333,171</u>	<u>4,438,497</u>
Expenses				
Program services	3,548,750	-	3,548,750	3,501,882
Fundraising	544,366	-	544,366	509,448
General administration	869,704	-	869,704	771,431
Total	<u>4,962,820</u>	<u>-</u>	<u>4,962,820</u>	<u>4,782,761</u>
Change in net assets from operating activities	<u>(482,168)</u>	<u>(147,481)</u>	<u>(629,649)</u>	<u>(344,264)</u>
Nonoperating activities:				
Net investment return, less amount appropriated for operations	(437,589)	(1,979,036)	(2,416,625)	2,412,479
Contributions for capital purposes	-	2,441,900	2,441,900	4,315,687
Contributions for endowment purposes	-	2,500	2,500	22,044
Other revenue	650,000	-	650,000	-
Capital campaign expenses	(106,589)	-	(106,589)	-
Modification of donor intent	8,077	(8,077)	-	-
Net assets released from restrictions Satisfaction of capital restrictions	656,251	(656,251)	-	-
Change in net assets from nonoperating activities	<u>770,150</u>	<u>(198,964)</u>	<u>571,186</u>	<u>6,750,210</u>
Change in net assets	287,982	(346,445)	(58,463)	6,405,946
Net assets, beginning of year	<u>15,054,602</u>	<u>25,612,063</u>	<u>40,666,665</u>	<u>34,260,719</u>
Net assets, end of year	<u>\$ 15,342,584</u>	<u>\$ 25,265,618</u>	<u>\$ 40,608,202</u>	<u>\$ 40,666,665</u>

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

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018
(With Summarized Comparative Information for 2017)

	Program	Fundraising	General	Totals	
	Services		Administration	2018	2017
Salaries and wages	\$ 1,547,725	\$ 243,301	\$ 430,831	\$ 2,221,857	\$ 2,146,247
Employee benefits	142,762	16,171	48,979	207,912	149,027
Payroll taxes	118,815	31,864	29,892	180,571	197,389
Total salaries and related expenses	1,809,302	291,336	509,702	2,610,340	2,492,663
Advertising and public relations	5,479	10,094	88,304	103,877	79,674
Special events	-	111,190	-	111,190	20,066
Program services	86,854	-	-	86,854	82,936
Conferences and seminars	4,932	1,740	7,932	14,604	14,508
Dues and subscriptions	3,284	4,276	22,114	29,674	29,953
General insurance	73,609	2,509	4,182	80,300	70,611
Worker's compensation insurance	69,183	5,156	12,592	86,931	47,084
Garden shop and café purchases	252,059	-	-	252,059	428,794
Library materials and service	1,551	-	-	1,551	3,814
Motor vehicles and travel	16,984	4,046	12,608	33,638	20,823
Printing and postage	7,502	27,065	46,930	81,497	76,474
Professional fees and contract services	153,207	20,468	66,149	239,824	291,751
Real estate and other taxes	24,199	762	13,149	38,110	23,058
Repairs, maintenance, security	148,888	10,756	19,007	178,651	128,181
Equipment rental	7,145	-	639	7,784	4,520
Supplies	203,092	8,879	4,997	216,968	188,909
Telephone and utilities	115,217	3,896	7,257	126,370	116,963
Other	49,845	24,588	24,800	99,233	133,027
Total expenses before depreciation and amortization	3,032,332	526,761	840,362	4,399,455	4,253,809
Depreciation and amortization	516,418	17,605	29,342	563,365	528,952
Total expenses before auxiliary activities and capital campaign expenses	3,548,750	544,366	869,704	4,962,820	4,782,761
Auxiliary activities					
Salaries and related expenses	158,483	-	-	158,483	206,143
Other expenses	13,424	-	-	13,424	89,215
Allocated overhead	73,472	-	-	73,472	138,202
Capital campaign expenses					
Salaries and related expenses	-	73,798	-	73,798	-
Professional fees	-	20,776	-	20,776	-
Other expenses	-	12,015	-	12,015	-
Total functional expenses	\$ 3,794,129	\$ 650,955	\$ 869,704	\$ 5,314,788	\$ 5,216,321

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

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

(With Summarized Comparative Information for 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (58,463)	\$ 6,405,946
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	586,839	582,208
Net investment (gains) losses	1,848,213	(2,856,860)
Gain on disposal of property and equipment	(2,486)	-
Contributions and investment return restricted for long-term investment	(8,123)	(42,165)
Contributions restricted for capital improvements	(2,441,900)	(4,315,687)
(Increase) decrease in operating assets:		
Pledges receivable	7,709	9,290
Accounts receivable	99,016	194,367
Inventories	24,309	6,826
Prepaid expenses	(33,452)	(30,963)
Increase (decrease) in operating liabilities:		
Accounts payable, trade	62,688	(56,243)
Accrued and other liabilities	(18,109)	(43,714)
Deferred revenue	(857,623)	528,445
Total adjustments	<u>(732,919)</u>	<u>(6,024,496)</u>
Net cash provided by (used in) operating activities	<u>(791,382)</u>	<u>381,450</u>
Cash flows from investing activities:		
Expenditures for property and equipment	(997,812)	(1,349,446)
Proceeds from disposal of property and equipment	2,500	-
Proceeds from sales or maturities of investments	5,975,580	11,415,545
Payments for purchases of investments	(5,665,308)	(14,939,906)
Net cash used in investing activities	<u>(685,040)</u>	<u>(4,873,807)</u>
Cash flows from financing activities:		
Payment on capital lease obligation	(344)	-
Contributions and investment return restricted for long-term investment	8,123	42,165
Contributions restricted for capital improvements	1,240,209	4,840,950
Net cash provided by financing activities	<u>1,247,988</u>	<u>4,883,115</u>
Net increase (decrease) in cash	(228,434)	390,758
Cash, beginning of year	<u>469,206</u>	<u>78,448</u>
Cash, end of year	<u>\$ 240,772</u>	<u>\$ 469,206</u>

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

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF 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. The Society considers all activities related to serving its visitors to be its main program.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Society prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by the Society are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis 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 requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Society's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Society's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Net assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions - Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the Society, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. In addition, 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.

Net assets with donor restrictions - Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Society must continue to use the resources in accordance with the donor's instructions.

The Society's unspent contributions are included in this class if the donor limited their use, as are its donor-restricted endowment funds.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets (continued)

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Society, unless the donor provides more specific directions about the period of its use.

Summarized comparative information

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, 2017, from which the summarized information was derived.

Classification of transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

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.

Accounts receivable

Accounts receivable are primarily unsecured non-interest-bearing amounts due from rental activities. Management believes that all outstanding accounts receivable are collectible in full, therefore no allowance for uncollectible receivables has been provided.

Inventories

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

Contributions receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectibility of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments 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. The net investment return is reported in the statement of activities as increases or decreases in net assets without donor restrictions unless its use is restricted by explicit donor stipulations or by law.

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 donor 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 is classified as net assets with donor restrictions 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.

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.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds (continued)

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 2018, the Board approved \$673,882 as the draw based on the 4.5% policy, and an additional draw of \$360,000 to fund expanding operations. The Society needed the entire budgeted additional draw in 2018. In 2017, the Board approved \$632,229 as the draw based on the 4.5% policy, and an additional draw of \$540,000. 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 appropriated for operations on the 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. The Society may appropriate for expenditure from these underwater endowment funds in accordance with the prudent measures prescribed by state law. As of December 31, 2018, funds with an original gift value of \$40,218 were underwater by \$1,307. There were no such deficiencies as of December 31, 2017.

Property and equipment

Property and equipment are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$10,000 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets.

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

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

Deferred revenue

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

Measure of operations

In the statement of activities, the Society includes in its definition of *operations* all revenues and expenses that are an integral part of its programs and supporting activities. Contributions and other revenue restricted for endowment and capital purposes are recognized as non-operating activities. In addition, net investment return is recognized as non-operating until appropriated for operations.

Contributions, gifts, grants

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions, gifts, grants (continued)

The Society is a beneficiary under several donors' wills. Contributions from bequests are recognized as contributions receivable when the probate court declares that the will is valid and the Society has an irrevocable right to the bequest.

Gifts-in-kind contributions

The Society receives contributions in a form other than cash or investments. If material, donated supplies and other items are recorded as contributions at the date of gift and as expenses when the donated items are placed into service or distributed. If the Society receives a contribution of land, buildings, or equipment, the contributed asset is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets the Society's capitalization policy. Donated use of facilities is reported as contributions and as expenses at the estimated fair value of similar space for rent under similar conditions. If the use of the space is promised unconditionally for a period greater than one year, the contribution is reported as a contribution and an unconditional promise to give at the date of gift, and the expense is reported over the term of use.

The Society benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the Society's program operations and in its fund-raising events. However, the majority of the contributed services do not meet the criteria for recognition in financial statements. GAAP allows recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. There were no services that met those criteria in 2018.

Expense recognition and allocation

The cost of providing the Society's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, employee benefits, and payroll taxes are allocated based on the time spent by employees on the Society's programs and supporting activities.
- Depreciation and amortization; general insurance; real estate taxes; repairs, maintenance, security; and telephone and utilities are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.

Management periodically evaluates the bases on which costs are allocated.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Society.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Society generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred. Advertising and public relations expense was \$104,091 and \$84,909 in 2018 and 2017, respectively.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax-exempt status

The Society is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). Prior to 2018, the Society was subject to unrelated business income tax on certain auxiliary activities. Contributions to the Society are tax deductible to donors under Section 170 of the IRC. The Society is not classified as a private foundation.

Management annually reviews for uncertain tax positions 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 is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2015.

Change in accounting principles

The Society implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called "net assets with donor restrictions."
- The unrestricted net asset class has been renamed "net assets without donor restrictions."
- A Statement of Functional Expenses has been included as a required statement.
- The financial statements include a disclosure about liquidity and availability of resources (note 3).
- Investment fees are recorded as a component of investment return.

The changes have the following effect on net assets at December 31, 2017:

	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Net asset class		
Unrestricted net assets	\$ 15,054,602	\$ -
Temporarily restricted net assets	11,903,545	-
Permanently restricted net assets	13,708,518	-
Net assets without donor restrictions	-	15,054,602
Net assets with donor restrictions	<u>-</u>	<u>25,612,063</u>
Total net assets	<u>\$ 40,666,665</u>	<u>\$ 40,666,665</u>

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 are:

	<u>2018</u>
Financial assets:	
Cash	\$ 240,772
Accounts receivable	22,067
Contributions receivable, net	1,970,044
Investments	<u>24,805,108</u>
Total financial assets	27,037,991
Less: Financial assets held to meet donor-imposed restrictions:	
Purpose-restricted net assets	8,418,832
Donor-restricted endowment funds, net of 2019 budgeted appropriation of \$178,990	16,667,798
Less: Board-designated endowment fund, net of 2019 budgeted appropriation of \$180,000	<u>1,511,431</u>
Amount available for general expenditures within one year	<u>\$ 439,930</u>

The above table reflects donor-restricted and board-designated endowment funds as unavailable because it is the Society's intention to invest those resources for the long-term support of the Society. However, in the case of need, the Board of Trustees could appropriate resources from either the donor-restricted funds available for general use (\$16,846,788, of which \$13,708,566 is the original gift) or from its designated endowment fund (\$1,691,431). Note 2 provides more information about those funds and about the spending policies for all endowment funds.

The Society regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. In addition to the available financial assets summarized above, the Society has various sources of liquidity at its disposal, including a line of credit. See note 8 for information about the Society's line of credit. Further, the Society operates with a balanced budget and anticipates collecting sufficient contributions and revenue to cover general expenditures not covered by donor-restricted resources and endowment appropriations.

4 - CONTRIBUTIONS RECEIVABLE

Payments of contributions receivable are expected to be received as follows:

2019	\$ 788,944
2020	524,789
2021	518,100
2022	<u>214,100</u>
	2,045,933
Less: Unamortized discount	<u>75,889</u>
	<u>\$ 1,970,044</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. \$1,500,000 has been received as of December 31, 2018.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2018</u>	<u>2017</u>
With donor restrictions:		
Donor restricted endowments	\$ 16,846,788	\$ 18,832,360
Purpose restrictions	6,266,889	5,684,107
Board-designated endowment funds	<u>1,691,431</u>	<u>2,447,126</u>
	<u>\$ 24,805,108</u>	<u>\$ 26,963,593</u>

Investments are composed of the following:

	<u>2018</u>		<u>2017</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Money market funds	\$ 7,126,046	\$ 7,126,046	\$ 7,298,684	\$ 7,298,684
Mutual funds:				
Equity based	14,158,064	14,038,652	12,498,896	14,525,985
Fixed income	3,895,734	3,640,410	3,250,793	3,101,680
Asset allocation	<u>-</u>	<u>-</u>	<u>2,210,521</u>	<u>2,037,244</u>
	<u>\$ 25,179,844</u>	<u>\$ 24,805,108</u>	<u>\$ 25,258,894</u>	<u>\$ 26,963,593</u>

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

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 523,187	\$ 655,266
Realized gains	231,013	1,637,434
Unrealized gains (losses)	(2,079,434)	1,219,426
Investment fees	<u>(57,509)</u>	<u>(49,647)</u>
Net investment return	<u>\$ (1,382,743)</u>	<u>\$ 3,462,479</u>

6 - PROPERTY AND EQUIPMENT

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

	<u>Estimated Useful Lives</u>	<u>2018</u>	<u>2017</u>
Land	-	\$ 1,703,170	\$ 792,372
Land improvements	27 to 33 years	5,058,700	4,760,217
Buildings and improvements	27 to 33 years	16,699,965	16,666,173
Equipment	5 to 15 years	531,042	719,714
Furniture and fixtures	5 to 15 years	629,651	992,834
Motor vehicles	5 years	62,826	28,738
Construction in progress	-	<u>1,255,400</u>	<u>1,617,189</u>
		25,940,754	25,577,237
Less: Accumulated depreciation and amortization		<u>11,960,446</u>	<u>12,036,599</u>
		<u>\$ 13,980,308</u>	<u>\$ 13,540,638</u>

Depreciation and amortization for property and equipment was \$586,839 and \$582,208 in 2018 and 2017, respectively.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

7 - ENDOWMENT ASSETS

Changes in endowment assets for the year ended December 31, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, beginning of year	\$ 2,447,126	\$ 18,832,360	\$ 21,279,486
Investment return:			
Interest and dividend income, net of fees	32,040	343,647	375,687
Net realized and unrealized gains	(182,999)	(1,665,157)	(1,848,156)
Total investment return	(150,959)	(1,321,510)	(1,472,469)
Additions	-	61,000	61,000
Appropriation for expenditure	657,336	(657,336)	-
Releases from restriction	-	(67,726)	(67,726)
Endowment draw	(1,033,882)	-	(1,033,882)
Releases of Board designations	(228,190)	-	(228,190)
Endowment assets, end of year	<u>\$ 1,691,431</u>	<u>\$ 16,846,788</u>	<u>\$ 18,538,219</u>

8 - 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 (5.50% as of December 31, 2018). There were no borrowings outstanding as of December 31, 2018 and 2017.

9 - LEASES

The Society leases certain equipment under an agreement classified as a capital lease in the financial statements. Property and equipment includes the following equipment acquired under capital lease agreements:

	2018	2017
Equipment	\$ 18,425	\$ -
Less: Accumulated amortization	768	-
	<u>\$ 17,657</u>	<u>\$ -</u>

Future minimum lease payments under this capital lease, together with the present value of future minimum lease payments as of December 31, 2018 are as follows:

2019	\$ 5,142
2020	5,142
2021	5,142
2022	4,712
Total minimum lease payments	20,138
Less: Amount representing interest	2,057
Present value of minimum lease payments	<u>\$ 18,081</u>

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

10 - NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2018 and 2017, net assets with donor restrictions are available for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Purpose restrictions, available for spending:		
Building and improvements	\$ 6,187,050	\$ 5,595,383
Various activities	<u>261,736</u>	<u>408,258</u>
Total purpose restricted net assets	<u>6,448,786</u>	<u>6,003,641</u>
Time restrictions:		
Contributions receivable, which are unavailable for spending until due and are also subject to purpose restrictions	<u>1,970,044</u>	<u>776,062</u>
Endowment funds, which must be appropriated by the Board of Trustees before use:		
General operations (original gifts of \$9,008,272 in 2018 and \$8,997,965 in 2017)	10,655,711	11,946,657
Orchard and garden maintenance (original gifts of \$2,906,877 in 2018 and \$2,903,751 in 2017)	3,372,378	3,786,815
Book purchases and refurbishing (original gifts of \$194,661)	436,414	493,570
Prizes and awards (original gifts of \$132,404 in 2018 and \$131,904 in 2017)	373,133	409,455
Other (original gifts of \$1,466,352 in 2018 and \$1,413,662 in 2017)	<u>2,009,152</u>	<u>2,195,863</u>
Total endowment funds managed by the Society	<u>16,846,788</u>	<u>18,832,360</u>
Total net assets with donor restrictions	<u>\$ 25,265,618</u>	<u>\$ 25,612,063</u>

During 2018 and 2017, 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>2018</u>	<u>2017</u>
Satisfaction of program or purpose restrictions		
Prizes and awards	\$ 6,615	\$ 4,289
Book purchases and refurbishing	22,150	31,700
Café improvements	-	47,500
Education programs	70,587	96,034
Worcester Tree Initiative	169,103	-
Other expenses	<u>140,144</u>	<u>66,396</u>
	<u>\$ 408,599</u>	<u>\$ 245,919</u>
Appropriation of endowment investment return		
General operations	\$ 468,329	\$ 435,870
Orchard and garden maintenance	151,541	136,581
Scholarship and education	22,526	21,695
Executive director position fund	<u>14,940</u>	<u>13,841</u>
	<u>\$ 657,336</u>	<u>\$ 607,987</u>
Satisfaction of capital restrictions	<u>\$ 656,251</u>	<u>\$ 1,063,267</u>

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

11 - 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 Society - College Retirement Equities Fund (TIAA-CREF). Pension expense was \$46,404 and \$41,665 in 2018 and 2017, respectively.

12 - FAIR VALUE MEASUREMENTS

The Society reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are 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.

When available, the Society measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for many of the assets and liabilities that the Society is required to measure at fair value (for example, unconditional promises to give and in-kind contributions).

The primary uses of fair value measures in the Society's financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of endowment and long-term investments.

Determination of fair value

Following is a description of the valuation methodologies used for items measured at fair value. There have been no changes in the methodologies used during the year ended December 31, 2018.

Mutual funds and money market funds: Determined by the published NAV per unit at the end of the last trading day of the fiscal year, which is the basis for transactions at that date.

Mutual funds (privately managed): The Society's asset allocation mutual fund holdings were 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.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - FAIR VALUE MEASUREMENTS (Continued)

Determination of fair value (continued)

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, 2018 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 7,126,046	\$ -	\$ -	\$ 7,126,046
Mutual funds				
Equity based	14,038,652	-	-	14,038,652
Fixed income	<u>3,640,410</u>	<u>-</u>	<u>-</u>	<u>3,640,410</u>
Total investments	<u>\$24,805,108</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$24,805,108</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, 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	<u>-</u>	<u>2,037,244</u>	<u>-</u>	<u>2,037,244</u>
Total investments	<u>\$24,926,349</u>	<u>\$ 2,037,244</u>	<u>\$ -</u>	<u>\$26,963,593</u>

There were no significant transfers between the levels during the year. The Society's policy is to recognize transfers in and out of the levels at the end of the fiscal year; interim changes in the availability of fair value inputs are not recognized.

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

13 - CONCENTRATIONS OF RISK

The Society's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to the Society's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes in any one class.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

14 - RELATED PARTY TRANSACTIONS

At December 31, 2018 and 2017, contributions receivable included \$398,900 and \$776,700, respectively, from members of the Society's Board of Trustees. Total contributions received from board members were \$232,571 and \$1,260,195 in 2018 and 2017, respectively.

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 \$48,400 and \$58,659 in 2018 and 2017, respectively. Included in accounts payable is \$10,140 and \$6,742 related to these purchases as of December 31, 2018 and 2017, respectively.

15 - STATEMENT OF CASH FLOWS

Supplemental disclosures of cash flows information is as follows:

	<u>2018</u>	<u>2017</u>
Cash paid during the year for:		
Income taxes	\$ 20,518	\$ 29,065
Interest	881	-

The Society acquired property and equipment and entered into a capital lease obligation in the amount of \$18,425 in 2018.

16 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 10, 2019, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

At its meeting held on March 28, 2019, the Board of Trustees of the Society voted to change the fiscal year end from December 31 to March 31.