

WORCESTER COUNTY HORTICULTURAL SOCIETY
FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2020
AND
INDEPENDENT AUDITOR'S REPORT

WORCESTER COUNTY HORTICULTURAL SOCIETY

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2020

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 17

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 March 31, 2020, 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 March 31, 2020, 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.

Bollus Lynch, LLP

Worcester, Massachusetts
August 21, 2020

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2020

	<u>2020</u>
Assets	
Current assets	
Cash	\$ 24,457
Contributions receivable, net	209,346
Accounts receivable	1,067
Inventories	102,340
Prepaid expenses	<u>109,939</u>
Total current assets	447,149
Contributions receivable, net of current portion	1,255,064
Property and equipment, net	15,143,982
Investments	<u>24,254,786</u>
	<u>\$ 41,100,981</u>
Liabilities and Net Assets	
Current liabilities	
Note payable, bank	\$ 120,521
Capital lease obligation, current portion	4,186
Accounts payable	836,243
Accrued and other liabilities	176,916
Deferred revenue	<u>384,453</u>
Total current liabilities	1,522,319
Long-term liabilities	
Capital lease obligation, net of current portion	<u>8,171</u>
Total liabilities	<u>1,530,490</u>
Net assets	
Without donor restrictions	15,732,127
With donor restrictions	<u>23,838,364</u>
Total net assets	<u>39,570,491</u>
	<u>\$ 41,100,981</u>

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

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
Operating activities:			
Support and revenue			
Contributions, gifts and grants	\$ 828,966	\$ 171,281	\$ 1,000,247
Membership dues	748,703	-	748,703
Admissions	1,025,599	-	1,025,599
Auxiliary activities, net of costs totaling \$266,316	222,011	-	222,011
Garden shop revenue	595,554	-	595,554
Educational and related activities	194,831	-	194,831
Net investment return appropriated for operations	717,269	-	717,269
Net assets released from restrictions Satisfaction of program restrictions	<u>312,268</u>	<u>(312,268)</u>	<u>-</u>
Total	<u>4,645,201</u>	<u>(140,987)</u>	<u>4,504,214</u>
Expenses			
Program services	3,834,526	-	3,834,526
Fundraising	534,783	-	534,783
General administration	<u>983,962</u>	<u>-</u>	<u>983,962</u>
Total	<u>5,353,271</u>	<u>-</u>	<u>5,353,271</u>
Change in net assets from operating activities	<u>(708,070)</u>	<u>(140,987)</u>	<u>(849,057)</u>
Nonoperating activities:			
Net investment return, less amount appropriated for operations	(15,196)	(2,320,687)	(2,335,883)
Contributions for capital purposes	100,000	1,218,553	1,318,553
Contributions for endowment purposes	-	24,290	24,290
Imposition of donor restrictions	(25,000)	25,000	-
Capital campaign expenses	(274,328)	-	(274,328)
Loss on uncollectible pledges	-	(16,500)	(16,500)
Net assets released from restrictions Satisfaction of capital restrictions	<u>1,718,403</u>	<u>(1,718,403)</u>	<u>-</u>
Change in net assets from nonoperating activities	<u>1,503,879</u>	<u>(2,787,747)</u>	<u>(1,283,868)</u>
Change in net assets	795,809	(2,928,734)	(2,132,925)
Net assets, beginning of year	<u>14,936,318</u>	<u>26,767,098</u>	<u>41,703,416</u>
Net assets, end of year	<u>\$ 15,732,127</u>	<u>\$ 23,838,364</u>	<u>\$ 39,570,491</u>

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

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2020

	Program Services	Fundraising	General Administration	Totals
Salaries and wages	\$ 1,690,006	\$ 250,967	\$ 464,448	\$ 2,405,421
Employee benefits	143,966	17,686	52,038	213,690
Payroll taxes	129,663	21,056	39,572	190,291
Total salaries and related expenses	1,963,635	289,709	556,058	2,809,402
Advertising and public relations	9,372	419	131,487	141,278
Special events	-	90,692	-	90,692
Program services	99,710	-	-	99,710
Conferences and seminars	4,867	2,518	15,692	23,077
Dues and subscriptions	2,842	5,376	24,234	32,452
General insurance	78,380	3,563	3,563	85,506
Worker's compensation insurance	51,938	1,645	1,547	55,130
Garden shop purchases	295,270	-	150	295,420
Library materials and service	1,472	-	-	1,472
Motor vehicles and travel	16,909	1,397	11,567	29,873
Printing and postage	5,565	32,831	46,097	84,493
Professional fees and contract services	170,005	38,616	83,847	292,468
Real estate and other taxes	25,907	1,090	5,084	32,081
Repairs, maintenance, security	123,819	4,104	4,390	132,313
Equipment rental	6,841	-	10,183	17,024
Supplies	294,937	14,627	5,841	315,405
Telephone and utilities	114,236	5,145	7,096	126,477
Other	47,946	19,375	53,450	120,771
Total expenses before depreciation and amortization	3,313,651	511,107	960,286	4,785,044
Depreciation and amortization	520,875	23,676	23,676	568,227
Total expenses before auxiliary activities and capital campaign expenses	3,834,526	534,783	983,962	5,353,271
Auxiliary activities				
Salaries and related expenses	167,798	-	-	167,798
Other expenses	25,157	-	-	25,157
Allocated overhead	73,361	-	-	73,361
Capital campaign expenses				
Salaries and related expenses	-	168,444	-	168,444
Professional fees	-	80,830	-	80,830
Other expenses	-	25,054	-	25,054
Total functional expenses	\$ 4,100,842	\$ 809,111	\$ 983,962	\$ 5,893,915

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

WORCESTER COUNTY HORTICULTURAL SOCIETY

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2020

	<u>2020</u>
Cash flows from operating activities:	
Change in net assets	\$ (2,132,925)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	591,904
Net investment losses	2,320,491
Donated property and equipment	(100,000)
Contributions and investment return restricted for long-term investment	(32,734)
Contributions restricted for capital improvements	(1,218,553)
Loss on uncollectible contributions receivable	16,500
(Increase) decrease in operating assets:	
Contributions receivable	148
Accounts receivable	2,719
Inventories	(21,906)
Prepaid expenses	15,247
Increase (decrease) in operating liabilities:	
Accounts payable, trade	(36,271)
Accrued and other liabilities	11,742
Deferred revenue	29,044
Total adjustments	<u>1,578,331</u>
Net cash used in operating activities	<u>(554,594)</u>
Cash flows from investing activities:	
Expenditures for property and equipment	(914,571)
Proceeds from sales or maturities of investments	7,465,346
Payments for purchases of investments	<u>(7,667,154)</u>
Net cash used in by investing activities	<u>(1,116,379)</u>
Cash flows from financing activities:	
Net borrowings on note payable, bank	57,877
Payments on capital lease obligation	(4,332)
Contributions and investment return restricted for long-term investment	32,734
Contributions restricted for capital improvements	<u>1,603,677</u>
Net cash provided by financing activities	<u>1,689,956</u>
Net increase in cash	18,983
Cash, beginning of year	<u>5,474</u>
Cash, end of year	<u>\$ 24,457</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.

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.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Investments

Investments are reported at fair value. 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.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds (continued)

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.

The Society has a present policy (adopted in 1999, revised in 2014 and affirmed in 2019) that determines the annual distribution from the endowment fund to support operations. It is known as a "hybrid" model, using the average market value of the prior 20 quarters through the third quarter of the fiscal year preceding the fiscal year in which the distribution is to be made. The rate of 4.5% rate is applied to the average market value. The distribution includes 40% of that calculation. In addition, the prior fiscal year approved draw is adjusted by the CPI inflation rate in accordance with the policy. Sixty-percent of the adjusted figure is used for the remainder of the distribution. 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 2020, the Board approved \$717,269 as the draw based on the endowment distribution policy. This amount is 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 March 31, 2020, funds with an original gift value of \$239,943 were underwater by \$10,456.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and membership dues for the ensuing periods. Venue rental fees are recognized as revenue when the event occurs. Membership dues are recognized as revenue ratably over the term of the related membership.

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.

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.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gifts-in-kind contributions (continued)

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 for the year ended March 31, 2020.

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 basis 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 \$144,327 for the year ended March 31, 2020.

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). The Society was subject to unrelated business income tax on certain auxiliary activities that took place prior to 2018. 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 2017.

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 March 31, 2020 are:

	2020
Financial assets:	
Cash	\$ 24,457
Accounts receivable	1,067
Contributions receivable, net	1,464,410
Investments	24,254,786
Total financial assets	25,744,720
Less: Financial assets held to meet donor-imposed restrictions:	
Purpose-restricted net assets	7,657,772
Donor-restricted endowment funds, net of 2021 budgeted appropriation of \$742,225	15,438,367
Less: Board-designated endowment fund	1,263,850
Amount available for general expenditures within one year	\$ 1,384,731

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 (\$10,214,465, of which \$9,031,094 is the original gift) or from its designated endowment fund (\$1,263,850). 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 anticipates collecting sufficient contributions and other 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:

2021	\$ 209,346
2022	610,456
2023	500,933
2024	65,000
2025	65,000
Thereafter	65,000
	1,515,735
Less: Unamortized discount	51,325
	\$ 1,464,410

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. \$2,000,000 has been received as of March 31, 2020. The remaining \$500,000 was received in June 2020.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2020</u>
With donor restrictions:	
Donor restricted endowments	\$ 16,180,592
Purpose restrictions	6,193,362
Without donor restrictions:	
Board-designated endowment funds	1,263,850
Undesignated	<u>616,982</u>
	<u>\$ 24,254,786</u>

Investments are composed of the following:

	<u>2020</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>
Money market funds	\$ 8,166,132	\$ 8,166,132
Mutual funds:		
Equity based	13,810,508	13,068,586
Fixed income	<u>3,353,724</u>	<u>3,020,068</u>
	<u>\$ 25,330,364</u>	<u>\$ 24,254,786</u>

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

	<u>2020</u>
Interest and dividend income	\$ 745,827
Realized gains	256,135
Unrealized losses	(2,576,626)
Investment fees	<u>(43,950)</u>
Net investment return	<u>\$ (1,618,614)</u>

6 - PROPERTY AND EQUIPMENT

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

	<u>Estimated Useful Lives</u>	<u>2020</u>
Land	-	\$ 1,803,170
Land improvements	27 to 33 years	5,179,910
Buildings and improvements	27 to 33 years	16,924,191
Equipment	5 to 15 years	517,735
Furniture and fixtures	5 to 15 years	607,869
Motor vehicles	5 years	73,110
Construction in progress	-	<u>2,619,813</u>
		27,725,798
Less: Accumulated depreciation and amortization		<u>12,581,816</u>
		<u>\$ 15,143,982</u>

Depreciation and amortization for property and equipment was \$591,904 for the year ended March 31, 2020.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS
(Continued)

7 - ENDOWMENT ASSETS

Changes in endowment assets for the year ended March 31, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, beginning of year	\$ 1,535,787	\$ 18,531,763	\$ 20,067,550
Investment return:			
Interest and dividend income, net of fees	35,707	557,005	592,712
Net realized and unrealized losses	(139,532)	(2,181,182)	(2,320,714)
Total investment return	(103,825)	(1,624,177)	(1,728,002)
Additions	70,402	49,290	119,692
Appropriation for expenditure	696,714	(696,714)	-
Releases from restriction	-	(79,570)	(79,570)
Endowment draw	(717,269)	-	(717,269)
Releases of Board designations	(217,959)	-	(217,959)
Endowment assets, end of year	<u>\$ 1,263,850</u>	<u>\$ 16,180,592</u>	<u>\$ 17,444,442</u>

8 - NOTE PAYABLE, BANK

The Society has a \$1,500,000 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 March 31, 2020). The balance on the line of credit was \$120,521 as of March 31, 2020.

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:

	2020
Equipment	\$ 18,425
Less: Accumulated amortization	<u>6,526</u>
	<u>\$ 11,899</u>

Future minimum lease payments under this capital lease, together with the present value of future minimum lease payments as of March 31, 2020 are as follows:

2021	\$ 4,714
2022	5,142
2023	<u>3,426</u>
Total minimum lease payments	13,282
Less: Amount representing interest	<u>925</u>
Present value of minimum lease payments	<u>\$ 12,357</u>

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

10 - NET ASSETS WITH DONOR RESTRICTIONS

At March 31, 2020, net assets with donor restrictions are available for the following purposes or periods:

	<u>2020</u>
Purpose restrictions, available for spending:	
Building and improvements	\$ 6,014,196
Various activities	<u>179,166</u>
Total purpose restricted net assets	<u>6,193,362</u>
Time restrictions:	
Contributions receivable, which are unavailable for spending until due and are also subject to purpose restrictions	<u>1,464,410</u>
Endowment funds, which must be appropriated by the Board of Trustees before use:	
General operations (original gifts of \$9,031,094)	10,214,465
Orchard and garden maintenance (original gifts of \$2,942,651)	3,254,463
Book purchases and refurbishing (original gifts of \$194,661)	415,461
Prizes and awards (original gifts of \$132,404)	373,315
Other (original gifts of \$1,467,558)	<u>1,922,888</u>
Total endowment funds managed by the Society	<u>16,180,592</u>
Total net assets with donor restrictions	<u>\$ 23,838,364</u>

During the year ended March 31, 2020 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>2020</u>
Satisfaction of program or purpose restrictions	
Prizes and awards	\$ 2,107
Book purchases and refurbishing	22,000
Education programs	90,855
Other expenses	<u>197,306</u>
	<u>\$ 312,268</u>
Appropriation of endowment investment return	
General operations	\$ 497,488
Orchard and garden maintenance	160,308
Scholarship and education	22,960
Executive director position fund	<u>15,958</u>
	<u>\$ 696,714</u>
Satisfaction of capital restrictions	<u>\$ 1,718,403</u>

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 Association - College Retirement Equities Fund (TIAA-CREF). Pension expense was \$56,216 for the year ended March 31, 2020.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

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 U.S. 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 March 31, 2020.

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.

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 March 31, 2020 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 8,166,132	\$ -	\$ -	\$ 8,166,132
Mutual funds				
Equity based	13,068,586	-	-	13,068,586
Fixed income	<u>3,020,068</u>	<u>-</u>	<u>-</u>	<u>3,020,068</u>
Total investments	<u>\$24,254,786</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$24,254,786</u>

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

12 - FAIR VALUE MEASUREMENTS (Continued)

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.

14 - RELATED PARTY TRANSACTIONS

At March 31, 2020, contributions receivable included \$58,050 from members of the Society's Board of Trustees. Total contributions received from board members were \$141,425 for the year ended March 31, 2020.

15 - COMMITMENTS

The Society has construction in progress for significant capital projects. Remaining commitments on the contracts for these projects totaled \$745,465 as of March 31, 2020. The Society entered into additional contracts totaling \$856,579 after year-end.

16 - STATEMENT OF CASH FLOWS

Supplemental disclosures of cash flows information is as follows:

	<u>2020</u>
Cash paid during the year for:	
Interest	\$ 1,743

17 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 21, 2020, 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.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses, including the Society. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Society operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Society, the Society expects significant impacts to business operations due to the quarantine and isolation orders in place throughout the geographic area.

WORCESTER COUNTY HORTICULTURAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

(Continued)

17 - SUBSEQUENT EVENTS (Continued)

Additionally, it is possible that estimates made in the financial statements may be materially and adversely impacted in the near term as a result of these conditions, including collectibility of contributions receivable, fair value of investments, and refunds of customer deposits.

The Society received \$565,000 under the Paycheck Protection Program of the CARES Act that was signed into law by the President on March 27, 2020. The funds were received in the form of a loan in April 2020 and are expected to be substantially forgiven in fiscal year 2021 under the terms of the loan program.