



AMERICAN HORTICULTURAL SOCIETY

Financial Statements and Supplemental Information

For The Year Ended June 30, 2017

(With Summarized Financial Information for the Year Ended June 30, 2016)



**and
Report Thereon**



AMERICAN HORTICULTURAL SOCIETY

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
American Horticultural Society

We have audited the accompanying financial statements of the American Horticultural Society (the Society), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 American Horticultural Society as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Continued

Other Matters

Report on Summarized Comparative Information

We have previously audited the Society's 2016 financial statements, and in our report dated January 31, 2017, we expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Raffa, P.C.

Raffa, P.C.

Washington, DC
December 20, 2017

AMERICAN HORTICULTURAL SOCIETY
STATEMENT OF FINANCIAL POSITION
June 30, 2017
(With Summarized Financial Information as of June 30, 2016)

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 287,519	\$ 161,353
Investments	3,299,887	2,224,109
Pledges receivable, net	46,280	53,617
Restricted cash		
Prepaid expenses and other assets	78,204	106,708
Inventory		
Property and equipment, net	2,283,085	2,205,358
TOTAL ASSETS	\$ 5,994,975	\$ 4,751,145
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 153,420	\$ 160,716
Deferred revenue	646,470	830,703
Capital lease obligations	19,903	4,483
Note payable	960,314	984,839
TOTAL LIABILITIES	1,780,107	1,980,741
Net Assets		
Unrestricted		
Undesignated	2,315,580	1,749,014
Board-designated	1,000,000	-
Total Unrestricted	3,315,580	1,749,014
Temporarily restricted	359,569	481,671
Permanently restricted	539,719	539,719
TOTAL NET ASSETS	4,214,868	2,770,404
TOTAL LIABILITIES AND NET ASSETS	\$ 5,994,975	\$ 4,751,145

The accompanying notes are an integral part of these financial statements.

AMERICAN HORTICULTURAL SOCIETY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017
(With Summarized Financial Information for the Year Ended June 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
REVENUE AND SUPPORT					
Contributions	\$ 1,514,248	\$ 70,000	\$ -	\$ 1,584,248	\$ 730,751
Educational events	937,496	-	-	937,496	644,586
Membership dues	788,959	-	-	788,959	762,443
Sale of domain name	350,000	-	-	350,000	-
River Farm rentals	293,395	-	-	293,395	318,714
Investment income	197,972	16,154	-	214,126	34,919
Donated goods and services	158,296	-	-	158,296	86,457
Gala	135,490	-	-	135,490	121,254
Less: Direct benefit costs	(32,358)	-	-	(32,358)	(36,592)
Gala, Net	103,132	-	-	103,132	84,662
Books and services	67,296	-	-	67,296	64,282
Royalty income	4,261	-	-	4,261	2,006
Net assets released from restrictions:					
Satisfaction of purpose restrictions	208,256	(208,256)	-	-	-
TOTAL REVENUE AND SUPPORT	4,623,311	(122,102)	-	4,501,209	2,728,820
EXPENSES					
Program Services:					
Educational programs	1,000,151	-	-	1,000,151	866,460
Membership	494,553	-	-	494,553	464,010
Gardens and Buildings	434,529	-	-	434,529	400,609
Communications	395,155	-	-	395,155	409,973
Total Program Services	2,324,388	-	-	2,324,388	2,141,052
Supporting Services:					
Management and general	401,136	-	-	401,136	387,435
Fundraising and development	331,221	-	-	331,221	246,493
Total Supporting Services	732,357	-	-	732,357	633,928
TOTAL EXPENSES	3,056,745	-	-	3,056,745	2,774,980
CHANGE IN NET ASSETS	1,566,566	(122,102)	-	1,444,464	(46,160)
NET ASSETS, BEGINNING OF YEAR	1,749,014	481,671	539,719	2,770,404	2,816,564
NET ASSETS, END OF YEAR	\$ 3,315,580	\$ 359,569	\$ 539,719	\$ 4,214,868	\$ 2,770,404

The accompanying notes are an integral part of these financial statements.

AMERICAN HORTICULTURAL SOCIETY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017
(With Summarized Financial Information for the Year Ended June 30, 2016)
Increase (Decrease) in Cash and Cash Equivalents

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,444,464	\$ (46,160)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	76,023	83,265
Loss on disposal of property and equipment	1,644	-
Realized and unrealized gain on investments	(180,013)	(3,035)
Changes in assets and liabilities:		
Pledges receivable	7,337	(5,925)
Prepaid expenses	28,504	(50,423)
Deposits	-	21,400
Accounts payable and accrued expenses	2,454	(88,401)
Deferred revenue	(184,233)	363,677
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,196,180</u>	<u>274,398</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,658,995)	(2,475,539)
Proceeds from sales of investments	763,988	2,639,710
Purchases of property and equipment	(135,062)	(196,830)
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,030,069)</u>	<u>(32,659)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on note payable	(24,525)	(23,119)
Borrowings on line of credit	238,000	150,025
Repayments on line of credit	(238,000)	(320,025)
Payments on capital lease obligation	(15,420)	(8,566)
NET CASH USED IN FINANCING ACTIVITIES	<u>(39,945)</u>	<u>(201,685)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	126,166	40,054
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>161,353</u>	<u>121,299</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 287,519</u>	<u>\$ 161,353</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 59,595</u>	<u>\$ 17,338</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired under a capital lease	\$ 22,992	\$ -
Obligation of equipment acquired under a capital lease	(22,992)	-
	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

1. Organization and Summary of Significant Accounting Policies

Organization

The American Horticultural Society (the Society) was organized in the District of Columbia as a not-for-profit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the IRC). The Society's purpose is to unite and supplement the many phases and efforts of American horticulture, to represent them nationally and internationally, and to encourage and promote American horticulture. The Society's significant sources of support include membership dues, contributions, educational events and River Farm rentals.

The Society's major programs are as follows:

Educational programs – These activities focus on sharing the art and science of horticulture, with a special emphasis on gardening with children and youth. Since 1993, the Society has hosted the National Children and Youth Garden Symposium that is committed to bridging the growing divide that separates young people from the natural world. The Society's internship program provides valuable hands-on experience for college students, helping to shape the horticultural leaders of tomorrow. Online, reciprocal admissions, travel study, seed exchange and other special programs offer members the opportunity to explore their passion for gardens and gardening. The Society's national awards programs encourage excellence and honor the achievements of individuals and organizations that have made significant contributions to horticulture in America.

Membership – This program includes providing services and outreach in support of the Society's members throughout the United States and internationally. Member communications and other benefits provide supporters with the information and inspiration they need to be successful gardeners – enriching their lives and having a positive impact on their communities. In addition, these activities contribute to the organizational objectives of helping more Americans enjoy the rewards of gardens and gardening, celebrating the diversity of horticulture in America, and encouraging earth-friendly gardening practices. Reciprocal agreements with public gardens and horticultural organizations extend the Society's reach.

Gardens and Buildings – This program includes the operation, stewardship and ongoing enhancement of the Society's 25-acre headquarters property, River Farm. A site of regional, national, horticultural and historic significance, River Farm is open to visitors and serves as a venue for educational programs, exhibits, civic meetings and special events. The property's gardens and natural areas include many demonstration areas and models promoting horticultural innovation, practical experimentation, sustainability and conservation. River Farm Gardens and Buildings staff utilizes an engaged local volunteer base who, along with the staff, maintain the property. The Gardens and Buildings staff also provide interpretive educational content and coordination in support of the Society's on-site and national programs.

Communications – This program includes the Society's flagship publication, *The American Gardener* magazine. Providing useful and authoritative information, *The American Gardener* demonstrates the Society's commitment to communicating, standardizing and enriching the language of horticulture through a variety of media.

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

1. Organization and Summary of Significant Accounting Policies (continued)

Organization (continued)

The Society's website and Internet presence provide a wealth of gardening information, as well as updates on the Society's programs. With more than 100 books devoted to the world of ornamental plants published under the Society banner, the Society is a leader in creating authoritative gardening reference books that put the most current horticultural information in the hands of professional and amateur gardeners across America.

Basis of Accounting

The financial statements of the Society are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned, and expenses are recognized when the obligations are incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits.

Investments

Investments are measured at fair value and are composed of common stock, corporate bonds, mutual funds and money market funds. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are included with investment income in the statement of activities. Investment income is reported as an increase or decrease in unrestricted net assets, unless restricted by donor or law. However, investment earnings are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the investment earnings are recognized.

Fair Value Measurement

Accounting standards define fair value, establish a framework for measuring fair value in accordance with GAAP and expand disclosures about fair value measurement for those assets and liabilities that are measured at fair value on a recurring basis. Accounting standards determine fair value using assumptions that market participants would use to determine the price of the asset or liability, as opposed to measurements determined based upon information specific to the entity holding those assets and liabilities. To determine those market participant assumptions, accounting standards established a fair value hierarchy of inputs that the entity must consider, including both independent market data inputs and the entity's own assumptions about the market participant assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument. The three levels of the fair value hierarchy are described as follows:

Level 1 – Based on unadjusted quoted market prices in active markets for identical assets or liabilities accessible at the measurement date.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value Measurement (continued)

Level 2 – Based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Based on unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining fair value.

The Society's assets that are measured at fair value on a recurring basis are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, in Note 3.

Pledges Receivable

The Society records pledges receivable at estimated fair value. An allowance for doubtful accounts is recorded based on the length of time balances have remained outstanding and past history with donors. Pledges receivable are written off against the allowance when deemed uncollectible by management.

Property and Equipment and Related Depreciation

Property and equipment are recorded at cost. The Society capitalizes property and equipment purchases greater than \$500. Depreciation is provided on the straight-line basis over the estimated useful lives of the respective assets (10 to 40 years for the buildings and building improvements, and three to 10 years for furniture and equipment). Maintenance and repairs, including planned major maintenance activities, are charged to expenses when incurred; major renewals and improvements are capitalized. Donated property and equipment are recorded at fair value at the date of donation. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation, and any gain or loss is reflected in revenue and support or expenses in the accompanying statement of activities.

Net Assets

The net assets of the Society are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Society's operations. A portion of the unrestricted net assets has been designated by the Society's Board of Directors for specific projects or purposes.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or future periods.
- Permanently restricted net assets represent gifts requiring that the principal be invested in perpetuity and that only the income be expended as designated by the donor.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition

Membership dues received in excess of listed dues amounts for various types of membership levels represent a contribution. Dues received in advance of the membership period are deferred and recognized as revenue over the members' respective membership year. The contribution component is recognized as revenue when received.

The Society recognizes all unconditional contributed support in the period in which the commitment to give is made. Contributions are considered unrestricted revenue and support and available for general operations unless specifically restricted by the donor. The Society reports contributions as temporarily restricted revenue and support if they are received with donor stipulations that limit the use of the donated assets to a particular purpose or to future periods. When the stipulated time restriction ends or the purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions. Temporarily restricted contributions for which the restriction is met in the same period in which the contribution is received are recorded as unrestricted.

The Society records donated investments at the estimated fair value on the date received and generally sells them immediately; unsettled sales of contributed securities are reported as receivable.

Revenue from educational events, sale of books, reciprocal admission programs with other member gardens, rental of mailing lists, various horticulture consulting and River Farm rental are recognized when earned. Amounts received in advance are reported as deferred revenue.

The Society received a one-time fee for the sale of their former domain name. After the sale, the Society's domain name was changed to AHSGardening.org.

Donated Goods and Services

Donated goods and services consist of food and supplies for various events as well as merchandise for auction and for sale at the River Farm store. These contributions are recorded at their estimated retail value at the date of donation, which approximates fair value. Retail value of the items donated is determined based on management's best estimate using information provided by donors and other third parties. All donated items are considered unrestricted support.

Volunteers also provided various services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria are not met.

Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, costs have been allocated among the programs and supporting services benefited based upon the function directly benefited or based upon management's estimates of the proportion of these costs applicable to each function.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

1. Organization and Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Investments

Investments consisted of the following as of June 30, 2017:

Common stock	\$ 1,419,722
Corporate bonds	677,830
Mutual funds	113,794
Money market funds	<u>1,088,541</u>
Total Investments	<u>\$ 3,299,887</u>

Investment income is summarized as follows for the year ended June 30, 2017:

Interest and dividends	\$ 50,060
Realized gains and losses	96,079
Unrealized gains	<u>83,934</u>
Total Investment Income	230,073
Less: Investment Fees	<u>(15,947)</u>
Investment Income, Net	<u>\$ 214,126</u>

3. Fair Value Measurement

The following table summarizes the Society's assets measured at fair value on a recurring basis as of June 30, 2017, aggregated by the fair value hierarchy level with which those measurements were made:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Common stock:				
Consumer discretionary	\$ 249,066	\$ 249,066	\$ -	\$ -
Consumer staples	104,748	104,748	-	-
Energy	74,513	74,513	-	-
Financials	292,330	292,330	-	-

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

3. Fair Value Measurement (continued)

<i>(continued)</i>	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Common stock (continued):				
Healthcare	\$ 169,105	\$ 169,105	\$ -	\$ -
Industrials	205,038	205,038	-	-
Information technology	153,190	153,190	-	-
Materials	94,944	94,944	-	-
Miscellaneous	-	-	-	-
Real estate	64,308	64,308	-	-
Telecommunications	5,583	5,583	-	-
Utilities	<u>6,897</u>	<u>6,897</u>	<u>-</u>	<u>-</u>
Total Common Stock	1,419,722	1,419,722	-	-
Corporate bonds	677,830	-	677,830	-
Mutual funds	113,794	113,794	-	-
Money market funds	<u>1,088,541</u>	<u>1,088,541</u>	<u>-</u>	<u>-</u>
Total Investments Measured at Fair Value	<u>\$ 3,299,887</u>	<u>\$ 2,622,057</u>	<u>\$ 677,830</u>	<u>\$ -</u>

The Society used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

Common stock – Valued at the closing price reported in the active market in which the individual stocks are traded.

Corporate bonds – Valued based on current yields, the securities’ terms and conditions, and market activity. Information used includes market sources, credit information, observed market movement and sector news.

Mutual funds and money market funds – Valued using the net asset value of shares held at year-end and based on quoted market prices in active markets. Where quoted prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy.

4. Pledges Receivable

The Society had pledges receivable as of June 30, 2017, of \$46,280, which are net of an allowance for doubtful accounts of \$7,500. The pledges receivable balance includes \$37,247 of in-kind plants and merchandise from a nursery that has been pledged by its owner, a former member of the Society’s Board of Directors. During the year ended June 30, 2017, the Society received in-kind merchandise of \$8,541 under this agreement.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

5. Property and Equipment

The Society's property and equipment consisted of the following as of June 30, 2017:

Land	\$ 647,008
Land improvements	1,157,355
Building and building improvements	1,049,442
Furniture and equipment	<u>217,589</u>
Total Property and Equipment	3,071,394
Less: Accumulated Depreciation and Amortization	<u>(788,309)</u>
Property and Equipment, Net	<u><u>\$ 2,283,085</u></u>

Depreciation and amortization expense totaled \$76,023 for the year ended June 30, 2017. Capitalized interest in the amount of \$60,733 is included with land improvements.

6. Note Payable

On November 29, 2011, the Society secured approximately \$1,200,000 (the Loan) from a bank to finance water, sewer and technology infrastructure improvements. The proceeds of the Loan were to be disbursed as construction progressed. The Loan was payable in monthly installments of interest only at an interest rate of 5.25% on the outstanding principal balance until May 29, 2013 (the Conversion Date). From the Conversion Date through November 29, 2022, the Loan is payable in monthly payments of principal and interest at 5.25%. On November 29, 2022, and every five years thereafter, the interest rate will be adjusted to the greater of the weekly average yield on five-year United States Treasury securities plus 2.75% or 4.5%. The Loan will mature on November 29, 2037, and is secured by the Society's property, including all improvements and fixtures. In addition, the Society has assigned the right, title and interest to all of the rents issued and profits of the premises as security under the Loan. The Loan contains various restrictive covenants pertaining to insurance, property maintenance and financial records. As of June 30, 2017, the Society was in compliance with these restrictive covenants.

Maturities of the note payable for each of the next five years and thereafter are as follows:

For the Year Ending June 30,	
2018	\$ 25,872
2019	27,283
2020	28,639
2021	30,333
2022	31,988
Thereafter	<u>816,199</u>
Total	<u><u>\$ 960,314</u></u>

Interest expense relating to the note payable agreement totaled \$59,595, for the year ended June 30, 2017.

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AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

7. Line of Credit

At June 30, 2017, the Society had available an unsecured line of credit of \$200,000 with a bank, to be drawn upon as needed with a variable interest rate equal to the greater of the U.S. Prime Rate as quoted in the Wall Street Journal or 5%. The line of credit is scheduled to expire on January 13, 2018. During the year ended June 30, 2017, the Society had draws on the line of credit, however had fully repaid the balance outstanding as of June 30, 2017.

8. Net Assets

Unrestricted Net Assets

Unrestricted net assets consist of undesignated unrestricted net assets and board-designated net assets that have been established by the Society's Board of Directors. The Board retains the rights to use these funds for operational issues at its discretion. During the year ended June 30, 2017, the Society received an unrestricted \$1,000,000 gift from a donor that wishes to remain anonymous. On June 8, 2017, the Board of Directors designated the \$1,000,000 donation to be utilized in a program or set of programs to be determined during the course of strategic planning in fiscal year 2018 and beyond.

Temporarily Restricted Net Assets

The temporarily restricted net assets of the Society were available for the following programs or purposes as of June 30, 2017:

Watkins water feature	\$ 247,746
Monrovia plants	37,246
Estate House restoration	36,862
Carriage House improvements	15,048
Driveway repairs and paving	13,229
Children's Garden	4,000
Garden brick wall and arch restoration	3,000
The Endowment Fund	<u>2,438</u>
Total Temporarily Restricted Net Assets	<u>\$ 359,569</u>

Net assets were released from donor-imposed restrictions by incurring expenses which satisfied the restricted purposes. For the year ended June 30, 2017, net assets released from restrictions were as follows:

Satisfaction of purpose restrictions:	
Driveway repairs and paving	\$ 81,871
Gardening on the Web initiative	55,544
Estate House restoration	42,950
The Endowment Fund	15,346
Monrovia plants	8,541
Carriage House improvements	<u>4,004</u>
Total Net Assets Released from Restrictions	<u>\$ 208,256</u>

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

8. Net Assets (continued)

Permanently Restricted Net Assets and Endowments

Permanently restricted net assets consisted of the following as of June 30, 2017:

Wilma L. Pickard Endowment Fund	\$ 220,000
Jane Steffey Endowment #1	83,349
Frances Poetker Endowment	50,000
Marks Endowment	50,000
Jane Steffey Endowment #2	50,000
H. Marc Cathey Award Endowment Fund	30,870
Hunt Endowment	25,000
Jane Taylor Teaching Award Endowment Fund	20,500
Youth Gardening Intern Endowment	<u>10,000</u>
Total Permanently Restricted Net Assets	<u>\$ 539,719</u>

9. Endowments

The Society's endowments consist of numerous individual funds established for a variety of purposes. The endowments consist of donor-restricted funds and, as required by GAAP, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Society has interpreted the District of Columbia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of the initial 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 accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Society considers 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.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

9. Endowments (continued)

Interpretation of Relevant Law (continued)

- The expected total return from income and the appreciation of investments.
- Other resources of the Society.
- The investment policies of the Society.

Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the market while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its provision for annual income objectives, the Society relies on a fixed-income strategy in which investment returns are achieved through current yield (interest and dividends) and, to a lesser extent, capital appreciation (realized and unrealized). The Society targets a diversified fixed-income-based asset allocation to provide reasonable and predictable funds for the Society's program purposes supported by its permanently restricted endowments and to maintain a balance between the Society's spending and the protection of the principal.

Endowment Spending Policy

The Society has adopted a spending policy for the endowment funds that states that 95% of the actual interest and dividends earned, less investment fees, for the prior calendar year are available to be spent in accordance with donor restrictions.

Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2017.

Composition of Endowments by Net Asset Category

The Society's endowment net asset composition by fund type was as follows as of June 30, 2017:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 2,438	\$ 539,719	\$ 542,157

Continued

AMERICAN HORTICULTURAL SOCIETY

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

9. Endowments (continued)

Composition of Endowments by Net Asset Category (continued)

Changes in endowment net assets were as follows for the year ended June 30, 2017:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ 1,630	\$ 539,719	\$ 541,349
Investment return:			
Investment income, net	16,154	-	16,154
Appropriations for expenditure	<u>(15,346)</u>	<u>-</u>	<u>(15,346)</u>
Endowment net assets, June 30, 2017	<u>\$ 2,438</u>	<u>\$ 539,719</u>	<u>\$ 542,157</u>

Temporarily restricted endowment net assets were as follows as of June 30, 2017:

The portion of perpetual endowment funds that was subject to purpose restriction under UPMIFA	<u>\$ 2,438</u>
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Permanently restricted net assets were as follows as of June 30, 2017:

The portion of perpetual endowment funds that was required to be retained permanently, either by explicit donor stipulation or by UPMIFA	<u>\$ 539,719</u>
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10. Commitments and Risks

Hotel Commitments

The Society has entered into several agreements with hotels providing for room accommodations for its annual conference in July 2017. These agreements contain clauses whereby the Society is liable for liquidated damages in the event of cancellation. Management is of the opinion that no material liability is likely. The maximum possible amount of liquidated damages totaled approximately \$52,000 as of June 30, 2017.

11. Employee Benefit Plan

The Society maintains a tax-deferred annuity plan that covers all employees meeting certain age and length-of-service requirements. Employees may elect to defer and contribute to the plan a portion of their compensation in amounts up to the maximum permitted by law. Employees may begin to contribute on the first of the month following employment. After one year of employment, the Society matches elective employee deferrals in whole percentage amounts (1%, 2%, 3%, 4%, 5%) up to 5% of the employee's compensation. The Society's contribution to the Plan was \$31,362 for the year ended June 30, 2017.

Continued

AMERICAN HORTICULTURAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

12. Income Taxes

The Society is exempt from the payment of taxes on income other than net unrelated business income under Section 501(c)(3) of the IRC. No provision for income taxes is required for the year ended June 30, 2017, because the Society had no net taxable unrelated business income.

The Society adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and de-recognition of tax positions taken or expected to be taken in a tax return. The Society performed an evaluation of uncertainty in income taxes for the year ended June 30, 2017, and determined that there were no matters that would require recognition in the financial statements, or that may have any effect on its tax-exempt status. As of June 30, 2017, the statute of limitations for tax years 2013 through 2015 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Society files tax returns. It is the Society's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense. As of June 30, 2017, the Society had no accruals for interest and/or penalties.

13. Related Party Transactions

During the year ended June 30, 2017, the spouse of the Executive Director of the Society was paid compensation as an employee, the Volunteer Program Manager and Horticulturist, for the performance of services.

14. Prior Year Summarized Financial Information

The accompanying 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 GAAP. Accordingly, such information should be read in conjunction with the Society's audited financial statements for the year ended June 30, 2016, from which the summarized information was prepared.

15. Subsequent Events

In preparing the financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through December 20, 2017, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

AMERICAN HORTICULTURAL SOCIETY
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017
(With Summarized Financial Information for the Year Ended June 30, 2016)

	Program Services				Supporting Services			2017 Total	2016 Total	
	Educational Programs	Membership	Gardens and Buildings	Communications	Total Program Services	Management and General	Fundraising and Development			Total Supporting Services
Salaries and wages	\$ 189,747	\$ 100,002	\$ 176,795	\$ 191,132	\$ 657,676	\$ 79,708	\$ 87,181	\$ 166,889	\$ 824,565	\$ 863,121
Meetings, tours, and activities	698,242	-	55,055	33	753,330	5,916	32,618	38,534	791,864	589,437
Postage	12,049	87,021	5,623	47,815	152,508	1,950	8,983	10,933	163,441	144,389
Printing	7,207	71,913	1,241	52,944	133,305	16,541	11,524	28,065	161,370	156,297
Donated goods and services	2,175	-	19,187	-	21,362	-	136,935	136,935	158,297	86,457
Consulting and professional fees	9,984	75,762	-	42,982	128,728	1,336	13,200	14,536	143,264	127,651
Benefits and taxes	28,521	15,031	25,823	26,209	95,584	14,646	13,104	27,750	123,334	201,376
Taxes and licenses	14,681	7,737	18,130	15,193	55,741	10,930	17,097	28,027	83,768	23,120
Depreciation and amortization	-	-	-	-	-	76,023	-	76,023	76,023	83,265
Accounting	-	-	-	-	-	67,792	-	67,792	67,792	60,662
Interest	-	-	51,840	-	51,840	7,755	-	7,755	59,595	17,338
Mail services	-	45,246	-	4,446	49,692	-	1,327	1,327	51,019	52,884
Outside services	8,883	19,902	10,174	4,056	43,015	1,577	1,525	3,102	46,117	48,758
Bank fees	-	-	-	-	-	40,835	-	40,835	40,835	41,219
Computer supplies and service	358	15,372	-	-	15,730	22,635	495	23,130	38,860	37,050
Cost of merchandise	4,274	12,307	21,706	-	38,287	-	-	-	38,287	28,670
Supplies – operations	3,454	7,934	14,447	-	25,835	3,671	-	3,671	29,506	22,199
Insurance	-	-	-	-	-	28,580	-	28,580	28,580	33,587
List rentals	-	22,283	-	-	22,283	-	-	-	22,283	20,229
Utilities	3,519	1,855	3,187	3,234	11,795	1,807	1,619	3,426	15,221	15,269
Travel	8,930	599	(1,153)	1,581	9,957	3,175	1,830	5,005	14,962	24,320
Training	-	5,481	3,476	2,752	11,709	577	1,089	1,666	13,375	12,801
Telephone	2,162	1,139	1,957	1,987	7,245	1,328	993	2,321	9,566	8,458
Advertising	586	4,050	4,353	-	8,989	270	30	300	9,289	7,239
Housekeeping	-	-	8,068	-	8,068	-	-	-	8,068	8,320
Supplies – office	2,380	908	1,604	692	5,584	1,186	1,217	2,403	7,987	7,396
Legal	-	-	-	-	-	7,759	-	7,759	7,759	6,216
Repairs and maintenance	-	-	7,111	-	7,111	-	-	-	7,111	32,806
Awards	2,729	-	-	-	2,729	1,721	84	1,805	4,534	5,826
Temporary help	-	-	3,738	-	3,738	-	-	-	3,738	4,805
Dues and subscriptions	270	11	2,167	99	2,547	439	370	809	3,356	2,142
Loss on disposal	-	-	-	-	-	1,644	-	1,644	1,644	-
Miscellaneous	-	-	-	-	-	1,335	-	1,335	1,335	1,123
Donations	-	-	-	-	-	-	-	-	-	550
TOTAL EXPENSES	\$ 1,000,151	\$ 494,553	\$ 434,529	\$ 395,155	\$ 2,324,388	\$ 401,136	\$ 331,221	\$ 732,357	\$ 3,056,745	\$ 2,774,980