

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

The Pennsylvania Horticultural Society

June 30, 2020 and 2019

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
The Pennsylvania Horticultural Society

We have audited the accompanying financial statements of The Pennsylvania Horticultural Society, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the years 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 consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Pennsylvania Horticultural Society as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania
November 3, 2020

The Pennsylvania Horticultural Society

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 440,665	\$ 1,316,404
Accounts and contributions receivable, net of allowance for doubtful accounts		
Government grants	2,690,825	2,567,493
Other grants, contributions, and bequests	1,589,026	846,099
Other	1,200,441	990,641
Prepaid expenses and other assets	531,031	396,853
Inventory	80,982	95,351
Property and equipment, net	2,585,879	2,480,590
Investments, at fair value	52,882,609	57,637,983
Beneficial interest in perpetual trust	1,759,530	1,817,324
Collections (Note A)	-	-
	<u> </u>	<u> </u>
Total assets	<u>\$ 63,760,988</u>	<u>\$ 68,148,738</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 3,989,906	\$ 3,647,183
Accrued pension obligations	3,234,522	2,206,753
Capital lease obligation	68,728	100,969
Deferred revenue and membership dues	710,309	759,057
Tenant improvement allowance	732,896	824,508
Annuities payable	90,497	83,904
Line of credit obligations	-	400,000
Installment loan obligations	46,074	40,792
Loan payable - CARES Act	1,925,290	-
Total liabilities	<u>10,798,222</u>	<u>8,063,166</u>
Commitments and contingencies (Note N)		
Net assets		
Without donor restriction	18,675,769	24,287,491
With donor restriction	<u>34,286,997</u>	<u>35,798,081</u>
	<u> </u>	<u> </u>
Total net assets	<u>52,962,766</u>	<u>60,085,572</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 63,760,988</u>	<u>\$ 68,148,738</u>

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

The Pennsylvania Horticultural Society
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2020

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Revenue and support			
Ticket revenue	\$ 5,349,449	\$ -	\$ 5,349,449
Sales	1,868,075	-	1,868,075
Events	491,860	-	491,860
Program service revenue	3,752,088	-	3,752,088
Government contracts	6,289,977	-	6,289,977
Other grants and contributions	1,807,587	2,240,489	4,048,076
Membership dues	1,522,935	-	1,522,935
Gain on disposal of property	12,034	-	12,034
Interest and dividends, net	402,244	507,859	910,103
Net realized and unrealized loss on investments	(1,036,260)	(1,326,405)	(2,362,665)
Net assets released from program and time restrictions	2,115,889	(2,115,889)	-
Release of endowment under spending rule	817,138	(817,138)	-
	<u>23,393,016</u>	<u>(1,511,084)</u>	<u>21,881,932</u>
Total revenue and support			
Expenses			
Flower Show	10,793,467	-	10,793,467
Urban Greening	11,622,167	-	11,622,167
Education Services	1,810,930	-	1,810,930
Development	2,731,657	-	2,731,657
Meadowbrook Farm	1,144,541	-	1,144,541
	<u>28,102,762</u>	<u>-</u>	<u>28,102,762</u>
Total expenses			
Changes in net assets before change in pension benefit obligation	(4,709,746)	(1,511,084)	(6,220,830)
Postretirement changes other than net periodic benefit costs (Note P)	(901,976)	-	(901,976)
Changes in net assets	(5,611,722)	(1,511,084)	(7,122,806)
Net assets, beginning of year	<u>24,287,491</u>	<u>35,798,081</u>	<u>60,085,572</u>
Net assets, end of year	<u>\$ 18,675,769</u>	<u>\$ 34,286,997</u>	<u>\$ 52,962,766</u>

The accompanying notes are an integral part of this consolidated financial statement.

The Pennsylvania Horticultural Society
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2019

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Revenue and support			
Ticket revenue	\$ 6,177,637	\$ -	\$ 6,177,637
Sales	1,774,860	-	1,774,860
Events	545,850	-	545,850
Program service revenue	4,781,891	-	4,781,891
Government contracts	5,505,547	-	5,505,547
Other grants and contributions	1,771,443	1,800,839	3,572,282
Membership dues	1,457,833	-	1,457,833
Interest and dividends, net	458,968	552,085	1,011,053
Net realized and unrealized gain on investments	296,701	437,186	733,887
Net assets released from program and time restrictions	2,468,664	(2,468,664)	-
Release of endowment under spending rule	700,640	(700,640)	-
	<u>25,940,034</u>	<u>(379,194)</u>	<u>25,560,840</u>
Total revenue and support			
Expenses			
Flower Show	10,186,407	-	10,186,407
Urban Greening	11,257,950	-	11,257,950
Education Services	1,548,701	-	1,548,701
Development	2,868,157	-	2,868,157
Meadowbrook Farm	1,193,391	-	1,193,391
	<u>27,054,606</u>	<u>-</u>	<u>27,054,606</u>
Total expenses			
Changes in net assets before change in pension benefit obligation	(1,114,572)	(379,194)	(1,493,766)
Postretirement changes other than net periodic benefit costs (Note P)	<u>(513,820)</u>	<u>-</u>	<u>(513,820)</u>
Changes in net assets	(1,628,392)	(379,194)	(2,007,586)
Net assets, beginning of year	<u>25,915,883</u>	<u>36,177,275</u>	<u>62,093,158</u>
Net assets, end of year	<u>\$ 24,287,491</u>	<u>\$ 35,798,081</u>	<u>\$ 60,085,572</u>

The accompanying notes are an integral part of this consolidated financial statement.

The Pennsylvania Horticultural Society

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended June 30, 2020 and 2019

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Balance, June 30, 2018	\$ 25,915,883	\$ 36,177,275	\$ 62,093,158
Changes in net assets	<u>(1,628,392)</u>	<u>(379,194)</u>	<u>(2,007,586)</u>
Balance, June 30, 2019	24,287,491	35,798,081	60,085,572
Changes in net assets	<u>(5,611,722)</u>	<u>(1,511,084)</u>	<u>(7,122,806)</u>
Balance, June 30, 2020	<u>\$ 18,675,769</u>	<u>\$ 34,286,997</u>	<u>\$ 52,962,766</u>

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

The Pennsylvania Horticultural Society

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2020

	Program Activities				Supporting Activities		Total
	Flower Show	Urban Greening	Education Services	Meadowbrook Farm	Management and general	Development	
Salaries	\$ 1,849,319	\$ 2,291,058	\$ 665,299	\$ 295,475	\$ 2,370,875	\$ 1,070,810	\$ 8,542,836
Employee benefits	571,178	762,691	215,087	129,187	778,393	352,926	2,809,462
Staging	2,352,212	-	-	-	-	-	2,352,212
Exhibitor cost reimbursements	1,151,306	-	-	-	-	-	1,151,306
Convention Center license fee	272,000	-	-	-	-	-	272,000
Advertising and publicity	477,272	20,874	1,465	3,420	4,809	3,523	511,363
Professional services	109,441	11,243	1,713	-	499,642	110,247	732,286
Program and project expenses	1,483,934	5,761,211	168,760	320,646	-	500,408	8,234,959
Publications	-	-	320,035	-	-	-	320,035
Training and development	22,821	36,439	8,154	1,544	24,020	15,818	108,796
Occupancy	176,956	282,550	63,228	94,618	216,791	118,160	952,303
Depreciation	164,776	188,244	27,778	51,682	73,130	48,163	553,773
Insurance	164,191	148,440	9,291	29,015	30,491	13,778	395,206
Office expenses	62,527	35,276	5,375	-	1,055,076	7,971	1,166,225
Subtotal	8,857,933	9,538,026	1,486,185	925,587	5,053,227	2,241,804	28,102,762
Allocation of management and general	1,935,534	2,084,141	324,745	218,954	(5,053,227)	489,853	(0)
Total functional expenses	<u>\$ 10,793,467</u>	<u>\$ 11,622,167</u>	<u>\$ 1,810,930</u>	<u>\$ 1,144,541</u>	<u>\$ -</u>	<u>\$ 2,731,657</u>	<u>\$ 28,102,762</u>

The accompanying notes are an integral part of this consolidated financial statement.

The Pennsylvania Horticultural Society
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2019

	Program Activities				Supporting Activities		Total
	Flower Show	Urban Greening	Education Services	Meadowbrook Farm	Management and general	Development	
Salaries	\$ 1,629,278	\$ 2,247,034	\$ 508,568	\$ 260,736	\$ 2,107,728	\$ 1,115,448	\$ 7,868,792
Employee benefits	527,184	781,860	179,574	98,675	743,494	389,122	2,719,909
Staging	2,215,303	-	-	-	-	-	2,215,303
Exhibitor cost reimbursements	1,046,247	-	-	-	-	-	1,046,247
Convention Center license fee	272,000	-	-	-	-	-	272,000
Advertising and publicity	427,767	18,400	1,473	9,606	5,481	4,074	466,801
Professional services	81,852	7,104	949	-	494,356	73,708	657,969
Program and project expenses	1,654,542	5,637,803	166,525	364,670	-	583,052	8,406,592
Publications	-	-	310,908	-	-	-	310,908
Training and development	8,792	14,038	3,141	10,128	10,838	7,687	54,624
Occupancy	161,756	260,229	57,796	126,150	191,402	108,011	905,344
Depreciation	153,511	180,907	29,763	63,512	75,915	49,997	553,605
Insurance	138,712	45,026	6,017	31,356	22,397	11,132	254,640
Office expenses	37,628	41,017	5,482	-	1,227,604	10,141	1,321,872
Subtotal	8,354,572	9,233,418	1,270,196	964,833	4,879,215	2,352,372	27,054,606
Allocation of management and general	1,831,835	2,024,532	278,505	228,558	(4,879,215)	515,785	-
Total functional expenses	<u>\$ 10,186,407</u>	<u>\$ 11,257,950</u>	<u>\$ 1,548,701</u>	<u>\$ 1,193,391</u>	<u>\$ -</u>	<u>\$ 2,868,157</u>	<u>\$ 27,054,606</u>

The accompanying notes are an integral part of this consolidated financial statement.

The Pennsylvania Horticultural Society
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	2020	2019
Operating activities		
Changes in net assets	\$ (7,122,806)	\$ (2,007,586)
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Change in pension valuation	959,368	597,382
Change in fair value of beneficial interest in perpetual trust	57,794	3,469
Depreciation	553,775	553,608
Net realized and unrealized loss (gain) on investments	2,381,843	(657,795)
Gain on disposal of property and equipment	(14,076)	(13,376)
Changes in		
Accounts and contributions receivable	(1,076,059)	1,360,268
Prepaid expenses and other assets	(134,177)	(18,863)
Inventory	14,369	6,226
Accounts payable and accrued expenses	341,386	(231,926)
Accrued pension obligations	68,401	24,036
Deferred revenue and membership dues	(48,750)	77,331
Tenant improvement allowance	(91,612)	(91,612)
Annuities payable	6,593	(6,529)
	<u>(4,103,951)</u>	<u>(405,367)</u>
Investing activities		
Purchase of property and equipment	(657,727)	(382,899)
Purchases of investments	(6,348,252)	(17,232,855)
Proceeds from sale of investments	8,721,784	18,428,291
Proceeds from sale of equipment	14,076	16,252
	<u>1,729,881</u>	<u>828,789</u>
Financing activities		
Proceeds from credit line borrowings	1,700,000	2,350,000
Repayments on credit line borrowings	(2,100,000)	(2,475,000)
Proceeds from installment loan obligations	17,143	42,674
Repayments on installment loan obligations	(11,860)	(1,882)
Principal payments on capital lease obligations	(32,242)	(38,567)
Proceeds from Paycheck Protection Program Loan	1,925,290	-
	<u>1,498,331</u>	<u>(122,775)</u>
(Decrease) increase in cash and cash equivalents	(875,738)	300,647
Cash and cash equivalents, beginning of year	<u>1,316,404</u>	<u>1,015,757</u>
Cash and cash equivalents, end of year	<u>\$ 440,666</u>	<u>\$ 1,316,404</u>
Supplemental information		
Cash paid for interest	<u>\$ 35,439</u>	<u>\$ 38,562</u>
Cash paid for capital lease obligation	<u>\$ -</u>	<u>\$ 12,102</u>

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

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Principles of Consolidation

The Pennsylvania Horticultural Society (the Society) is a not-for-profit membership organization founded in 1827 that offers programs, activities, workshops and publications for gardeners of all levels and interests. The Society connects people with horticulture, and together it creates beautiful, healthy and sustainable communities.

Proceeds from the Society's Philadelphia Flower Show, as well as contributions and contracts from foundations, corporations, government agencies and individuals, support the Society's programs and initiatives, including community education, training opportunities and a comprehensive urban greening program supporting the development and ongoing care of community gardens, parks, vacant land, sustainable environmental initiatives and high profile public green spaces.

The Society is the sole member of Meadowbrook Farm, a not-for-profit entity. Meadowbrook Farm is a garden estate that provides facilities for Society educational programs and gardens that are open to the public for tours. In addition, Meadowbrook Farm has a retail nursery operation and forces plants for exhibition at the Philadelphia Flower Show. The Society is required to maintain Meadowbrook Farm in perpetuity pursuant to the bequest of the donor's estate.

The Society is also the sole member of Philadelphia Flower Show, Incorporated (PFSI), a not-for-profit entity.

The accompanying consolidated financial statements include the activities of the Society, Meadowbrook Farm and PFSI, collectively referred to as the Society. All significant intercompany balances have been eliminated.

Cash and Cash Equivalents

The Society considers all highly liquid debt instruments purchased with an original maturity of three months or less, which are not intended to be held for investment purposes, to be cash equivalents.

Contributions and Net Assets

Net assets are categorized as follows:

Net assets without donor restrictions are available for use at the discretion of the Board of Directors (the Board) and/or management for general operating purposes. From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion.

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Society to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a Board approved pending policy.

Contributions, including unconditional pledges, are recognized as revenue in the period the promise is received. Contributions of assets other than cash are recorded at their estimated fair values at the date of donation.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time or purpose restriction is accomplished), net assets with donor restrictions are transferred to net assets without donor restrictions. Donor restricted contributions whose restrictions are met in the same fiscal year are initially recorded as net assets with donor restrictions and subsequently reclassified as net assets without donor restrictions.

When the Society receives contributions of long-lived assets or cash or other assets restricted to the purchase of long-lived assets, the related net assets with donor restrictions are released to net assets without donor restrictions when the asset is placed into service.

Investment income and gains earned on net assets with donor restrictions of a perpetual nature are recorded as net assets with donor restrictions until they are permitted to be transferred to net assets without donor restrictions for use in operations (see Note K).

Allowance for Doubtful Accounts

The Society continually monitors accounts and contributions receivable for collectability issues. An allowance for doubtful accounts is based upon management's judgment and is established based on a review of the types of individual accounts, prior collection history, the nature of services provided and other pertinent factors. Accounts deemed uncollectible are charged to the allowance. The allowance for doubtful accounts was \$29,000 and \$0 as of June 30, 2020 and 2019, respectively.

Inventory

Inventory primarily relates to plants and other items offered for sale at Meadowbrook Farm. Inventory is valued at the lower of cost or market. Cost is determined on a first in, first out basis.

Property and Equipment

Property and equipment are capitalized at cost, at the date of purchase, or at fair market value as of the date of donation. Depreciation and amortization are provided using the straight-line method over the following estimated useful lives. Amortization of leasehold improvements is included in depreciation.

Nursery buildings	10 years
Furniture and equipment	3-10 years
Machinery and equipment	5 years
Vehicles	5 years
Nursery improvements	5 years
Leasehold improvements	Lesser of lease term or useful life
Equipment and vehicles under capital leases	4-5 years

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Investments and Beneficial Interest in Perpetual Trust

The Society's investments are stated at fair value (see Note E). Purchases and sales of securities are recorded on a trade-date basis. Interest is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The Society has adopted an investment policy for all investments to produce a predictable level of income and appreciation to meet the Society's organizational objectives while achieving a maximum total return for the assets at a level consistent with prudent management. Under this policy, as approved by the Board, the assets are invested in a manner that is intended to produce returns that exceed spending, while assuming a moderate level of investment risk. Actual returns may vary from the intended results. 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 and yield. The Society targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The beneficial interest in perpetual trust is stated at fair value. The investment policy of the beneficial interest in perpetual trust is determined and administered by a third-party trustee. The Society is the beneficiary of income earned based on the spending rule policy of the trust.

Collections

The Society does not capitalize its collections. All collections are protected and preserved and are held for exhibition to the public for educational purposes and not financial gain. It is the Society's policy to designate proceeds from the sale of collection items for the purchase of other collection items. The collections are material to the consolidated financial statements and include library, art and educational assets, and the Meadowbrook Farm gardens and house. The purchase of additional collections and proceeds from the sale of collections are reflected on the consolidated statements of activities as change in net assets related to collection items not capitalized, collection items purchased but not capitalized, and proceeds from sales of collection items if applicable, respectively.

Gift Annuities

The Society maintains a gift annuity program whereby the Society receives a transfer of assets from a donor and agrees to pay such annuitant a fixed amount of money quarterly for their lifetime. Upon the death of the annuitant, the remaining balance will be available for the Society for daily operations. The annuity is not assignable, with the exception that it may be assigned to the Society.

Revenue Recognition

The Society recognizes ticket revenue, sales, events, program service revenue and governmental contracts in the period earned.

Deferred Revenue and Membership Dues

Deferred revenue reflects deposits received from vendors for the following year's marketplace at the Flower Show, income received under fee-for-service grants and governmental contracts for services that have not yet been performed, and deferred lease credit for renovations paid by the lessor.

Membership dues are recognized as revenue in the applicable membership period. Any unearned amounts are included in deferred revenue.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Tenant Improvement Allowance

In March 2014, the Society signed an amendment to the lease agreement for its office space. The amendment includes a tenant improvement allowance in the amount of \$1,259,664, which was used to construct improvements and renovations to the space and has been capitalized as leasehold improvements as of June 30, 2020 and 2019. The allowance is being amortized over the life of the lease and had a balance of \$732,896 and \$824,508 as of June 30, 2020 and 2019, respectively.

Sponsorships

The Society receives sponsorships from organizations that help to support both the Flower Show and the Society's urban greening programs. Such revenue is accounted for as exchange transactions in the accompanying consolidated financial statements.

Income Taxes

The Society, PFSI and Meadowbrook Farm are exempt from most federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). However, the Society is subject to tax on unrelated business income, which includes revenue from advertising in its publication. There was no income tax provision or benefit recorded for the years ended June 30, 2020 and 2019. The Society has a net operating loss carryforward, of approximately \$490,000. A full valuation allowance has been established for the deferred tax asset resulting from the net operating loss carryforward since it is uncertain as to whether or not it will be utilized in the future.

As of June 30, 2020, the Society did not identify any material uncertain tax positions taken or expected to be taken in a tax return which would require adjustment to or disclosure in its consolidated financial statements.

Advertising Costs

The Society expenses advertising costs as incurred. Advertising expense was approximately \$437,000 and \$380,000 for the years ended June 30, 2020 and 2019, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Estimates used in accounting include calculating the fair value of investments, determining useful lives for depreciation and amortization of long-lived assets, calculation of pension benefit obligations, allowance for doubtful accounts, functional expense allocation, and evaluating contingencies. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated to the programs and supporting services benefited. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. A portion of general and administrative costs that benefit multiple functional areas have been allocated across programs and other supporting services based on the proportion of full-time employee equivalents of a program or other supporting activity as compared to total organizational full-time employee equivalents.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Society. These expenses include depreciation and amortization, interest, communications, information technology and facilities operations and maintenance. Depreciation is allocated based on the usage of the property and equipment. Interest is allocated based on the respective assets that are being financed, with interest on credit line borrowings allocated to management and general expense. Costs of other categories were allocated on the basis of employee salaries and headcount. Total expense includes all operating expenses exclusive of post retirement changes other than net periodic benefit costs.

Defined Benefit Pension Plan

The Society accounts for its defined benefit plan in accordance with the recognition and measurement provision of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 715, *Compensation - Retirement Benefits*.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2020, including interim periods within that reporting period. Early application is not permitted. An entity will apply the amendments in this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening balance sheet of retained earnings at the date of initial application. Revenue in periods presented before that date will continue to be reported under guidance in effect before the change. The Society is determining the impact of ASU 2014-09 at this time.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. Early application is permitted. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date. The Society is determining the impact of ASU 2016-02 at this time.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits*, which requires that an employer report the service cost component of net benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the statement of activities separately from the service cost component and outside the subtotal of changes in net assets before change in pension benefit obligation, if one is presented. ASU 2017-07 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. Retrospective application of the amendments in this ASU for the presentation of the service cost component and the other components of net benefit cost in the statement of changes in net assets is required in order to improve comparability of financial information across current and comparative periods. The Society determined that there was no material impact to the consolidated financial statements as a result of adopting ASU 2017-07.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Society adopted the guidance during the year ended June 30, 2020 using the modified retrospective approach and has determined that there is no effect on net assets in connection with the adoption of ASU 2018-08.

COVID-19 PANDEMIC

The COVID-19 pandemic, whose effects first became apparent in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The extent of the impact of COVID-19 on the Society's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak which, at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Society's future financial position and changes in net assets and cash flows is uncertain.

NOTE B - CONCENTRATION OF CREDIT RISK

Cash

The Society maintains its cash balances in the custody of two financial institutions in non-interest and interest bearing accounts. The Society's accounts are insured up to the Federal Deposit Insurance Corporation limit of \$250,000 at each financial institution. At June 30, 2020 and 2019, the total cash balance in aggregate of approximately \$848,710 and \$1,711,000, respectively, exceeded the federal insured limits by approximately \$540,901 and \$1,164,000, respectively. The Society mitigates any potential risk by depositing funds with major financial institutions. The Society has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Significant Grants and Contributions Receivable and Revenue

At June 30, 2020, the Society had uncollateralized accounts receivable from various public agencies and individuals. One agency made up approximately 77% and 70% of government contract revenues for the years ended June 30, 2020 and 2019, respectively. Two agencies made up approximately 80% and 71% of government grants accounts receivable as of June 30, 2020 and 2019, respectively. One individual donor made up approximately 12% and 20% of other grants and contributions revenue for the years ended June 30, 2020 and 2019, respectively. Five individual donors and not-for-profit agencies made up approximately 70% and 83% of other grants and contributions receivable as of June 30, 2020 and 2019, respectively.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Investments

The Society invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the Society's consolidated statements of financial position and consolidated statements of activities.

NOTE C - OTHER GRANTS, CONTRIBUTIONS AND BEQUESTS RECEIVABLE

Other grants, contributions and bequests receivable at June 30, 2020 and 2019 of \$1,589,026 and \$846,099, respectively, are all expected to be received per the following schedule:

Year ending June 30,

2021		\$ 1,334,026
2022		250,000
2023		5,000

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2020 and 2019:

	2020	2019
Nursery buildings	\$ 562,607	\$ 562,607
Furniture and equipment	4,918,938	4,548,813
Machinery and equipment	514,852	499,891
Vehicles	270,962	205,076
Nursery improvements	631,893	602,844
Leasehold improvements	2,665,956	2,657,206
Construction in progress	194,864	41,896
Equipment and vehicles under capital leases	336,015	350,567
	10,096,087	9,468,900
Less: accumulated depreciation	(7,510,208)	(6,988,310)
	\$ 2,585,879	\$ 2,480,590

Depreciation expense was \$553,775 and \$553,609 for the years ended June 30, 2020 and 2019, respectively.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE E - INVESTMENTS AND BENEFICIAL INTEREST IN PERPETUAL TRUST

Investments and beneficial interest in perpetual trust at fair value (see Note F) are as follows at June 30, 2020 and 2019:

	2020	2019
Money market funds	\$ 2,567,141	\$ 1,602,938
Mutual funds	21,491,536	18,957,697
Equity securities	4,520,718	5,078,251
Close-end International Equity	2,792,649	3,380,953
Exchange-traded funds	3,755,375	4,312,240
Common investment funds	17,755,190	24,305,904
	52,882,609	57,637,983
Beneficial interest in perpetual trust	1,759,530	1,817,324
Total	\$ 54,642,139	\$ 59,455,307

Interest and dividends are shown on the consolidated statements of activities net of investment expense of \$293,184 and \$332,595 for the years ended June 30, 2020 and 2019, respectively.

NOTE F - FAIR VALUE MEASUREMENTS

The Society accounts for the fair value of its financial instruments in accordance with the guidance in ASC Topic 820, *Fair Value Measurements* (ASC 820). ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

- Level 1 Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.
- Level 3 Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

Investments at Net Asset Value

ASC 820 provides a practical expedient for investments where fair value is measured at net asset value (NAV) per share (or its equivalent). Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Investments that are included in this category are the common investment funds which generally include private fund investment structures and limited partnership interests, without quoted prices.

Alternative investments for which quoted market prices are not available are valued based on the NAV, as a practical expedient, of the underlying funds owned by the trust, less its liabilities and then divided by the number of shares outstanding.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The following is a description of the valuation methodologies used for investments measured at fair value as of June 30, 2020 and 2019:

Level 1 Fair Value Measurements

Money market funds and exchange-traded funds are valued based on quoted market prices in active markets for identical assets. Equity securities are valued at the closing price reported on the active market on which the individual securities are traded. Mutual funds are valued based on quoted NAVs of the shares held by the Society.

Level 2 Fair Value Measurements

The Closed-end International Equity fund contains investments that are foreign public equity securities wherein the custodian invests in closed-end funds holding these equities. While inputs used to value these securities includes quoted prices in active markets, additional information used includes monthly liquidity metrics and net asset values.

Level 3 Fair Value Measurements

The beneficial interest in the perpetual trust is valued based on the fair value of the underlying investments of the trust, which consists of money market funds, equity securities and mutual funds. The Society will never have the ability to redeem its interest in the trust.

The following tables set forth by level, within the fair value hierarchy, the Society's investments and beneficial interest in perpetual trust measured at fair value as of June 30, 2020 and 2019:

Description	June 30, 2020				Total
	Level 1	Level 2	Level 3	Investments at NAV	
Money market funds	\$ 2,567,141	\$ -	\$ -	\$ -	\$ 2,567,141
Mutual funds	21,491,536	-	-	-	21,491,536
Equity securities	4,520,718	-	-	-	4,520,718
Closed-end International Equity	-	2,792,649	-	-	2,792,649
Exchange-traded funds	3,755,375	-	-	-	3,755,375
Common investment funds:					
Fixed income	-	-	-	- (d)	-
Alternative	-	-	-	7,543,292 (a)	7,543,292
Value	-	-	-	7,484,004 (b)	7,484,004
Growth and emerging markets	-	-	-	2,727,894 (c)	2,727,894
Beneficial interest in perpetual trust	-	-	1,759,530	-	1,759,530
Total assets at fair value	\$ 32,334,770	\$ 2,792,649	\$ 1,759,530	\$ 17,755,190	\$ 54,642,139

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Description	June 30, 2019				Total
	Level 1	Level 2	Level 3	Investments at NAV	
Money market funds	\$ 1,602,938	\$ -	\$ -	\$ -	\$ 1,602,938
Mutual funds	18,957,697	-	-	-	18,957,697
Equity securities	5,078,251	-	-	-	5,078,251
Closed-end International Equity	-	3,380,953	-	-	3,380,953
Exchange-traded funds	4,312,240	-	-	-	4,312,240
Common investment funds:					
Fixed income	-	-	-	1,826,238 ^(d)	1,826,238
Alternative	-	-	-	9,621,510 ^(a)	9,621,510
Value	-	-	-	8,353,328 ^(b)	8,353,328
Growth and emerging markets	-	-	-	4,504,828 ^(c)	4,504,828
Beneficial interest in perpetual trust	-	-	1,817,324	-	1,817,324
Total assets at fair value	<u>\$ 29,951,126</u>	<u>\$ 3,380,953</u>	<u>\$ 1,817,324</u>	<u>\$ 24,305,904</u>	<u>\$ 59,455,307</u>

(a) These funds consist of the following:

1. The Parametric Defensive Equity Fund LLC invests in a combination of S&P 500 index futures and ETFs and cash instruments. The fund also writes put and call options against these positions to earn the volatility risk premium of the options; as these options are fully collateralized, the fund takes no explicit leverage. The investment can be redeemed monthly, with prior notice of five days. There are no unfunded commitments to these funds as of June 30, 2020 and 2019.
2. Magnitude International Class A invests in underlying direct hedge funds. The fund management's objective is to deliver attractive risk-adjusted returns through manager selection, seeking out compelling opportunities and limiting passive exposures to major risk factors. The investment can be redeemed quarterly, with prior notice of 65 days. There are no unfunded commitments to the fund as of June 30, 2020 and 2019.
3. Harvest MLP Income Fund invests in publicly-traded MLPs and U.S. energy infrastructure companies. The fund management's objective is to take advantage of opportunities to invest in MLPs and U.S. energy infrastructure companies. The investment can be redeemed monthly, with prior notice of 30 days. There are no unfunded commitments to the fund as of June 30, 2020 and 2019.

(b) The Silchester International Value Equity Trust invests in publicly traded, non-U.S. equity securities. Management of the fund does not short securities, utilize leverage, margin or borrow. The investment approach is a bottom up one. The investment can be redeemed on the first business day of each month and requires a notice of at least six days before the end of the month. There are no unfunded commitments to the fund as of June 30, 2020 and 2019.

(c) These funds consist of the following:

1. City of London Emerging Market Equity Fund invests in equities of international companies that derive the majority of their profits from emerging economies. The fund's objective is to allocate assets through fundamental analysis with durations of 12 to 18 months. There are no redemption restrictions and no unfunded commitments as of June 30, 2020 and 2019.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

- (d) The Brandywine Global High Yield and Global Opportunity Funds invest primarily in publicly traded, non-U.S. fixed income securities. Management of the funds does not short securities, utilize explicit leverage, margin or borrow, though the fund may utilize derivatives when appropriate. The investment approach is a bottom up one. There are no redemption restrictions and no unfunded commitments as of June 30, 2020 and 2019.

The following is a reconciliation of investments for which significant unobservable inputs (Level 3) were used in determining value.

	2020	2019
Beneficial interest in perpetual trust		
Beginning balance, July 1,	\$ 1,817,324	\$ 1,820,793
Dividends reinvested	36,629	36,631
Withdrawals	(93,200)	(82,313)
Fees	(20,400)	(20,502)
Unrealized gain	19,177	62,715
Ending balance, June 30,	\$ 1,759,530	\$ 1,817,324

NOTE G - CAPITAL LEASE OBLIGATIONS

The Society leases equipment under capital leases that expire through 2023. The future minimum lease payments under these capital leases, and the present value of the net minimum lease payments are as follows:

Year ending June 30,			
2021		\$	32,228
2022			27,879
2023			13,529
Total minimum lease payments			73,636
Less imputed interest ^(a)			(4,908)
Present value of net minimum lease payments		\$	68,728

- (a) Amount necessary to reduce minimum lease payments to present value calculated at the Society's incremental borrowing rate at the inception of the leases.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE H - LINE OF CREDIT

The Society has an unsecured line of credit with a bank in the amount of \$3,000,000 that expires in April 2021. The line of credit bears interest at the greater of the LIBOR Daily Floating Rate or the Index Floor, plus 2.25%. The Index Floor is specified as 1.25%. Interest is payable monthly. The Society is not subject to any financial ratio covenants under this line of credit. As of June 30, 2020 and 2019, the Society had \$0 and \$400,000, respectively, outstanding on the line of credit and incurred interest expense of \$26,094 and \$34,439, respectively, in each of the years then ended under this agreement.

NOTE I - INSTALLMENT LOAN OBLIGATIONS

The Society has two installment loan obligations with banks. The loans are secured by a vehicle and equipment. The loans are payable in monthly installments of principal and interest and bear interest at 5.29% and 3.74% per year.

The future principal maturities remaining under these obligations are as follows:

Year ending June 30,

2021	\$	14,072
2022		14,522
2023		10,620
2024		<u>6,860</u>
Total	\$	<u>46,074</u>

NOTE J - LOAN PAYABLE - CARES ACT

In April 2020, the Society received a loan from the U.S. Small Business Administration (SBA) pursuant to the Paycheck Protection Program, under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). The loan is administered by a bank. The loan bears interest at the rate of 1% per annum and is unsecured. There is an initial six-month deferral period of interest and principal. The PPP Flexibility Act extended the deferral period until the date the lender receives the applicable forgiven amount from the SBA. Under the terms of the loan, the Society may apply for forgiveness of the outstanding principal balance, or portion thereof, including accumulated interest, provided certain conditions regarding the use of the loan proceeds have been met. Any amounts not forgiven under the terms of the loan are payable in monthly installments of principal and interest over a period of 18 months following the initial six-month deferral period. The Society believes that it has met the requirements of forgiveness for substantially all of the loan proceeds and intends to apply for forgiveness of the loan during the year ended June 30, 2021.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The future principal maturities remaining under this obligation are as follows:

<u>Year ending June 30,</u>	
2021	\$ 962,645
2022	<u>962,645</u>
Total	<u>\$ 1,925,290</u>

NOTE K - ENDOWMENT FUNDS

The Society's investments include both donor-restricted endowment funds and funds designated by the Society's Board to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Society maintains the financial controls necessary to ensure proper expenditures from donor-restricted and Board-designated funds.

The Society maintains master investment accounts for its donor-restricted and Board-designated endowments. Realized and unrealized gains and losses as well as investment income from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Board-Designated Endowment Funds

In 2009, the Society's Board had designated certain funds which exceeded the Society's needs to function as endowments. A spending policy has been adopted by the Board providing for a spending rate of approximately 5% for the years ended June 30, 2020 and 2019. The amount available for spending each fiscal year is determined by utilizing a rolling calendar three-year trailing average of market values. The Society's Board authorized transfers in the amount of \$1,394,793 for the year ended June 30, 2020 and \$1,404,728 for the year ended June 30, 2019 to be utilized for operating purposes.

Donor Restricted Endowments

The use of donor restricted net assets and related income and gains is limited by Pennsylvania Statute Act 141. Each year, the Board determines the amount that can be spent, subject to donor restrictions. The Society has elected to utilize the total return concept for administering its donor restricted funds by transferring between 2% and 7% of the fair value of the investments (based upon an average of three or more years).

Meadowbrook Farm

Funds with donor restrictions for the benefit of Meadowbrook Farm are available to support Meadowbrook Farm operations and programs. During the years ended June 30, 2020 and 2019, the Board authorized transfers of approximately 5%, which amounted to \$716,275 and \$640,161, respectively.

Other

Endowment funds with donor restrictions on the income for other purposes are available to support urban greening and other programs. During the years ended June 30, 2020 and 2019, the Board authorized transfers of 4%, which amounted to \$60,864 and \$60,479, respectively.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to maintain as a fund of perpetual duration. Deficiencies of this nature exist in one donor restricted endowment fund, which has an original gift value of \$14,495,416, a current fair value of \$13,387,005 and a deficiency of \$1,108,411 as of June 30, 2020 and an original gift value \$14,495,416, a current fair value of \$14,479,764 and a deficiency of \$15,652 as of June 30, 2019. This deficiency in original gift value resulted from unfavorable market fluctuations that occurred after continued appropriation for certain programs that were deemed prudent by the Board of Directors.

Beneficial Interest in Perpetual Trust - Donor Restricted Endowment

Under the terms of a perpetual trust held by a third party, the Society is the beneficiary of income earned based on the spending rule policy of the trust. Changes in the fair value of the trust's assets are recognized as a change in fair value of beneficial interest in perpetual trust in the consolidated statements of activities. Income is unrestricted and is recorded in the period received by the Society on the consolidated statements of activities.

Endowment Funds - Net Asset Composition

The Society's endowment funds by net asset category are as follows as of June 30, 2020 and 2019:

<u>2020</u>	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 15,859,523	\$ 15,859,523
Board-designated endowment funds	23,055,042	-	23,055,042
Total funds	<u>\$ 23,055,042</u>	<u>\$ 15,859,523</u>	<u>\$ 38,914,565</u>
 <u>2019</u>	 Without donor restrictions	 With donor restrictions	 Total
Donor-restricted endowment funds	\$ -	\$ 17,123,321	\$ 17,123,321
Board-designated endowment funds	25,525,969	-	25,525,969
Total funds	<u>\$ 25,525,969</u>	<u>\$ 17,123,321</u>	<u>\$ 42,649,290</u>

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The Society had the following endowment fund related activities for the years ended June 30, 2020 and 2019:

	Without donor restrictions	With donor restrictions	Total
Balance at June 30, 2018	\$ 26,396,230	\$ 16,533,183	\$ 42,929,413
Investment income	446,367	287,560	733,927
Net realized/unrealized gain	283,325	201,217	484,542
Total investment return	729,692	488,777	1,218,469
New gifts received	50,000	802,000	852,000
Appropriations of endowment assets for expenditure	(1,649,953)	(700,639)	(2,350,592)
Total additions/withdrawals on investment	(1,599,953)	101,361	(1,498,592)
Balance at June 30, 2019	25,525,969	17,123,321	42,649,290
Investment income	393,349	271,003	664,352
Net realized/unrealized gain	(1,036,260)	(717,662)	(1,753,922)
Total investment return	(642,911)	(446,659)	(1,089,570)
Appropriations of endowment assets for expenditure	(1,828,016)	(817,139)	(2,645,155)
Total additions/withdrawals on investment	(1,828,016)	(817,139)	(2,645,155)
Balance at June 30, 2020	\$ 23,055,042	\$ 15,859,523	\$ 38,914,565

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE L - NET ASSETS

Net assets consist of:

	June 30,	
	2020	2019
Net assets without donor restrictions:		
Unrestricted	\$ (3,730,630)	\$ (1,512,315)
Board designated endowment	23,055,042	25,525,969
Pension benefit obligation	(3,234,522)	(2,206,753)
Net investment in property and equipment	2,585,879	2,480,590
	<u>18,675,769</u>	<u>24,287,491</u>
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Programs and support	15,829,038	17,282,328
Subject to restriction in perpetuity:		
Beneficial interest in perpetual trust	1,759,530	1,817,324
Endowment funds		
Meadowbrook Farm	14,495,416	14,495,416
Other funds	2,203,013	2,203,013
	<u>18,457,959</u>	<u>18,515,753</u>
	<u>34,286,997</u>	<u>35,798,081</u>
Total net assets	<u>\$ 52,962,766</u>	<u>\$ 60,085,572</u>

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Net assets with donor restrictions as of June 30 are as follows:

Net assets subject to expenditure for specific purposes on the passage of time:

	2020	2019
Flower Show	\$ 81,274	\$ 135,184
Urban Greening	2,730,635	1,999,201
Education Services	27,032	40,738
Meadowbrook Farm		
General operations in future periods	(1,108,411)	(15,652)
Philadelphia Museum of Art		
Landscape Restoration Fund	1,243,657	1,366,576
Legacy Landscapes	12,737,237	13,632,932
Other	117,614	123,347
	\$ 15,829,038	\$ 17,282,326

Net assets subject to restriction in perpetuity:

	2020	2019
Beneficial interest in perpetual trust	\$ 1,759,530	\$ 1,817,324
Urban Greening	1,028,013	1,028,013
Meadowbrook Farm	14,495,416	14,495,416
Flower Show	1,000,000	1,000,000
Other	175,000	175,000
	\$ 18,457,959	\$ 18,515,753

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE M - LIQUIDITY AND FUNDS AVAILABLE

The Society maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In order to manage unanticipated liquidity needs, the Society has a line of credit in the amount of \$3,000,000 which is available should the need arise.

The following table reflects the Society's financial assets as of June 30, 2020 and 2019 reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, assets held for others, perpetual endowments and accumulated earnings net of appropriations within one year, or because the governing board has set aside the funds for a specific contingency reserve or a long-term investment as Board-designated endowments. These Board designations could be drawn upon if the board approves that action.

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 440,665	\$ 1,316,404
Accounts and contribution receivable	5,480,292	4,404,233
Investments	52,882,609	57,637,983
Beneficial interest in perpetual trust	1,759,530	1,817,324
Financial assets, at year-end	60,563,096	65,175,944
Less those unavailable for general expenditure within one year, due to:		
Investments and perpetual trusts held by others not convertible to cash within next 12 months	(1,759,530)	(1,817,324)
Contribution and accounts receivable collectible beyond one year	(255,000)	(226,000)
Investments and other financial assets held for others	(51,021)	(50,996)
Restricted by donors with purpose restrictions	(15,829,038)	(17,282,328)
Restricted by donors in perpetuity	(16,698,429)	(16,698,429)
	(34,593,018)	(36,075,077)
Amounts unavailable to management without Board approval:		
Board designated investments	(16,220,116)	(23,675,908)
Financial assets available to meet cash needs for general expenditures within one year	\$ 9,749,962	\$ 5,424,959

Included within net assets with donor restrictions are Board-designated endowment funds (Note K). These funds could be accessed to satisfy operations with action by the Board.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE N - COMMITMENTS AND CONTINGENCIES

Leases

The Society leases warehouse and office space under operating leases expiring in 2022 and 2028, respectively. Total rent expense was \$741,924 and \$685,157 for the years ended June 30, 2020 and 2019, respectively.

The following is a schedule by year of approximate future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2020:

<u>Year ending June 30,</u>	
2021	\$ 704,836
2022	714,833
2023	674,820
2024	684,817
2025	739,803
Thereafter	<u>2,359,371</u>
Total	<u>\$ 5,878,480</u>

Potential Lawsuits

At times, the Society is subject to disputes or legal actions in the ordinary course of business. Management does not believe the outcome of such disputes or legal actions will have a material adverse effect on the Society's financial position or results of operations.

NOTE O - LICENSE AGREEMENT

The Society has a license with the Pennsylvania Convention Center in connection with the Philadelphia Flower Show. The license fee expense for each of the years ended June 30, 2020 and 2019 was \$272,000. During the year 2020, this license was temporarily suspended (See Note S).

NOTE P - PENSION PLANS

Defined Benefit Plan

The Society has a non-contributory defined benefit pension plan (the Plan). The Plan provides for pre-retirement death benefits, as well as pension benefits. The Society's funding policy is to contribute amounts at least equal to the minimum funding requirements as required by the Employee Retirement Income Security Act of 1974 (ERISA), as amended. During the years ended June 30, 2020 and 2019, the Society contributed \$225,000 and \$225,000, respectively, to the Plan. The expected contribution to the Plan for the year ending June 30, 2021 is \$225,000. Effective January 1, 2007, the Executive Committee of the Council of the Society froze the Plan to new participants and froze the accrual of benefits under the Plan.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The Society's investment policy for the Plan assets is to seek long-term growth by maintaining a diverse, actively managed portfolio of equity and fixed income securities, with targeted allocations of approximately 60% in equity securities and 40% in fixed income securities. Cash and cash equivalents are not to be held except on a temporary basis. The assets will be reallocated periodically to meet the targeted allocations. The Society has an Investment Committee that monitors the performance of its investment managers and uses outside investment analysts to analyze and comment on the Society's investment strategy.

The Society has adopted the recognition provisions of ASC Topic 715, *Compensation - Retirement Benefits*, which requires that the funded status of defined benefit pension and postretirement plans be fully recognized in the consolidated statements of financial position.

The Society utilizes a June 30 measurement date for the Plan.

The following table sets forth the Plan's funded status and amounts recognized in the consolidated financial statements as of and for the years ended June 30, 2020 and 2019:

	2020	2019
Projected benefit obligation	\$ (8,598,058)	\$ (7,963,541)
Fair value of Plan assets, net of liabilities	5,363,214	5,757,067
Excess of benefit obligation over Plan assets	\$ (3,234,844)	\$ (2,206,474)

The components of net periodic pension cost include the following at June 30, 2020 and 2019:

	2020	2019
Amounts recognized in the consolidated statements of financial position		
Accrued pension obligation	\$ 3,234,844	\$ 2,206,474
Unrestricted net assets (actuarial loss)	(3,684,222)	(2,724,854)
Weighted average assumptions:		
Discount rate	2.15%	2.93%
Expected return on Plan assets	5.75%	5.75%
Contributions	\$ 225,000	\$ 225,000
Benefits paid	329,788	331,117
Accumulated benefit obligation	8,598,058	7,963,541
Service cost	108,077	109,158
Interest cost	221,186	273,079
Amortization of net gain	278,127	185,079
Expected return on Plan assets	(313,388)	(318,559)
Total	\$ 294,002	\$ 248,757

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Amounts recognized in the consolidated statements of activities		
Net (gain) or loss	\$ 1,237,495	\$ 782,461
Amortization of net (gain)	<u>(278,127)</u>	<u>(185,079)</u>
Net recognized pension (gain) or loss	<u>\$ 959,368</u>	<u>\$ 597,382</u>

To develop the assumptions for the long-term rate of return, the Society considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets for the portfolio. This resulted in the selection of the 5.75% assumption.

The Plan's asset managers' investment approach/methodology is intended, over the long term, to provide performance in between Blended Index Returns and Blended Lipper Returns, which is performance between index and actively managed benchmarks.

The weighted-average asset allocations at June 30, 2020 and 2019, by asset category, are as follows:

	<u>2020</u>	<u>2019</u>
Equity securities	46.64%	50.26%
International equities	20.04	21.47
Fixed income securities	26.39	27.66
Cash and cash equivalents	<u>6.93</u>	<u>0.61</u>
	<u>100.00%</u>	<u>100.00%</u>

As of June 30, 2020, the following benefit payments are expected to be paid:

<u>Year ending June 30,</u>	
2021	\$ 453,769
2022	525,977
2023	438,213
2024	438,091
2025	444,944
2026-2030	<u>2,691,723</u>
Total	<u>\$ 4,992,717</u>

Expected benefit payments are based on the same assumptions used to measure the benefit obligation.

The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investment portfolio. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The following is a description of the valuation methodologies used for the Plan's assets measured at fair value as of June 30:

Level 1 Fair Value Measurements

The fair value of mutual funds is based on quoted NAVs of the shares held by the Plan at year-end.

Level 2 Fair Value Measurements

The Closed-end International Equity fund contains investments that are foreign public equity securities wherein the custodian invests in closed-end funds holding these equities. While inputs used to value these securities includes quoted prices in active markets, additional information used includes monthly liquidity metrics and net asset values.

Investments at Net Asset Value

ASC 820 provides a practical expedient for investments where fair value is measured at NAV per share (or its equivalent). Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Investments that are included in this category generally include private fund investment structures and limited partnership interests without quoted prices.

Alternative investments for which quoted market prices are not available are valued based on the NAV, as a practical expedient, of the underlying funds owned by the trust, less its liabilities, and then divided by the number of shares outstanding.

There were no investments valued based on Level 3 inputs as of June 30, 2020 and 2019.

The following tables set forth the components of the Plan's assets at fair value as of June 30, 2020 and 2019:

	2020			
	Level 1	Level 2	NAV	Total
Money market	\$ 376,642	\$ -	\$ -	\$ 376,642
Mutual funds				
Large cap	1,452,530	-	-	1,452,530
Mid cap	255,929	-	-	255,929
Small cap	178,567	-	-	178,567
Growth	679,937	-	-	679,937
Index	284,075	-	-	284,075
Fixed income	673,597	-	-	673,597
Closed-end International Equity	-	244,020	-	244,020
Exchange-traded funds	418,919	-	-	418,919
Common investment funds				
Index	-	-	316,381	316,381
Fixed income	-	-	342,044	342,044
Alternative	-	-	212,622	212,622
	<u>\$ 4,320,196</u>	<u>\$ 244,020</u>	<u>\$ 871,047</u>	<u>\$ 5,435,263</u>

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

	2019			
	Level 1	Level 2	NAV	Total
Money market	\$ 35,591	\$ -	\$ -	\$ 35,591
Mutual funds				
Large cap	1,531,304	-	-	1,531,304
Mid cap	256,443	-	-	256,443
Small cap	118,609	-	-	118,609
Growth	863,123	-	-	863,123
Index	296,204	-	-	296,204
Fixed income	625,225	-	-	625,225
Closed-end International Equity	-	248,599	-	248,599
Exchange-traded funds	397,325	-	-	397,325
Common investment funds				
Growth	-	-	-	-
Index	-	-	695,049	695,049
Fixed income	-	-	335,490	335,490
Alternative	-	-	416,380	416,380
	<u>\$ 4,123,824</u>	<u>\$ 248,599</u>	<u>\$ 1,446,919</u>	<u>\$ 5,819,342</u>

Defined Contribution Plan

The Society sponsors a defined contribution retirement plan (the DC Plan), pursuant to Section 403(b) of the Code, covering all employees of the Society at the beginning of the month following commencement of employment. The DC Plan allows for employee contributions to the DC Plan up to the maximum amount allowed by the Code. The Society makes safe harbor contributions to the DC Plan. The Society contributed \$253,916 and \$251,773 to the DC Plan for the years ended June 30, 2020 and 2019, respectively.

NOTE Q - CONTRIBUTED SERVICES

A number of unpaid volunteers have made significant contributions of time to the Society. The value of these contributed services is not reflected in these consolidated financial statements since they did not meet the criteria for recognition under U.S. GAAP.

NOTE R - RELATED PARTY TRANSACTIONS

The Society has an agreement with Neighborhood Gardens Trust - A Philadelphia Land Trust (NGT) to collaboratively care for and strengthen the community garden network and open space in the City of Philadelphia using land in the land trust. NGT owns and/or leases 49 properties, of which 19 gardens participate in the Society's City Harvest program as of June 30, 2020. The arrangement furthers the missions of both organizations.

For the years ended June 30, 2020 and 2019, the Society provided approximately \$123,000 and \$89,000, respectively, of in-kind contributions related to the use of the Society office space and equipment, as well as program and administrative services provided by the Society employees on behalf of NGT. These gifts are recorded as expenses in the functional classification for the program in which the gifts in kind were used. As of June 30, 2020 and 2019, NGT owed \$66,312 and \$47,097, respectively, to the Society.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 5 - SUBSEQUENT EVENTS

The Society voluntarily suspended its license with the Pennsylvania Convention Center in connection with the Philadelphia Flower Show in anticipation of a change in venue during Calendar 2021 as a result of COVID-19.

Furthermore, the Society evaluated its June 30, 2020 consolidated financial statements for subsequent events through November 3, 2020 and is not aware of any other subsequent events that would require recognition or disclosure in the consolidated financial statements.