

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

The Pennsylvania Horticultural Society

June 30, 2023 and 2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Pennsylvania Horticultural Society

Opinion

We have audited the consolidated financial statements of The Pennsylvania Horticultural Society ("Society"), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Society as of June 30, 2023 and 2022, and the results of activities, 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.

Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Society and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Society's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Philadelphia, Pennsylvania
November 20, 2023

The Pennsylvania Horticultural Society

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 2,274,728	\$ 1,420,320
Accounts and contributions receivable, net of allowance for doubtful accounts		
Government grants	6,002,903	4,466,217
Other grants, contributions, and bequests	4,354,871	3,765,233
Fee for service, sponsorships, other	1,606,882	2,040,991
Employee retention credit	-	701,415
Prepaid expenses and other assets	554,015	305,019
Investments, at fair value	44,813,604	48,846,117
Beneficial interest in perpetual trust	1,817,148	1,779,497
Right-of-use assets	5,510,897	-
Property and equipment, net	1,738,691	1,931,497
	<hr/>	<hr/>
Collections (Note A)	-	-
	<hr/>	<hr/>
Total assets	<u>\$ 68,673,739</u>	<u>\$ 65,256,306</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 3,804,988	\$ 8,650,811
Accrued pension obligations	1,117,924	1,211,057
Lease liabilities	5,510,897	13,361
Deferred revenue, dues and conditional contributions	1,641,715	1,697,142
Tenant improvement allowance	458,060	549,672
Annuities payable	65,464	75,277
Line of credit obligation	-	3,500,000
Installment loan obligations	7,253	17,068
	<hr/>	<hr/>
Total liabilities	12,606,301	15,714,388
	<hr/>	<hr/>
Commitments and contingencies (Note M)		
Net assets		
Without donor restrictions	13,393,071	9,632,895
With donor restrictions	42,674,367	39,909,023
	<hr/>	<hr/>
Total net assets	56,067,438	49,541,918
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Total liabilities and net assets	<u>\$ 68,673,739</u>	<u>\$ 65,256,306</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, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Ticket revenue	\$ 6,391,857	\$ -	\$ 6,391,857
Sales	1,184,086	-	1,184,086
Program service revenue	5,073,869	-	5,073,869
Government grants and contracts	9,712,197	1,000,000	10,712,197
Other grants and contributions	5,966,971	5,092,772	11,059,743
Membership dues	1,575,648	-	1,575,648
	<u>29,904,628</u>	<u>6,092,772</u>	<u>35,997,400</u>
Total revenue and support			
Other income			
Interest and dividends, net	248,250	553,205	801,455
Subrental Income	134,264	-	134,264
Net realized and unrealized gains on investments	930,036	2,614,850	3,544,886
Loss on disposal of assets	(31,368)	-	(31,368)
	<u>1,281,182</u>	<u>3,168,055</u>	<u>4,449,237</u>
Total other income			
Net assets released from restriction			
Net assets released from program and time restrictions	5,413,898	(5,413,898)	-
Release of endowment under spending rule	1,081,585	(1,081,585)	-
	<u>6,495,483</u>	<u>(6,495,483)</u>	<u>-</u>
Total net assets released from restriction			
Total revenue	<u>37,681,293</u>	<u>2,765,344</u>	<u>40,446,637</u>
Expenses			
Flower Show	11,458,681	-	11,458,681
Healthy Neighborhoods	12,549,604	-	12,549,604
Public Gardens & Landscapes	5,548,774	-	5,548,774
Education Services	262,959	-	262,959
Development	4,363,837	-	4,363,837
	<u>34,183,855</u>	<u>-</u>	<u>34,183,855</u>
Total expenses			
Changes in net assets before change in pension benefit obligation	3,497,438	2,765,344	6,262,782
Postretirement changes other than net periodic benefit costs (Note O)	262,738	-	262,738
CHANGES IN NET ASSETS	3,760,176	2,765,344	6,525,520
Net assets, beginning of year	9,632,895	39,909,023	49,541,918
Net assets, end of year	<u>\$ 13,393,071</u>	<u>\$ 42,674,367</u>	<u>\$ 56,067,438</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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Ticket revenue	\$ 2,620,423	\$ -	\$ 2,620,423
Sales	667,157	-	667,157
Events	250,655	-	250,655
Program service revenue	5,991,876	-	5,991,876
Government grants and contracts	8,655,060	-	8,655,060
Other grants and contributions	1,595,101	5,199,858	6,794,959
Membership dues	1,424,741	-	1,424,741
	<u>21,205,013</u>	<u>5,199,858</u>	<u>26,404,871</u>
Total revenue and support			
	<u>21,205,013</u>	<u>5,199,858</u>	<u>26,404,871</u>
Other income			
Interest and dividends, net	339,922	616,994	956,916
Net realized and unrealized loss on investments	(2,103,618)	(4,212,056)	(6,315,674)
Loss on disposal of assets	(1,471)	-	(1,471)
	<u>(1,765,167)</u>	<u>(3,595,062)</u>	<u>(5,360,229)</u>
Total other income			
	<u>(1,765,167)</u>	<u>(3,595,062)</u>	<u>(5,360,229)</u>
Net assets released from restriction			
Net assets released from program and time restrictions	3,763,515	(3,763,515)	-
Release of endowment under spending rule	939,540	(939,540)	-
	<u>4,703,055</u>	<u>(4,703,055)</u>	<u>-</u>
Total net assets released from restriction			
	<u>4,703,055</u>	<u>(4,703,055)</u>	<u>-</u>
Total revenue	<u>24,142,901</u>	<u>(3,098,259)</u>	<u>21,044,642</u>
Expenses			
Flower Show	14,156,447	-	14,156,447
Healthy Neighborhoods	10,743,286	-	10,743,286
Public Gardens & Landscapes	6,282,720	-	6,282,720
Education Services	640,770	-	640,770
Development	4,260,132	-	4,260,132
	<u>36,083,355</u>	<u>-</u>	<u>36,083,355</u>
Total expenses			
	<u>36,083,355</u>	<u>-</u>	<u>36,083,355</u>
Changes in net assets before change in pension benefit obligation	(11,940,454)	(3,098,259)	(15,038,713)
Postretirement changes other than net periodic benefit costs (Note O)	200,483	-	200,483
CHANGES IN NET ASSETS	(11,739,971)	(3,098,259)	(14,838,230)
Net assets, beginning of year	21,372,866	43,007,282	64,380,148
Net assets, end of year	<u>\$ 9,632,895</u>	<u>\$ 39,909,023</u>	<u>\$ 49,541,918</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, 2023 and 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2021	\$ 21,372,866	\$ 43,007,282	\$ 64,380,148
Changes in net assets	<u>(11,739,971)</u>	<u>(3,098,259)</u>	<u>(14,838,230)</u>
Balance, June 30, 2022	9,632,895	39,909,023	49,541,918
Changes in net assets	<u>3,760,176</u>	<u>2,765,344</u>	<u>6,525,520</u>
Balance, June 30, 2023	<u>\$ 13,393,071</u>	<u>\$ 42,674,367</u>	<u>\$ 56,067,438</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, 2023

	Program Activities				Supporting Activities		Total
	Flower Show	Healthy Neighborhoods	Public Gardens and Landscapes	Education Services	Management and General	Development	
Salaries	\$ 1,989,071	\$ 1,895,441	\$ 1,300,000	\$ 136,811	\$ 2,201,709	\$ 1,491,786	\$ 9,014,818
Employee benefits	542,895	644,660	364,808	48,389	552,553	464,674	2,617,979
Staging	1,324,317	-	-	-	-	-	1,324,317
Exhibitor cost reimbursements	1,184,732	-	-	-	-	-	1,184,732
Flower show license fee	280,160	-	-	-	-	-	280,160
Advertising and publicity	551,486	-	2,200	-	-	223,088	776,774
Professional services	324,166	-	-	-	396,033	409,605	1,129,804
Program and project expenses	3,152,611	7,778,452	2,589,414	19,728	-	748,514	14,288,719
Publications	-	-	-	-	-	168,402	168,402
Training and development	15,629	25,509	8,662	1,444	15,280	16,595	83,119
Occupancy	135,379	220,959	175,162	12,504	300,352	132,378	976,734
Depreciation	94,486	90,475	256,111	4,516	47,673	47,809	541,070
Insurance	215,959	100,508	58,762	1,985	45,009	32,456	454,679
Office expenses	10,106	-	619	-	1,326,976	4,847	1,342,548
Subtotal	9,820,997	10,756,004	4,755,738	225,377	4,885,585	3,740,154	34,183,855
Allocation of management and general	1,637,684	1,793,600	793,036	37,582	(4,885,585)	623,683	-
Total functional expenses	<u>\$ 11,458,681</u>	<u>\$ 12,549,604</u>	<u>\$ 5,548,774</u>	<u>\$ 262,959</u>	<u>\$ -</u>	<u>\$ 4,363,837</u>	<u>\$ 34,183,855</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, 2022

	Program Activities				Supporting Activities		Total
	Flower Show	Healthy Neighborhoods	Public Gardens and Landscapes	Education Services	Management and General	Development	
Salaries	\$ 1,910,754	\$ 1,653,300	\$ 1,241,420	\$ 294,433	\$ 2,194,441	\$ 1,380,708	\$ 8,675,056
Employee benefits	525,631	526,837	373,888	102,731	586,645	422,430	2,538,162
Staging	3,058,663	-	-	-	-	-	3,058,663
Exhibitor cost reimbursements	1,134,346	-	-	-	-	-	1,134,346
Flower show license fee	27,500	-	-	-	-	-	27,500
Advertising and publicity	433,079	-	500	-	-	145,567	579,146
Professional services	586,662	2,430	-	-	449,669	545,445	1,584,206
Program and project expenses	4,143,271	6,799,403	3,400,650	98,060	-	615,044	15,056,428
Publications	-	-	-	-	-	325,898	325,898
Training and development	11,232	13,371	6,953	3,209	10,697	9,291	54,753
Occupancy	133,389	158,796	163,736	38,111	302,614	107,981	904,627
Depreciation	132,153	121,490	220,322	17,021	56,737	48,226	595,949
Insurance	213,273	66,343	54,638	3,626	32,545	23,384	393,809
Office expenses	-	16	1,127	-	1,073,181	80,488	1,154,812
Subtotal	12,309,953	9,341,986	5,463,234	557,191	4,706,529	3,704,462	36,083,355
Allocation of management and general	1,846,494	1,401,300	819,486	83,579	(4,706,529)	555,670	-
Total functional expenses	<u>\$ 14,156,447</u>	<u>\$ 10,743,286</u>	<u>\$ 6,282,720</u>	<u>\$ 640,770</u>	<u>\$ -</u>	<u>\$ 4,260,132</u>	<u>\$ 36,083,355</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,

	2023	2022
Operating activities:		
Changes in net assets	\$ 6,525,520	\$ (14,838,230)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Change in pension valuation	(262,738)	(200,483)
Change in fair value of beneficial interest in perpetual trust	(37,651)	426,867
Depreciation	541,070	595,948
Net realized and unrealized (gain) loss on investments	(3,428,619)	5,991,980
Loss on disposal of property and equipment	31,368	1,471
Changes in:		
Accounts and contributions receivable	(990,800)	(2,325,339)
Prepaid expenses and other assets	(248,996)	65,476
Inventory	-	62,220
Accounts payable and accrued expenses	(4,845,710)	2,766,934
Accrued pension obligations	169,452	(67,497)
Deferred revenue, dues and conditional contributions	(55,427)	713,802
Tenant improvement allowance	(91,612)	(91,612)
Annuities payable	(9,813)	(7,843)
Net cash used in operating activities	<u>(2,703,956)</u>	<u>(6,906,306)</u>
Investing activities:		
Purchase of property and equipment	(379,905)	(277,047)
Purchases of investments	(4,906,786)	(5,140,898)
Proceeds from sale of investments	12,367,930	9,170,988
Proceeds from sale of equipment	301	1,100
Net cash provided by investing activities	<u>7,081,540</u>	<u>3,754,143</u>
Financing activities:		
Proceeds from credit line borrowings	4,000,000	6,825,000
Repayments on credit line borrowings	(7,500,000)	(4,875,000)
Repayments on installment loan obligations	(9,815)	(14,500)
Principal payments on capital lease obligations	(13,361)	(24,930)
Net cash (used in) provided by financing activities	<u>(3,523,176)</u>	<u>1,910,570</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	854,408	(1,241,593)
Cash and cash equivalents, beginning of year	<u>1,420,320</u>	<u>2,661,913</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,274,728</u></u>	<u><u>\$ 1,420,320</u></u>
Supplemental information:		
Cash paid for interest	<u><u>\$ 114,368</u></u>	<u><u>\$ 104,780</u></u>

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

The Pennsylvania Horticultural Society
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

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 uses horticulture to advance the health and well-being of the Greater Philadelphia region.

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. 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.

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

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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.

Conditional contributions, that is, those contributions that contain one or more barriers that must be overcome before the Society is entitled to the assets transferred or promised, and contain a right of return to the contributor for assets transferred, or for a reduction, settlement, or cancellation of liabilities or a right of release of the promisor from its obligation to transfer assets, are recorded as a liability on the Statement of Financial Position. When the conditions are satisfied, the liability is relieved and the contribution is recorded as revenue 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 J).

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. There was no allowance for doubtful accounts as of June 30, 2023 and 2022.

Property and Equipment

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

Nursery buildings	10 years
Nursery improvements	5 years
Land improvements	15 years
Leasehold improvements	Lesser of lease term or useful life
Furniture and equipment	3-10 years
Machinery and equipment	5 years
Vehicles	5 years
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.

Investments and Beneficial Interest in Perpetual Trust

The Society's investments are stated at fair value (see Note F). 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

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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. 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.

Deferred Revenue, Dues and Conditional Contributions

Deferred revenue, dues and conditional contributions include income received under fee-for-service and governmental contracts for services that have not yet been performed, the unearned portion of membership dues, the value of Grow Magazine subscriptions not yet delivered, deposits received from vendors for the following year's Marketplace at the Flower Show and liabilities related to conditional contributions.

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, 2023 and 2022, respectively. The allowance is being amortized over the life of the lease and had a balance of \$458,060 and \$549,672 as of June 30, 2023 and 2022, respectively.

Sponsorships

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

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Income Taxes

The Society, PFSI and Meadowbrook Farm follow guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Society, and Meadowbrook Farm are exempt from federal income tax under Internal Revenue Code (IRC) section 501(c)(3). PFSI is exempt from federal income tax under IRC section 501(c)(5). The Society is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Society has a net operating loss carryforward, of approximately \$566,000. 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. The Society, PFSI and Meadowbrook Farm have processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Society, PFSI and Meadowbrook Farm have determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Advertising Costs

The Society expenses advertising costs as incurred. Advertising expense was approximately \$722,057 and \$563,571 for the years ended June 30, 2023 and 2022, 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 consolidated 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 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

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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.

To better align with internal reporting and programmatic activities, the Society revised the functional activities classification in the statement of functional expenses for years ended June 30, 2023 and 2022, including the revised expense presentation within the statement of activities.

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 Adopted Accounting Pronouncements

Leases

In February 2016, the FASB released Accounting Standards Update (ASU) 2016-02, *Leases*, (also referred to as ASC 842) which was effective for the Society beginning in July 2022. Under ASC 842, leases are recognized on the statement of financial position as assets and liabilities for the rights and obligations created by those agreements. 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 and lessors are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date.

The Society is the lessee in a lease contract when we obtain the right to control the use of the asset and the Society is the lessor in a lease contract when we agree to let others use assets that we own or control. Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term, and lease liabilities represent obligations to make lease payments arising from the lease agreement. The Society recognizes an ROU asset and a lease liability at the commencement date of the lease, which is the date on which control over the right to direct the use of an underlying asset transfers from the lessor to the lessee.

The Society uses a risk-free rate to compute the present value of its lease payments as a lessee under an accounting policy election. The risk-free rate is the rate of return that would be received on an investment with zero risk over a specified period of time, and is typically associated with US Treasury rates. As a lessor, the Society computes the present value of lease payments using the rate implicit in the lease, based on information available at the lease commencement date. The rate implicit in the lease is defined as the rate that causes the aggregate present value of the lease payments and the lessor's estimate of the asset's residual value at the end of the lease term to equal the sum of (1) the asset's fair value, less any investment tax credit retained and expected to be realized by the lessor, and (2) the lessor's deferred initial direct costs.

The impact on the July 1, 2022 consolidated balance sheet is the recognition of ROU assets and corresponding lease liabilities of \$4,325,589, consisting of \$4,117,805 for the Society as a lessee and \$207,784 for the Society as a lessor based on the present value of the remaining minimum rental payments for existing operating leases at that date.

The Society recognizes and measures its lease assets and obligations in accordance with ASC 842 (See Note G).

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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, 2023, the total cash balance on deposit with banks in aggregate of approximately \$2,697,863 exceeded the federal insured limits by approximately \$2,183,160. 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, 2023, the Society had uncollateralized accounts receivable from various public agencies and individuals. One agency made up approximately 61% and 68% of government contract revenues for years ended June 30, 2023 and 2022, respectively. Two agencies made up approximately 70% and 66% of government contracts accounts receivable as of June 30, 2023 and 2022, respectively. Three not-for-profit agencies and individual donors made up approximately 45% of other grants and contributions revenue for the year ended June 30, 2023, and three not-for-profit agencies and individual donors made up approximately 41% of other grants and contributions revenue for the year ended June 30, 2022. Five individual donors and not-for-profit agencies made up approximately 74% and 72% of other grants and contributions receivable as of June 30, 2023 and 2022, respectively.

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, 2023 of \$4,354,871 are expected to be received as follows:

Year Ending June 30,

2024	\$ 3,933,871
2025	401,000
2026	20,000
	<hr/>
	\$ 4,354,871
	<hr/>

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2023 and 2022:

	2023	2022
Nursery buildings	\$ 562,607	\$ 562,607
Furniture and fixtures	4,740,471	5,219,896
Machinery and equipment	575,664	518,101
Vehicles	384,490	271,212
Nursery improvements	639,904	639,904
Leasehold improvements	3,081,054	2,993,325
Land Improvements	76,590	61,037
Equipment and vehicles under capital leases	336,015	336,015
	10,396,795	10,602,097
Less: accumulated depreciation	(8,658,104)	(8,670,600)
	<u>\$ 1,738,691</u>	<u>\$ 1,931,497</u>

Depreciation expense was \$541,070 and \$595,948 for the years ended June 30, 2023 and 2022, respectively.

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:

	2023	2022
Money market funds	\$ 210,992	\$ 2,710,295
Mutual funds	19,118,757	18,834,944
Equity securities	3,807,132	3,971,055
Closed-end international equity	2,899,648	2,351,123
Exchange-traded funds	1,160,243	3,096,986
Common investment funds	17,616,832	17,881,714
	44,813,604	48,846,117
Beneficial interest in perpetual trust	1,817,148	1,779,497
Total	<u>\$ 46,630,752</u>	<u>\$ 50,625,614</u>

Interest and dividends are shown on the consolidated statements of activities net of investment expense of \$257,068 and \$301,036 for the years ended June 30, 2023 and 2022, respectively.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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; and

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 following is a description of the valuation methodologies used for investments measured at fair value as of June 30, 2023 and 2022:

Level 1 Fair Value Measurements

Money market funds, mutual funds, equity securities 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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, 2023 and 2022:

Description	June 30, 2023				Total
	Level 1	Level 2	Level 3	Investments at NAV	
Money market funds	\$ 210,992	\$ -	\$ -	\$ -	\$ 210,992
Mutual funds	19,118,757	-	-	-	19,118,757
Equity securities	3,807,132	-	-	-	3,807,132
Closed-end international equity	-	2,899,648	-	-	2,899,648
Exchange-traded funds	1,160,243	-	-	-	1,160,243
Common investment funds:					
Alternative	-	-	-	8,083,484	(a) 8,083,484
Value	-	-	-	6,077,198	(b) 6,077,198
Growth and emerging markets	-	-	-	3,456,150	(c) 3,456,150
Beneficial interest in perpetual trust	-	-	1,817,148	-	1,817,148
Total assets, at fair value	<u>\$ 24,297,124</u>	<u>\$ 2,899,648</u>	<u>\$ 1,817,148</u>	<u>\$ 17,616,832</u>	<u>\$ 46,630,752</u>

Description	June 30, 2022				Total
	Level 1	Level 2	Level 3	Investments at NAV	
Money market funds	\$ 2,710,295	\$ -	\$ -	\$ -	\$ 2,710,295
Mutual funds	18,834,944	-	-	-	18,834,944
Equity securities	3,971,055	-	-	-	3,971,055
Closed-end international equity	-	2,351,123	-	-	2,351,123
Exchange-traded funds	3,096,986	-	-	-	3,096,986
Common investment funds:					
Alternative	-	-	-	8,113,528	(a) 8,113,528
Value	-	-	-	6,578,346	(b) 6,578,346
Growth and emerging markets	-	-	-	3,189,840	(c) 3,189,840
Beneficial interest in perpetual trust	-	-	1,779,497	-	1,779,497
Total assets, at fair value	<u>\$ 28,613,280</u>	<u>\$ 2,351,123</u>	<u>\$ 1,779,497</u>	<u>\$ 17,881,714</u>	<u>\$ 50,625,614</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, 2023 and 2022.
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, 2023 and 2022.
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, 2023 and 2022.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

4. Marathon Distressed Credit (Europe) Fund invests primarily in the debt of stressed and distressed corporations, including listed bonds, directly originated loans, and other debt instruments. The fund seeks to create return through bankruptcy restructurings or through yield generated from the debt investments. As a closed end fund, the fund does not have voluntary liquidity rights; the stated fund life is five years, with two optional one-year extensions. The fund will also make distributions throughout its life as investments are realized. As of June 30, 2023, the Society has an unfunded commitment for this investment in the amount of \$220,000.
- (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, 2023 and 2022.
- (c) 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, 2023 and 2022.

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

	2023	2022
Beneficial interest in perpetual trust		
Beginning balance, July 1	\$ 1,779,497	\$ 2,206,364
Dividends reinvested	45,861	37,031
Distributions	(91,669)	(100,176)
Fees	(32,808)	(40,027)
Unrealized gain (loss)	116,267	(323,695)
Ending balance, June 30	<u>\$ 1,817,148</u>	<u>\$ 1,779,497</u>

NOTE G - LEASES

In Accordance with ASC 842, *Leases*, the Society recognizes its ROU assets and related lease liabilities at the commencement date of the lease.

ROU assets are initially measured using the present value of the future minimum lease payments and subsequently remeasured throughout the lease term using the present value of the remaining lease payments, plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease liabilities are measured based on the present value of the future lease payments. As a lessee, the Society expenses leases with a term of 12 months or less at inception as incurred.

The Society is a sublessor of certain property consisting of land, buildings and equipment under operating leases expiring through June 30, 2028.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Quantitative information regarding sublessor leases for the year ended June 30, 2023 is as follows:

ROU assets obtained in exchange for lease liabilities:	\$ 2,061,057
Weighted-average remaining lease term (in years)	4.71
Weighted-average discount rate	1.87%

The following is a schedule of future minimum payments required under sublessor operating leases that have lease terms in excess of one year as of June 30, 2023:

<u>Years Ending June 30,</u>	
2024	\$ 507,519
2025	444,862
2026	382,206
2027	382,206
2028	<u>382,206</u>
Total minimum payments	2,098,999
Less: present value discount	<u>(37,942)</u>
Total	<u>\$ 2,061,057</u>

The Society is a lessee of certain real property and equipment under operating leases expiring through June 30, 2028. The options to renew the leases were considered when assessing the value of the ROU assets if it was reasonably certain that the Society would assert its option to renew the corresponding lease.

Quantitative information regarding the Society's lease obligations as a lessee for the year ended June 30, 2023 is as follows:

ROU assets obtained in exchange for lease liabilities:	\$ 3,449,840
Weighted-average remaining lease term (in years)	4.59
Weighted-average discount rate	2.99%

The following is a schedule of future minimum payments required under lessee operating leases that have lease terms in excess of one year as of June 30, 2023:

<u>Years Ending June 30,</u>	
2024	\$ 885,635
2025	820,352
2026	697,516
2027	646,677
2028	<u>627,803</u>
Total minimum payments	3,677,983
Less: present value discount	<u>(228,143)</u>
Total	<u>\$ 3,449,840</u>

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Total amount included in ROU assets and lease liabilities on statement of financial position:

Society as a Sublessor	\$ 2,061,057
Society as a Lessee	<u>3,449,840</u>
Total	<u>\$ 5,510,897</u>

NOTE H - LINE OF CREDIT

The Society has a revolving line of credit agreement with a bank in the amount of \$5,000,000 that expires in May 2024. The line of credit bears interest at the greater of the Secured Overnight Financing Rate (SOFR) or the Index Floor, plus 2.25%. The Index Floor is specified as 1.25%. SOFR represents the Secured Overnight Financing Rate published by the SOFR Administrator (Federal Reserve Bank of New York) each day on its website. The line of credit is secured by certain investments pledged as collateral. Under the agreement, the Society may borrow up to the lesser of \$5,000,000 or the Borrowing Base. The Borrowing Base consists of the sum of the Collateral Value of the investments, determined as of the close of the most recent regular trading day, multiplied by the applicable Advance Percentage for each type of investment. Interest on outstanding borrowings is payable monthly. The Society is not subject to any financial ratio covenants under this agreement. The current line of credit replaces the Society's previous line of credit agreement with the bank. As of June 30, 2023 and 2022, the Society had \$0 and \$3,500,000, respectively, outstanding on its line of credit and incurred interest expense of \$113,500 and \$102,578, respectively, in each of the years then ended under these agreements.

NOTE I - INSTALLMENT LOAN OBLIGATIONS

The Society has an installment loan obligation with a bank. The loan is secured by a vehicle. The loan is payable in monthly installments of principal and interest and bears interest at 5.29% per year.

The future principal maturities remaining under this obligation total \$7,253 for year ending June 30, 2024.

NOTE J - 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 designated certain funds to function as endowments. A spending policy has been adopted by the Board providing for withdrawals from these funds in the amount necessary to sustain operations each year. For the years ended June 30, 2023 and 2022, the Board authorized a transfer of its designated endowment funds to operations in the amount of \$7,084,579 and \$3,440,327 respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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, 2023 and 2022, the Board authorized transfers of approximately 5%, which amounted to \$937,615 and \$831,564, respectively.

Other

Endowment funds with donor restrictions on the income for other purposes are available to support programmatic activities. During the years ended June 30, 2023 and 2022, the Board authorized transfers of 5%, which amounted to \$143,970 and \$64,079, respectively.

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 Pennsylvania law requires the organization to maintain as a fund of perpetual duration. A deficiency of this nature existed in one donor restricted endowment fund, which has an original gift value of \$14,495,416, a fair value of \$14,174,046 and a deficiency of \$321,370 as of June 30, 2022. 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. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies as of June 30, 2023.

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, 2023 and 2022:

<u>2023</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 17,998,358	\$ 17,998,358
Board-designated endowment funds	11,219,463	-	11,219,463
Total funds	<u>\$ 11,219,463</u>	<u>\$ 17,998,358</u>	<u>\$ 29,217,821</u>

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

<u>2022</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 16,868,655	\$ 16,868,655
Board-designated endowment funds	<u>17,119,431</u>	<u>-</u>	<u>17,119,431</u>
Total funds	<u>\$ 17,119,431</u>	<u>\$ 16,868,655</u>	<u>\$ 33,988,086</u>

The Society had the following endowment fund related activities for the years ended June 30, 2023 and 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at June 30, 2021	\$ 22,236,983	\$ 19,551,864	\$ 41,788,847
Investment income	347,200	329,592	676,792
Net realized/unrealized loss	<u>(2,103,619)</u>	<u>(2,073,261)</u>	<u>(4,176,880)</u>
Total investment loss	(1,756,419)	(1,743,669)	(3,500,088)
New designations	85,000	-	85,000
Appropriations of endowment assets for expenditure	<u>(3,446,133)</u>	<u>(939,540)</u>	<u>(4,385,673)</u>
Total additions/withdrawals on investment	<u>(3,361,133)</u>	<u>(939,540)</u>	<u>(4,300,673)</u>
Balance at June 30, 2022	17,119,431	16,868,655	33,988,086
Investment income	207,284	296,696	503,980
Net realized/unrealized gain	<u>930,037</u>	<u>1,339,592</u>	<u>2,269,629</u>
Total investment return	1,137,321	1,636,288	2,773,609
New designations	50,000	575,000	625,000
Appropriations of endowment assets for expenditure	<u>(7,087,289)</u>	<u>(1,081,585)</u>	<u>(8,168,874)</u>
Total additions/withdrawals on investment	<u>(7,037,289)</u>	<u>(506,585)</u>	<u>(7,543,874)</u>
Balance at June 30, 2023	<u>\$ 11,219,463</u>	<u>\$ 17,998,358</u>	<u>\$ 29,217,821</u>

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE K - NET ASSETS

Net assets consist of:

	June 30,	
	2023	2022
Net assets without donor restrictions:		
Unrestricted	\$ 1,552,841	\$ (8,206,976)
Board designated endowment	11,219,463	17,119,431
Pension benefit obligation	(1,117,924)	(1,211,057)
Net investment in property and equipment	1,738,691	1,931,497
Total net assets without donor restrictions	13,393,071	9,632,895
Net assets with donor restrictions:		
Subject to expenditure for specified purpose or passage of time:		
Programs and support	23,583,790	21,431,097
Subject to restriction in perpetuity:		
Beneficial interest in perpetual trust	1,817,148	1,779,497
Endowment funds:		
Healthy Neighborhoods	1,778,013	1,203,013
Public Gardens & Landscapes - Meadowbrook Farm	14,495,416	14,495,416
Flower Show	1,000,000	1,000,000
	19,090,577	18,477,926
Total net assets with donor restrictions	42,674,367	39,909,023
Total net assets	\$ 56,067,438	\$ 49,541,918

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

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

	2023	2022
Flower Show	\$ 223,889	\$ 205,571
Healthy Neighborhoods	6,798,428	5,767,697
Public Gardens & Landscapes		
Meadowbrook Farm		
General operations in future periods	101,342	(321,370)
Philadelphia Museum of Art		
Landscape Restoration Fund	1,378,129	1,324,313
Legacy Landscapes	14,201,303	13,517,368
Public Gardens & Landscapes General	450,168	518,439
Other	430,531	419,079
	\$ 23,583,790	\$ 21,431,097

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Net assets subject to restriction in perpetuity:

	2023	2022
Beneficial interest in perpetual trust	\$ 1,817,148	\$ 1,779,497
Healthy Neighborhoods	1,778,013	1,203,013
Public Gardens & Landscapes - Meadowbrook Farm	14,495,416	14,495,416
Flower Show	1,000,000	1,000,000
	<u>\$ 19,090,577</u>	<u>\$ 18,477,926</u>

NOTE L - 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 \$5,000,000, of which \$0 and \$3,500,000 were outstanding as of June 30, 2023 and 2022, respectively.

The following table reflects the Society's financial assets as of June 30, 2023 and 2022 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.

	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 2,274,728	\$ 1,420,320
Accounts and contributions receivable, net	11,964,656	10,973,856
Investments	44,813,604	48,846,117
Beneficial interest in perpetual trust	1,817,148	1,779,497
Financial assets, at year-end	<u>60,870,136</u>	<u>63,019,790</u>
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	(1,817,148)	(1,779,497)
Contributions and accounts receivable collectible beyond one year	(421,000)	(1,362,943)
Investments and other financial assets held for others	(27,301)	(51,071)
Restricted by donors with purpose or time restrictions	(23,583,790)	(21,431,097)
Restricted by donors in perpetuity	(17,274,429)	(16,698,429)
	<u>(43,123,668)</u>	<u>(41,323,037)</u>
Amounts unavailable to management without Board approval:		
Board designated investments	<u>(11,177,237)</u>	<u>(10,034,852)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,569,231</u>	<u>\$ 11,661,901</u>

Included within net assets with donor restrictions are Board-designated endowment funds (Note J). 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, 2023 and 2022

NOTE M - COMMITMENTS AND CONTINGENCIES

Investments

The Society has an unfunded commitment in the amount of \$220,000 as of June 30, 2023 in connection with its investment in Marathon Distressed Credit (Europe) Fund.

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 N - LICENSE AGREEMENTS

The Society has license agreements with the City of Philadelphia and the Pennsylvania Convention Center in connection with its presentation of the Philadelphia Flower Show. The license fee expense for the years ended June 30, 2023 and 2022 was \$280,160 and \$27,500, respectively.

NOTE O - 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, as amended. The Society contributed \$95,000 and \$195,000 to the plan for the years ended June 30, 2023 and 2022, respectively. The expected contribution to the Plan for the year ending June 30, 2024 is \$240,000. 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 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 Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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:

	<u>2023</u>	<u>2022</u>
Projected benefit obligation	\$ (6,381,932)	\$ (6,746,330)
Fair value of plan assets, net of liabilities	<u>5,264,008</u>	<u>5,535,120</u>
	<u>\$ (1,117,924)</u>	<u>\$ (1,211,210)</u>

The components of net periodic pension cost include the following at June 30:

	<u>2023</u>	<u>2022</u>
Amounts recognized in the consolidated statements of financial position		
Accrued pension obligation	\$ 1,117,924	\$ 1,211,210
Unrestricted net assets (actuarial loss)	(1,197,003)	(1,459,741)
Weighted average assumptions:		
Discount rate	4.86%	4.33%
Expected return on Plan assets	5.75%	5.75%
Contributions	95,000	225,000
Benefits paid	622,196	366,017
Accumulated benefit obligation	6,381,932	6,746,330
Service cost	130,413	128,125
Interest cost	274,596	202,220
Amortization of net gain	157,022	193,654
Expected return on Plan assets	<u>(297,579)</u>	<u>(366,272)</u>
Total	<u>264,452</u>	<u>157,727</u>
Amounts recognized in the consolidated statements of activities		
Net gain	(105,716)	(6,829)
Amortization of net gain	<u>(157,022)</u>	<u>(193,654)</u>
Net recognized pension gain	<u>\$ (262,738)</u>	<u>\$ (200,483)</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 Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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

	<u>2023</u>	<u>2022</u>
Equity securities	35.61%	44.85%
International equities	27.63	15.11
Fixed income securities	36.63	39.65
Cash and cash equivalents	<u>0.13</u>	<u>0.39</u>
	<u>100.00%</u>	<u>100.00%</u>

As of June 30, 2023, the following benefit payments are expected to be paid:

<u>Year Ending June 30,</u>	
2024	\$ 479,000
2025	488,000
2026	477,000
2027	500,000
2028	517,000
2029-2032	<u>2,323,000</u>
Total	<u>\$ 4,784,000</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 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.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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, 2023 and 2022.

The following tables set forth the components of the Plan's assets at fair value as of June 30, 2023 and 2022:

	2023			
	Level 1	Level 2	NAV	Total
Money market	\$ 6,461	\$ -	\$ -	\$ 6,461
Mutual funds				
Large cap	1,518,902	-	-	1,518,902
Mid cap	219,342	-	-	219,342
Small cap	203,827	-	-	203,827
Growth	551,651	-	-	551,651
Index	-	-	-	-
Fixed income	1,355,303	-	-	1,355,303
Closed-end international equity	-	720,728	-	720,728
Exchange-traded funds	243,729	-	-	243,729
Common investment funds:				
Fixed income	-	-	329,285	329,285
Alternative	-	-	114,780	114,780
	<u>\$ 4,099,215</u>	<u>\$ 720,728</u>	<u>\$ 444,065</u>	<u>\$ 5,264,008</u>
	2022			
	Level 1	Level 2	NAV	Total
Money market	\$ 20,895	\$ -	\$ -	\$ 20,895
Mutual funds				
Large cap	1,523,584	-	-	1,523,584
Mid cap	216,313	-	-	216,313
Small cap	176,189	-	-	176,189
Growth	521,235	-	-	521,235
Index	140,936	-	-	140,936
Fixed income	1,442,135	-	-	1,442,135
Closed-end international equity	-	600,787	-	600,787
Exchange-traded funds	311,598	-	-	311,598
Common investment funds:				
Fixed income	-	-	420,755	420,755
Alternative	-	-	160,703	160,703
	<u>\$ 4,352,885</u>	<u>\$ 600,787</u>	<u>\$ 581,458</u>	<u>\$ 5,535,130</u>

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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 \$294,542 and \$275,777 to the DC Plan for the years ended June 30, 2023 and 2022, respectively.

NOTE P - 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 Q - RELATED-PARTY TRANSACTIONS

The Society has an agreement with Neighborhood Gardens 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 51 gardens, of which 41 gardens participate in the Society's Community Gardens Program, as of June 30, 2023. An additional 12 gardens that NGT is actively working to secure and protect are also in the Society's Community Gardens Program. 22 of the NGT-protected gardens also participate in City Harvest. The arrangement furthers the missions of both organizations.

For the years ended June 30, 2023 and 2022, the Society provided approximately \$79,458 and \$105,605, 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, 2023 and 2022, NGT owed \$42,395 and \$71,689, respectively, to the Society.

NOTE R - REVENUE RECOGNITION FROM EXCHANGE TRANSACTIONS

The Society has multiple revenue sources that are accounted for as exchange transactions under ASC 606, including membership dues and other revenue, consisting of ticket sales, fee-for-service contracts, special event income, sponsorship income, royalties, and meetings & workshop fees.

Membership Dues

The Society offers memberships consisting of various categories that typically last for a term of one year, and are billed annually. The Society recognizes membership dues ratably over the applicable membership period. Dues collected in advance are recorded as deferred revenue. Member benefits, including complimentary tickets to the Philadelphia Flower Show and a subscription to the Society's publication, Grow Magazine, are included in membership dues packages. For the years ended June 30, 2023 and 2022 a total of \$577,715 and \$385,245, respectively, relating to the value of complimentary tickets to the Philadelphia Flower Show, and \$324,313 and \$216,640, respectively, relating to the value of Grow Magazine, are included as part of membership dues revenue in the accompanying financial statements.

Other Revenue

Revenue from ticket sales, fee-for-service contracts, special event income, sponsorship income, royalties, and meeting & workshop fees is recognized when the Society satisfies the accompanying performance obligation, namely, when the ticket is sold, the service is performed, or the event occurs.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

As of June 30, 2023, the performance obligations corresponding to the deferred revenue balance totaling \$469,068 included in deferred revenue and membership dues, are expected to be satisfied during the fiscal year ending June 30, 2024 as follows:

Memberships	\$ 362,748
Subscriptions to Grow Magazine	<u>106,320</u>
Total	<u>\$ 469,068</u>

NOTE S - SUBSEQUENT EVENTS

The Society evaluated its June 30, 2023 consolidated financial statements for subsequent events through November 20, 2023 and is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.