

# **The Herb Society of America, Inc.**

**Financial Statements  
March 31, 2017 and 2016**



CPAs and Business Advisors

*Where Relationships Count.*

## Independent Accountant's Compilation Report

To the Board of Directors of  
The Herb Society of America, Inc.

Management is responsible for the accompanying financial statements of The Herb Society of America, Inc. (the "Society") (a nonprofit corporation), which comprise the statement of financial position as of March 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The 2016 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated August 22, 2016. We have not performed any auditing procedures since that date.

*Ciuni + Panichi, Inc.*

Cleveland, Ohio  
September 12, 2017

# The Herb Society of America, Inc.

## Statement of Financial Position (Compiled)

March 31, 2017

|                                     | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Assets:                             |                     |                                   |                                   |                     |
| Cash and cash equivalents           | \$ 59,730           | \$ -                              | \$ -                              | \$ 59,730           |
| Investments                         | 267,301             | 201,698                           | 1,329,075                         | 1,798,074           |
| Interest receivable                 | 1,708               | -                                 | -                                 | 1,708               |
| Accounts receivable                 | 400                 | -                                 | -                                 | 400                 |
| Inventory, net                      | 12,885              | -                                 | -                                 | 12,885              |
| Prepaid expenses                    | 15,044              | -                                 | -                                 | 15,044              |
| Property, plant, and equipment, net | <u>525,382</u>      | <u>-</u>                          | <u>-</u>                          | <u>525,382</u>      |
| Total assets                        | \$ <u>882,450</u>   | \$ <u>201,698</u>                 | \$ <u>1,329,075</u>               | \$ <u>2,413,223</u> |
| Liabilities:                        |                     |                                   |                                   |                     |
| Accounts payable                    | \$ 6,716            | \$ -                              | \$ -                              | \$ 6,716            |
| Accrued expenses                    | 28,355              | -                                 | -                                 | 28,355              |
| Deferred revenue                    | <u>132,996</u>      | <u>-</u>                          | <u>-</u>                          | <u>132,996</u>      |
| Total liabilities                   | 168,067             | -                                 | -                                 | 168,067             |
| Net assets:                         |                     |                                   |                                   |                     |
| Undesignated                        | 484,624             | -                                 | -                                 | 484,624             |
| Board-designated                    | 229,759             | -                                 | -                                 | 229,759             |
| Donor-restricted                    | <u>-</u>            | <u>201,698</u>                    | <u>1,329,075</u>                  | <u>1,530,773</u>    |
| Total net assets                    | <u>714,383</u>      | <u>201,698</u>                    | <u>1,329,075</u>                  | <u>2,245,156</u>    |
| Total liabilities and net assets    | \$ <u>882,450</u>   | \$ <u>201,698</u>                 | \$ <u>1,329,075</u>               | \$ <u>2,413,223</u> |

See independent accountant's compilation report.

# The Herb Society of America, Inc.

## Statement of Financial Position (Audited)

March 31, 2016

|                                     | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Assets:                             |                     |                                   |                                   |                     |
| Cash and cash equivalents           | \$ 4,099            | \$ -                              | \$ -                              | \$ 4,099            |
| Investments                         | 345,111             | 197,278                           | 1,222,236                         | 1,764,625           |
| Interest receivable                 | 1,708               | -                                 | -                                 | 1,708               |
| Accounts receivable                 | 1,436               | -                                 | -                                 | 1,436               |
| Inventory, net                      | 17,368              | -                                 | -                                 | 17,368              |
| Prepaid expenses                    | 9,047               | -                                 | -                                 | 9,047               |
| Property, plant, and equipment, net | <u>548,019</u>      | <u>-</u>                          | <u>-</u>                          | <u>548,019</u>      |
| Total assets                        | \$ <u>926,788</u>   | \$ <u>197,278</u>                 | \$ <u>1,222,236</u>               | \$ <u>2,346,302</u> |
| Liabilities:                        |                     |                                   |                                   |                     |
| Accounts payable                    | \$ 5,879            | \$ -                              | \$ -                              | \$ 5,879            |
| Accrued expenses                    | 30,458              | -                                 | -                                 | 30,458              |
| Deferred revenue                    | <u>72,264</u>       | <u>-</u>                          | <u>-</u>                          | <u>72,264</u>       |
| Total liabilities                   | 108,601             | -                                 | -                                 | 108,601             |
| Net assets:                         |                     |                                   |                                   |                     |
| Undesignated                        | 503,914             | -                                 | -                                 | 503,914             |
| Board-designated                    | 314,273             | -                                 | -                                 | 314,273             |
| Donor-restricted                    | <u>-</u>            | <u>197,278</u>                    | <u>1,222,236</u>                  | <u>1,419,514</u>    |
| Total net assets                    | <u>818,187</u>      | <u>197,278</u>                    | <u>1,222,236</u>                  | <u>2,237,701</u>    |
| Total liabilities and net assets    | \$ <u>926,788</u>   | \$ <u>197,278</u>                 | \$ <u>1,222,236</u>               | \$ <u>2,346,302</u> |

See independent accountant's compilation report.

# The Herb Society of America, Inc.

## Statement of Activities (Compiled)

For the year ended March 31, 2017

|                                       | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|---------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Support, revenue, and gains:          |                     |                                   |                                   |                     |
| Contributions and grants              | \$ 93,050           | \$ 25,971                         | \$ 2,320                          | \$ 121,341          |
| Membership dues                       | 114,604             | -                                 | -                                 | 114,604             |
| Educational conference                | 31,153              | 34,675                            | -                                 | 65,828              |
| Publications                          | 7,019               | -                                 | -                                 | 7,019               |
| Investment income                     | 24,266              | 16,214                            | 104,519                           | 144,999             |
| Other income                          | <u>1,705</u>        | <u>-</u>                          | <u>-</u>                          | <u>1,705</u>        |
| Total support, revenue, and gains     | 271,797             | 76,860                            | 106,839                           | 455,496             |
| Net assets released from restrictions | <u>72,440</u>       | <u>(72,440)</u>                   | <u>-</u>                          | <u>-</u>            |
|                                       | 344,237             | 4,420                             | 106,839                           | 455,496             |
| Expenses:                             |                     |                                   |                                   |                     |
| Program services:                     |                     |                                   |                                   |                     |
| Programs                              | 329,154             | -                                 | -                                 | 329,154             |
| Membership development                | <u>29,695</u>       | <u>-</u>                          | <u>-</u>                          | <u>29,695</u>       |
| Total program services                | 358,849             | -                                 | -                                 | 358,849             |
| Supporting services:                  |                     |                                   |                                   |                     |
| Management and general                | 53,703              | -                                 | -                                 | 53,703              |
| Fundraising                           | <u>35,489</u>       | <u>-</u>                          | <u>-</u>                          | <u>35,489</u>       |
| Total supporting services             | <u>89,192</u>       | <u>-</u>                          | <u>-</u>                          | <u>89,192</u>       |
| Total expenses                        | <u>448,041</u>      | <u>-</u>                          | <u>-</u>                          | <u>448,041</u>      |
| Change in net assets                  | (103,804)           | 4,420                             | 106,839                           | 7,455               |
| Net assets – beginning                | <u>818,187</u>      | <u>197,278</u>                    | <u>1,222,236</u>                  | <u>2,237,701</u>    |
| Net assets – ending                   | \$ <u>714,383</u>   | \$ <u>201,698</u>                 | \$ <u>1,329,075</u>               | \$ <u>2,245,156</u> |

See independent accountant's compilation report.

# The Herb Society of America, Inc.

## Statement of Activities (Audited)

For the year ended March 31, 2016

|   | <u>Unrestricted</u>   | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>            |
|---|-----------------------|-----------------------------------|-----------------------------------|-------------------------|
| Support, revenue, and gains:              |                       |                                   |                                   |                         |
| Contributions and grants                  | \$ 67,503             | \$ 23,906                         | \$ 17,660                         | \$ 109,069              |
| Membership dues                           | 118,398               | -                                 | -                                 | 118,398                 |
| Educational conference                    | 112,748               | 18,112                            | -                                 | 130,860                 |
| Publications                              | 6,980                 | -                                 | -                                 | 6,980                   |
| Investment income                         | (2,122)               | 17,994                            | (13,635)                          | 2,237                   |
| Other income                              | <u>1,669</u>          | <u>-</u>                          | <u>-</u>                          | <u>1,669</u>            |
| Total support, revenue, and gains         | 305,176               | 60,012                            | 4,025                             | 369,213                 |
| <br>Net assets released from restrictions | <br><u>71,476</u>     | <br><u>(71,476)</u>               | <br><u>-</u>                      | <br><u>-</u>            |
|   | 376,652               | (11,464)                          | 4,025                             | 369,213                 |
| <br>Expenses:                             |                       |                                   |                                   |                         |
| Program services:                         |                       |                                   |                                   |                         |
| Programs                                  | 376,806               | -                                 | -                                 | 376,806                 |
| Membership development                    | <u>28,767</u>         | <u>-</u>                          | <u>-</u>                          | <u>28,767</u>           |
| Total program services                    | 405,573               | -                                 | -                                 | 405,573                 |
| <br>Supporting services:                  |                       |                                   |                                   |                         |
| Management and general                    | 51,688                | -                                 | -                                 | 51,688                  |
| Fundraising                               | <u>26,668</u>         | <u>-</u>                          | <u>-</u>                          | <u>26,668</u>           |
| Total supporting services                 | <u>78,356</u>         | <u>-</u>                          | <u>-</u>                          | <u>78,356</u>           |
| <br>Total expenses                        | <br><u>483,929</u>    | <br><u>-</u>                      | <br><u>-</u>                      | <br><u>483,929</u>      |
| <br>Change in net assets                  | <br>(107,277)         | <br>(11,464)                      | <br>4,025                         | <br>(114,716)           |
| <br>Net assets – beginning                | <br><u>925,464</u>    | <br><u>208,742</u>                | <br><u>1,218,211</u>              | <br><u>2,352,417</u>    |
| <br>Net assets – ending                   | <br>\$ <u>818,187</u> | <br>\$ <u>197,278</u>             | <br>\$ <u>1,222,236</u>           | <br>\$ <u>2,237,701</u> |

See independent accountant's compilation report.

# The Herb Society of America, Inc.

## Statement of Functional Expenses (Compiled)

For the year ended March 31, 2017

|                           | Program Services      |                           |                           | Supporting Services       |                      | Total                 |
|---------------------------|-----------------------|---------------------------|---------------------------|---------------------------|----------------------|-----------------------|
|                           | Programs              | Membership<br>Development | Total Program<br>Services | Management<br>and General | Fundraising          |                       |
| Executive:                |                       |                           |                           |                           |                      |                       |
| Board meetings            | \$ 1,123              | \$ 187                    | \$ 1,310                  | \$ 374                    | \$ 187               | \$ 1,871              |
| Executive committee       | 4,794                 | 799                       | 5,593                     | 1,598                     | 798                  | 7,989                 |
| Delegates                 | 3,235                 | 539                       | 3,774                     | 1,078                     | 538                  | 5,390                 |
| Committees                | 2,636                 | 439                       | 3,075                     | 879                       | 440                  | 4,394                 |
| National operations:      |                       |                           |                           |                           |                      |                       |
| Personnel                 | 139,732               | 19,407                    | 159,139                   | 27,170                    | 7,763                | 194,072               |
| Professional fees         | 4,495                 | -                         | 4,495                     | 12,153                    | -                    | 16,648                |
| Office expenses           | 8,898                 | 989                       | 9,887                     | 1,977                     | 495                  | 12,359                |
| Occupancy                 | 32,828                | 3,648                     | 36,476                    | 7,295                     | 1,824                | 45,595                |
| Other National operations | 4,224                 | 469                       | 4,693                     | 939                       | 240                  | 5,872                 |
| District operations       | 3,602                 | 480                       | 4,082                     | 240                       | 482                  | 4,804                 |
| Membership                | 2,738                 | 2,738                     | 5,476                     | -                         | -                    | 5,476                 |
| Fundraising               | -                     | -                         | -                         | -                         | 22,722               | 22,722                |
| National conference       | 31,719                | -                         | 31,719                    | -                         | -                    | 31,719                |
| District gathering        | 24,752                | -                         | 24,752                    | -                         | -                    | 24,752                |
| Education and development | 49,539                | -                         | 49,539                    | -                         | -                    | 49,539                |
| Botany and horticulture   | <u>14,839</u>         | <u>-</u>                  | <u>14,839</u>             | <u>-</u>                  | <u>-</u>             | <u>14,839</u>         |
| <br>Total expenses        | <br>\$ <u>329,154</u> | <br>\$ <u>29,695</u>      | <br>\$ <u>358,849</u>     | <br>\$ <u>53,703</u>      | <br>\$ <u>35,489</u> | <br>\$ <u>448,041</u> |

See independent accountant's compilation report.

## The Herb Society of America, Inc.

### Statement of Functional Expenses (Audited)

For the year ended March 31, 2016

|                           | Program Services      |                           |                           | Supporting Services       |                      | Total                 |
|---------------------------|-----------------------|---------------------------|---------------------------|---------------------------|----------------------|-----------------------|
|                           | Programs              | Membership<br>Development | Total Program<br>Services | Management<br>and General | Fundraising          |                       |
| Executive:                |                       |                           |                           |                           |                      |                       |
| Board meetings            | \$ 1,045              | \$ 174                    | \$ 1,219                  | \$ 349                    | \$ 174               | \$ 1,742              |
| Executive committee       | 5,223                 | 871                       | 6,094                     | 1,740                     | 871                  | 8,705                 |
| Delegates                 | 5,451                 | 908                       | 6,359                     | 1,817                     | 910                  | 9,086                 |
| Committees                | 2,462                 | 410                       | 2,872                     | 821                       | 410                  | 4,103                 |
| National operations:      |                       |                           |                           |                           |                      |                       |
| Personnel                 | 138,220               | 19,197                    | 157,417                   | 26,876                    | 7,679                | 191,972               |
| Professional fees         | 3,426                 | -                         | 3,426                     | 9,262                     | -                    | 12,688                |
| Office expenses           | 9,336                 | 1,042                     | 10,378                    | 2,075                     | 519                  | 12,972                |
| Occupancy                 | 34,402                | 3,822                     | 38,224                    | 7,645                     | 1,911                | 47,780                |
| Other National operations | 4,108                 | 456                       | 4,564                     | 913                       | 228                  | 5,705                 |
| District operations       | 2,851                 | 380                       | 3,231                     | 190                       | 380                  | 3,801                 |
| Membership                | 1,507                 | 1,507                     | 3,014                     | -                         | -                    | 3,014                 |
| Fundraising               | -                     | -                         | -                         | -                         | 13,586               | 13,586                |
| National conference       | 90,418                | -                         | 90,418                    | -                         | -                    | 90,418                |
| District gathering        | 12,178                | -                         | 12,178                    | -                         | -                    | 12,178                |
| Education and development | 39,117                | -                         | 39,117                    | -                         | -                    | 39,117                |
| Botany and horticulture   | <u>27,062</u>         | <u>-</u>                  | <u>27,062</u>             | <u>-</u>                  | <u>-</u>             | <u>27,062</u>         |
| <br>Total expenses        | <br>\$ <u>376,806</u> | <br>\$ <u>28,767</u>      | <br>\$ <u>405,573</u>     | <br>\$ <u>51,688</u>      | <br>\$ <u>26,668</u> | <br>\$ <u>483,929</u> |

See independent accountant's compilation report.



# The Herb Society of America, Inc.

## Statements of Cash Flows

**For the years ended March 31, 2017 (Compiled) and 2016 (Audited)**

|   | 2017        | 2016         |
|---|-------------|--------------|
| Cash flows from operating activities:   |             |              |
| Change in net assets  | \$ 7,455    | \$ (114,716) |
| Adjustments to reconcile change in net assets to net cash used by operating activities: |             |              |
| Permanently restricted contributions  | (2,320)     | (17,660)     |
| Depreciation and amortization   | 23,244      | 23,717       |
| Net realized and unrealized (gains) losses on investments                               | (126,123)   | 22,097       |
| Loss on disposal of property, plant and equipment                                       | 237         | -            |
| (Increase) decrease in operating assets:  |             |              |
| Accounts receivable   | 1,036       | (1,337)      |
| Inventory   | 4,483       | (3,954)      |
| Prepaid expenses  | (5,997)     | (4,081)      |
| Increase (decrease) in operating liabilities:   |             |              |
| Accounts payable  | 837         | 1,114        |
| Accrued expenses  | (2,103)     | 439          |
| Deferred revenue  | 60,732      | (44,983)     |
| Net cash used by operating activities   | (38,519)    | (139,364)    |
| Cash flows from investing activities:   |             |              |
| Capital expenditures  | (844)       | (5,237)      |
| Proceeds from sales of investments  | 2,821,078   | 561,657      |
| Purchases of investments  | (2,728,404) | (455,444)    |
| Net cash provided by investing activities   | 91,830      | 100,976      |
| Cash flows from financing activities:   |             |              |
| Collection of permanently restricted contributions                                      | 2,320       | 17,660       |
| Net cash provided by financing activities   | 2,320       | 17,660       |
| Increase (decrease) in cash and cash equivalents  | 55,631      | (20,728)     |
| Cash and cash equivalents at beginning of year  | 4,099       | 24,827       |
| Cash and cash equivalents at end of year  | \$ 59,730   | \$ 4,099     |

See independent accountant's compilation report.

# The Herb Society of America, Inc.

## Notes to Financial Statements

March 31, 2017 (Compiled) and 2016 (Audited)

### Note 1: Summary of Significant Accounting Policies

#### Nature of Activities

The Herb Society of America, Inc. (the “Society”) is dedicated to promoting the knowledge, use, and delight of herbs through educational programs, research, and sharing the experience of its members with the community.

#### Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

*Unrestricted Net Assets (undesigned)* – Net assets that are not subject to donor-imposed or board-imposed restrictions.

*Unrestricted Net Assets (board-designated)* – Net assets subject to board-imposed restrictions.

*Temporarily Restricted Net Assets* – Net assets subject to donor-imposed restrictions that may, or will, be met either by actions of the Society and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Net assets subject to donor-imposed restrictions that they be maintained by the Society in perpetuity. Generally, the donors of these assets permit the Society to use interest and dividend income earned on any related investments for general or specific purposes.

The Society follows authoritative guidance issued by the Financial Accounting Standards Board (FASB) which established the FASB Accounting Standards Codification (ASC) as the single source of authoritative accounting principles generally accepted in the United States of America.

#### Functional Allocation of Expenses

The costs of providing various programs and related supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated to the appropriate programs and supporting services.

# The Herb Society of America, Inc.

## Notes to Financial Statements

March 31, 2017 (Compiled) and 2016 (Audited)

### Note 1: Summary of Significant Accounting Policies (continued)

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Society considers all highly liquid investments available for current use (excluding cash equivalents held in investment brokerage accounts) with an initial maturity of three months or less to be cash equivalents.

#### Receivables

Receivables represent accrued interest on investments and amounts due from reliable funding sources, and as such, management deems these accounts to be collectible and has determined it unnecessary to establish an allowance account for amounts that may not be collected at March 31, 2017 and 2016. All receivables are expected to be collected within one year. The Society does not have a formal policy to determine past due or delinquent receivables.

#### Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in investment income.

#### Inventory

Inventories, consisting of books, publications, and apparel are specifically identified and valued at the actual cost incurred by the Society. The Society has established an excess inventory reserve. The inventory balance is net of \$5,000 of excess inventory reserve at both March 31, 2017 and 2016.

#### Property, Plant, and Equipment

The Society utilizes the straight-line method of depreciation based upon the following estimated useful lives:

|                            |               |
|----------------------------|---------------|
| Buildings and improvements | 10 – 40 years |
| Equipment                  | 5 years       |
| Office furniture           | 10 years      |

# The Herb Society of America, Inc.

## Notes to Financial Statements

March 31, 2017 (Compiled) and 2016 (Audited)

### Note 1: Summary of Significant Accounting Policies (continued)

#### Property, Plant, and Equipment (continued)

The Society capitalizes purchases or donations of property and equipment that exceed \$500. Purchased property and equipment is stated at cost.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Society reclassifies temporarily restricted net assets to unrestricted net assets at that time.

#### Collections

The Society has inexhaustible assets that are a collection of publications for public exhibition. Collections purchased by the Society are capitalized at cost and presented within property, plant, and equipment in the statements of financial position. Cost and revenue recognition associated with contributed collections are based on the fair market value at the time of the donation; if no market exists, then cost is based on appraised value.

#### Vacation Pay

Vacation pay is expensed when paid. Management estimates that the accrual of vacation pay as earned would not have a material effect on its financial statements.

#### Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor-imposed restrictions.

#### Membership Dues and Program Fees

Membership dues and program fees are recognized over the periods to which they relate. Dues and fees billed in advance are recorded as deferred revenue. Life memberships are being deferred and recognized on a straight-line basis over a period of 15 years.

#### Contributed Services

The Society recognizes contributions of services received when those services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the donation.

# The Herb Society of America, Inc.

## Notes to Financial Statements

March 31, 2017 (Compiled) and 2016 (Audited)

### Note 1: Summary of Significant Accounting Policies (continued)

#### Concentrations of Credit Risk

Financial instruments which potentially subject the Society to concentrations of credit risk consist of cash and investment securities.

The Society has significant investments in equity and debt securities and is, therefore, subject to concentrations of credit risk. Investments are managed by investment advisors in accordance with the investment policy established by the Board of Directors. Though the market value of investments is subject to fluctuations on a year-to-year basis, the Board believes that the investment policy is prudent for the long-term welfare of the Society.

At various times during the years ended March 31, 2017 and 2016, the Society's cash in bank balances may exceed the federally insured limits.

#### Income Taxes

The Society is tax-exempt under Section 501c(3) of the Internal Revenue Code (IRC) of 1986. No provision for federal income taxes has been reported in its financial statements.

The Society accounts for income taxes in accordance with the "Income Taxes" topic of the FASB ASC. Uncertain income tax positions are evaluated at least annually by management. The Society classifies interest and penalties related to income tax matters as income tax expense in the accompanying financial statements. As of March 31, 2017 and 2016, the Society has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the years then ended. The Society files its Federal Form 990 in the U.S. federal jurisdiction and a state registration at the office of the state's attorney general for the State of Ohio.

# The Herb Society of America, Inc.

## Notes to Financial Statements

March 31, 2017 (Compiled) and 2016 (Audited)

### Note 1: Summary of Significant Accounting Policies (continued)

#### Recent Accounting Pronouncements

The FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities and Health Care Entities – Presentation of Financial Statements of Not-for-Profit Entities*. This ASU changes the current reporting requirements for nonprofit organizations and their required disclosures. The changes include: (a) requiring the presentation of only two classes of net assets, entitled “net assets without donor restriction” and “net assets with donor restrictions,” (b) modifying the presentation and disclosures of underwater endowment funds, (c) requiring the use of the placed in service approach to recognize the releases from restriction for gifts utilized to acquire or construct long-lived assets, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes to the financial statements and to disclose the allocation methodologies utilized to allocate the costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity, and (g) modifying other financial statement reporting requirements and disclosures to enhance the usefulness of nonprofit financial statements. This ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Management is currently evaluating the impact of this ASU on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 that deferred the effective date for the Society until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The objective of this ASU is to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption of this ASU is permitted. Management is currently evaluating the impact of this ASU on its financial statements.

#### Subsequent Events

In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through September 12, 2017, the date the financial statements were available to be issued.

# The Herb Society of America, Inc.

## Notes to Financial Statements

March 31, 2017 (Compiled) and 2016 (Audited)

### Note 2: Investments

Investments are stated at fair value and consisted of the following at March 31, 2017 and 2016, as summarized below:

|                                     | (Compiled)<br><u>2017</u> | (Audited)<br><u>2016</u> |
|-------------------------------------|---------------------------|--------------------------|
| Common stock                        | \$ -                      | \$ 728,612               |
| Corporate bonds                     | 302,768                   | 307,195                  |
| Mutual funds                        | 1,414,030                 | 685,534                  |
| Money market funds/cash equivalents | <u>81,276</u>             | <u>43,284</u>            |
|                                     | \$ <u>1,798,074</u>       | \$ <u>1,764,625</u>      |

The following schedule summarizes investment income for the years ended March 31, 2017 and 2016:

|  | (Compiled)<br><u>2017</u> | (Audited)<br><u>2016</u> |
|--|---------------------------|--------------------------|
| Interest and dividends                   | \$ 18,876                 | \$ 24,334                |
| Realized and unrealized gain (loss), net | <u>126,123</u>            | <u>(22,097)</u>          |
|  | \$ <u>144,999</u>         | \$ <u>2,237</u>          |

Investment income is net of administrative fees of \$15,481 and \$15,841 at March 31, 2017 and 2016, respectively.

### Note 3: Fair Value Measurements

In accordance with the "Fair Value Measurements" topic of the FASB ASC, the Society uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own valuation assumptions. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset or liability and are based on the best available information, which has been internally developed.

# The Herb Society of America, Inc.

## Notes to Financial Statements

March 31, 2017 (Compiled) and 2016 (Audited)

### Note 3: Fair Value Measurements (continued)

The methods described above may produce a fair value determination that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at March 31, 2017.

*Corporate bonds* – Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

*Common stock* – Valued at the closing price reported on the active market on which the individual securities are traded.

*Mutual funds* – Mutual funds are valued at the net asset value (NAV) of shares held by the Society at year-end.

*Money market funds/cash equivalents* – Valued at cost at time of purchase, which approximates fair value.

The following table sets forth by level, within the fair value hierarchy, the Society's assets measured at fair value as of March 31, 2017 (compiled):

|                                     | <u>Level 1</u>      | <u>Level 2</u>    | <u>Level 3</u> | <u>Total</u>        |
|-------------------------------------|---------------------|-------------------|----------------|---------------------|
| Corporate bonds rated A or better   | \$ -                | \$ 251,829        | \$ -           | \$ 251,829          |
| Corporate bonds rated below A       | -                   | 50,939            | -              | 50,939              |
| Mutual funds:                       |                     |                   |                |                     |
| Equity open-end funds               | 917,232             | -                 | -              | 917,232             |
| Equity closed-end fund              | 190,327             | -                 | -              | 190,327             |
| Fixed-income open-end funds         | 174,282             | -                 | -              | 174,282             |
| Fixed-income closed-end fund        | 132,189             | -                 | -              | 132,189             |
| Money market funds/cash equivalents | <u>81,276</u>       | <u>-</u>          | <u>-</u>       | <u>81,276</u>       |
|                                     | \$ <u>1,495,306</u> | \$ <u>302,768</u> | \$ <u>-</u>    | \$ <u>1,798,074</u> |



# The Herb Society of America, Inc.

## Notes to Financial Statements

**March 31, 2017 (Compiled) and 2016 (Audited)**

**Note 3: Fair Value Measurements (continued)**

The following table sets forth by level, within the fair value hierarchy, the Society's assets measured at fair value as of March 31, 2016 (audited):

|                                     | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------------|----------------|----------------|----------------|--------------|
| Corporate bonds rated A or better   | \$ -           | \$ 255,408     | \$ -           | \$ 255,408   |
| Corporate bonds rated below A       | -              | 51,787         | -              | 51,787       |
| Common stock:                       |                |                |                |              |
| Energy and metals                   | 92,656         | -              | -              | 92,656       |
| Technologies                        | 166,291        | -              | -              | 166,291      |
| Financial services                  | 103,159        | -              | -              | 103,159      |
| Manufacturing                       | 54,038         | -              | -              | 54,038       |
| Transportation                      | 18,983         | -              | -              | 18,983       |
| Consumer/retail                     | 293,485        | -              | -              | 293,485      |
| Mutual funds:                       |                |                |                |              |
| Equity open-end funds               | 250,776        | -              | -              | 250,776      |
| Equity closed-end fund              | 57,329         | -              | -              | 57,329       |
| Fixed-income open-end funds         | 134,477        | -              | -              | 134,477      |
| Fixed-income closed-end fund        | 242,952        | -              | -              | 242,952      |
| Money market funds/cash equivalents | 43,284         | -              | -              | 43,284       |
|                                     | \$ 1,457,430   | \$ 307,195     | \$ -           | \$ 1,764,625 |

**Note 4: Property, Plant, and Equipment**

Property, plant, and equipment, net, consisted of the following at March 31, 2017 and 2016:

|                                | <u>(Compiled)</u><br><u>2017</u> | <u>(Audited)</u><br><u>2016</u> |
|--------------------------------|----------------------------------|---------------------------------|
| Land                           | \$ 28,375                        | \$ 28,375                       |
| Buildings and improvements     | 746,307                          | 746,095                         |
| Office equipment               | 27,997                           | 27,997                          |
| Office furniture               | 33,122                           | 33,122                          |
| Computer software              | 1,913                            | 1,913                           |
| Inexhaustible collections      | 34,447                           | 34,447                          |
|                                | 872,161                          | 871,949                         |
| Less: accumulated depreciation | (346,779)                        | (323,930)                       |
|                                | \$ 525,382                       | \$ 548,019                      |

# The Herb Society of America, Inc.

## Notes to Financial Statements

**March 31, 2017 (Compiled) and 2016 (Audited)**

**Note 5: Net Assets**

Temporarily restricted net assets as of March 31, 2017 and 2016 have donor-imposed restrictions for the following uses:

|                                  | <u>(Compiled)</u><br><u>2017</u> | <u>(Audited)</u><br><u>2016</u> |
|----------------------------------|----------------------------------|---------------------------------|
| Tasha Tudor/National Herb Garden | \$ 73,143                        | \$ 59,807                       |
| Vision                           | 17,558                           | 24,434                          |
| District Delegates               | 60,777                           | 58,437                          |
| Joanne Reed Award                | 2,244                            | 2,383                           |
| Library                          | 21,064                           | 20,406                          |
| Members at Large                 | <u>26,912</u>                    | <u>31,811</u>                   |
|                                  | <u>\$ 201,698</u>                | <u>\$ 197,278</u>               |

Net assets released from restrictions for the years ended March 31, 2017 and 2016 were as follows:

|                                  | <u>(Compiled)</u><br><u>2017</u> | <u>(Audited)</u><br><u>2016</u> |
|----------------------------------|----------------------------------|---------------------------------|
| Tasha Tudor/National Herb Garden | \$ 10,436                        | \$ 25,000                       |
| Website                          | 63                               | -                               |
| Vision                           | 6,959                            | 2,285                           |
| District Delegates               | 35,982                           | 22,257                          |
| General operating                | 11,763                           | 14,984                          |
| Joanne Reed Award                | 139                              | 149                             |
| Library                          | 2,007                            | 4,841                           |
| Green Bridges                    | -                                | 325                             |
| Members at Large                 | <u>5,091</u>                     | <u>1,635</u>                    |
|                                  | <u>\$ 72,440</u>                 | <u>\$ 71,476</u>                |

The balances of permanently restricted net assets are reported below as of March 31, 2017 and 2016, and the investment income earned on these balances is restricted to the following uses:

|   | <u>(Compiled)</u><br><u>2017</u> | <u>(Audited)</u><br><u>2016</u> |
|---|----------------------------------|---------------------------------|
| Francis Ellis Price – general operating | \$ 790,275                       | \$ 728,291                      |
| General operating                       | 388,802                          | 356,987                         |
| Library – Society library expenses      | 42,354                           | 39,032                          |
| National Herb Garden                    | <u>107,644</u>                   | <u>97,926</u>                   |
|   | <u>\$ 1,329,075</u>              | <u>\$ 1,222,236</u>             |

# The Herb Society of America, Inc.

## Notes to Financial Statements

March 31, 2017 (Compiled) and 2016 (Audited)

### Note 6: Net Asset Classification of Endowment Funds

The Society's Endowment Fund consists of collectively-invested funds established to fund board and donor-directed needs and programs. The Endowment Fund consists of board-designated funds and donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Society has interpreted the State Prudent Management of Institutional Fund Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund,
- (2) the purposes of the Society and the donor-restricted endowment fund,
- (3) general economic conditions, and
- (4) the investment policies of the Society.

During the year ended March 31, 2017, the Society had the following endowment-related activities (compiled):

|                                      | Donor-Restricted<br>Endowment<br>Funds | Board-Designated<br>Quasi-Endowment<br>Funds | Total            |
|--------------------------------------|--|--|------------------|
| Investment return:                   |  |  |                  |
| Interest and dividends               | \$ 12,836                              | \$ 2,495                                     | \$ 15,331        |
| Net realized and unrealized gain     | <u>104,519</u>                         | <u>19,768</u>                                | <u>124,287</u>   |
| Total investment return              | 117,355                                | 22,263                                       | 139,618          |
| Contributions                        | 2,320                                  | 22,275                                       | 24,595           |
| Amounts appropriated for expenditure | <u>(11,763)</u>                        | <u>(129,053)</u>                             | <u>(140,816)</u> |
| Total change in endowment funds      | \$ <u>107,912</u>                      | \$ <u>(84,515)</u>                           | \$ <u>23,397</u> |

# The Herb Society of America, Inc.

## Notes to Financial Statements

**March 31, 2017 (Compiled) and 2016 (Audited)**

**Note 6: Net Asset Classification of Endowment Funds (continued)**

During the year ended March 31, 2016, the Society had the following endowment-related activities (audited):

|                                      | <u>Donor-Restricted<br/>Endowment<br/>Funds</u> | <u>Board-Designated<br/>Quasi-Endowment<br/>Funds</u> | <u>Total</u>              |
|--------------------------------------|---|---|---------------------------|
| Investment return:                   |   |   |                           |
| Interest and dividends               | \$ 16,272                                       | \$ 4,858  | \$ 21,130                 |
| Net realized and unrealized loss     | <u>(13,635)</u>                                 | <u>(5,351)</u>  | <u>(18,986)</u>           |
| Total investment return              | 2,637   | (493)   | 2,144                     |
| Contributions                        | 17,660  | 4,380   | 22,040                    |
| Amounts appropriated for expenditure | <u>(14,984)</u>                                 | <u>(94,032)</u>                                       | <u>(109,016)</u>          |
| Total change in endowment funds      | \$ <u><u>5,313</u></u>                          | \$ <u><u>(90,145)</u></u>                             | \$ <u><u>(84,832)</u></u> |

Endowment Net Asset Composition by type of Fund  
as of March 31, 2017 (Compiled):

|  | <u>Unrestricted</u>      | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>               |
|--|--------------------------|-----------------------------------|-----------------------------------|----------------------------|
| Donor-restricted endowment funds       | \$ -                     | \$ 5,828                          | \$ 1,329,075                      | \$ 1,334,903               |
| Board-designated quasi-endowment funds | <u>229,759</u>           | <u>-</u>                          | <u>-</u>                          | <u>229,759</u>             |
| Total funds                            | \$ <u><u>229,759</u></u> | \$ <u><u>5,828</u></u>            | \$ <u><u>1,329,075</u></u>        | \$ <u><u>1,564,662</u></u> |

Endowment Net Asset Composition by type of Fund  
as of March 31, 2016 (Audited):

|  | <u>Unrestricted</u>      | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>               |
|--|--------------------------|-----------------------------------|-----------------------------------|----------------------------|
| Donor-restricted endowment funds       | \$ -                     | \$ 4,755                          | \$ 1,222,236                      | \$ 1,226,991               |
| Board-designated quasi-endowment funds | <u>314,274</u>           | <u>-</u>                          | <u>-</u>                          | <u>314,274</u>             |
| Total funds                            | \$ <u><u>314,274</u></u> | \$ <u><u>4,755</u></u>            | \$ <u><u>1,222,236</u></u>        | \$ <u><u>1,541,265</u></u> |

# The Herb Society of America, Inc.

## Notes to Financial Statements

**March 31, 2017 (Compiled) and 2016 (Audited)**

**Note 6: Net Asset Classification of Endowment Funds (continued)**

Changes in Endowment Net Assets  
for the Fiscal Year Ended March 31, 2017 (Compiled):

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year              | \$ 314,274          | \$ 4,755                          | \$ 1,222,236                      | \$ 1,541,265        |
| Investment return:                                   |                     |                                   |                                   |                     |
| Interest and dividends                               | 2,495               | 12,836                            | -                                 | 15,331              |
| Net realized and unrealized gain                     | <u>19,768</u>       | <u>-</u>                          | <u>104,519</u>                    | <u>124,287</u>      |
| Total investment return                              | 22,263              | 12,836                            | 104,519                           | 139,618             |
| Contributions  | 22,275              | -                                 | 2,320                             | 24,595              |
| Appropriation of endowment assets<br>for expenditure | <u>(129,053)</u>    | <u>(11,763)</u>                   | <u>-</u>                          | <u>(140,816)</u>    |
| Endowment net assets, end of year                    | \$ <u>229,759</u>   | \$ <u>5,828</u>                   | \$ <u>1,329,075</u>               | \$ <u>1,564,662</u> |

Changes in Endowment Net Assets  
for the Fiscal Year Ended March 31, 2016 (Audited):

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year              | \$ 404,419          | \$ 3,467                          | \$ 1,218,211                      | \$ 1,626,097        |
| Investment return:                                   |                     |                                   |                                   |                     |
| Interest and dividends                               | 4,858               | 16,272                            | -                                 | 21,130              |
| Net realized and unrealized loss                     | <u>(5,351)</u>      | <u>-</u>                          | <u>(13,635)</u>                   | <u>(18,986)</u>     |
| Total investment return                              | (493)               | 16,272                            | (13,635)                          | 2,144               |
| Contributions  | 4,380               | -                                 | 17,660                            | 22,040              |
| Appropriation of endowment assets<br>for expenditure | <u>(94,032)</u>     | <u>(14,984)</u>                   | <u>-</u>                          | <u>(109,016)</u>    |
| Endowment net assets, end of year                    | \$ <u>314,274</u>   | \$ <u>4,755</u>                   | \$ <u>1,222,236</u>               | \$ <u>1,541,265</u> |

# The Herb Society of America, Inc.

## Notes to Financial Statements

March 31, 2017 (Compiled) and 2016 (Audited)

### Note 6: Net Asset Classification of Endowment Funds (continued)

#### Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for the Endowment Fund that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of the assets. Assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the Board of Directors, investments of all Society assets are directed by the Finance and Operations Committee of the Society utilizing professional managers. The standard for the Finance and Operations Committee with regard to the Endowment Fund assets shall be the preservation of corpus while prudently maximizing real growth. The Society conducts a quarterly monitoring of the portfolio. Investment performance is measured against comparative market indices including the Wilshire 500 Total Market Index and the Barclays PLC Government/Credit Index. The performance of the overall portfolio is monitored quarterly and compared against appropriate benchmarks.

#### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

#### Spending Policy

The use of Board-Designated Endowment Fund assets shall be the responsibility of the Board of Directors. Recommendations of the Board of Directors shall be executed by the management of the Society. The Board of Directors has indicated that use of Board-Designated Endowment Fund assets shall be used to support the Society's operating budget as follows: annual interest and dividends earned, and 5% of the principal balance, averaged over the 12 previous quarters. Spending during fiscal year 2017 exceeded this amount and the Board of Directors approved the additional expenditures. The use of Donor-Restricted Endowment Fund assets, for the purpose of supporting the Society's operating budget, is limited to annual interest and dividends earned on fund assets.

# **The Herb Society of America, Inc.**

## **Notes to Financial Statements**

**March 31, 2017 (Compiled) and 2016 (Audited)**

### **Note 7: Gift Annuity**

During fiscal year 2008, the Society entered into a gift annuity arrangement agreeing to pay an individual a contracted amount per quarter for life. The Society received 200 shares of stock, valued at \$9,240, and in return has agreed to make quarterly annuity payments of \$229. The stock was converted previously to Common Collective Funds and Money Market Funds having a market value of \$1,600 and \$2,525, as of March 31, 2017 and 2016, respectively. Upon the death of this individual, any remaining principal will be transferred to the Society's temporarily restricted Vision Fund for the purpose of expanding the Society's headquarters facility. If the fund is depleted prior to this individual's death, the Society is required to continue the quarterly payments. The total annuity payments amounted to \$916 for each of the years ended March 31, 2017 and 2016. The Society has not recorded the asset nor the liability in the accompanying financial statements, as management has determined that the effect is not material.