

# The Herb Society of America, Inc.

YEARS ENDED MARCH 31, 2021 AND 2020

### Independent Auditor's Report

Board of Directors  
The Herb Society of America, Inc.  
Kirtland, Ohio

We have audited the accompanying financial statements of The Herb Society of America, Inc. (Organization), which comprise the statements of financial position as of March 31, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

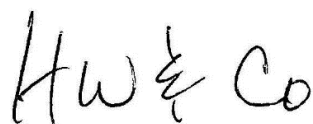
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Herb Society of America, Inc., as of March 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Emphasis of Matter

As discussed in Note 1 to the financial statements, effective April 1, 2020, The Herb Society of America, Inc. adopted Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.



Cleveland, Ohio  
March 3, 2022

**THE HERB SOCIETY OF AMERICA, INC.**  
**(A Non-Profit Organization)**

STATEMENTS OF FINANCIAL POSITION

MARCH 31, 2021 AND 2020

**ASSETS**

	2021	2020
<b>Current assets:</b>		
Cash and cash equivalents	\$ 19,517	\$ 1,497
Due from third party		24,000
Inventory, net	5,577	5,577
Prepaid expenses	17,774	17,382
Total current assets	42,868	48,456
<b>Property, plant and equipment:</b>		
Land and improvements	68,576	68,576
Building and improvements	706,106	706,301
Furniture and equipment	64,559	63,460
	839,241	838,337
Less accumulated depreciation	429,520	409,477
	409,721	428,860
<b>Other assets:</b>		
Inexhaustible assets	29,447	29,447
Investments	3,028,674	1,864,039
	3,058,121	1,893,486
	<b>\$ 3,510,710</b>	<b>\$ 2,370,802</b>

**LIABILITIES AND NET ASSETS**

<b>Current liabilities:</b>		
Accounts payable	\$ 15,663	\$ 18,936
Accrued expenses	9,139	5,850
Deferred revenue	6,341	5,519
Paycheck Protection Program note payable	23,495	
Total current liabilities	54,638	30,305
<b>Long-term liabilities; deferred revenue</b>	23,293	26,187
<b>Net assets:</b>		
Without donor restrictions:		
Undesignated	428,311	484,088
Board designated	274,259	174,929
With donor restrictions	2,730,209	1,655,293
Total net assets	3,432,779	2,314,310
	<b>\$ 3,510,710</b>	<b>\$ 2,370,802</b>

See notes to financial statements.

**THE HERB SOCIETY OF AMERICA, INC.**  
**(A Non-Profit Organization)**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED MARCH 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support, revenue, and gains:</b>			
Contributions	\$ 77,875	\$ 104,449	\$ 182,324
Membership dues	111,513		111,513
Educational conference			
Publications	23,190		23,190
Investment income (loss), net	78,032	1,020,893	1,098,925
Other income	1,867		1,867
	<u>292,477</u>	<u>1,125,342</u>	<u>1,417,819</u>
<b>Total support, revenue, and gains</b>			
	292,477	1,125,342	1,417,819
<b>Net assets released from restrictions</b>	<u>50,426</u>	<u>(50,426)</u>	<u></u>
	<u>342,903</u>	<u>1,074,916</u>	<u>1,417,819</u>
<b>Expenses:</b>			
Program services:			
Programs	222,615		222,615
Membership development	20,950		20,950
	<u>243,565</u>	<u></u>	<u>243,565</u>
<b>Total program services</b>			
	243,565		243,565
Supporting services:			
Management and general	42,440		42,440
Fundraising	13,345		13,345
	<u>55,785</u>	<u></u>	<u>55,785</u>
<b>Total supporting services</b>			
	55,785		55,785
<b>Total expenses</b>	<u>299,350</u>	<u></u>	<u>299,350</u>
<b>Change in net assets</b>	43,553	1,074,916	1,118,469
<b>Net assets, beginning of year</b>	<u>659,017</u>	<u>1,655,293</u>	<u>2,314,310</u>
<b>Net assets, end of year</b>	<u><u>\$ 702,570</u></u>	<u><u>\$ 2,730,209</u></u>	<u><u>\$ 3,432,779</u></u>

See notes to financial statements.

**THE HERB SOCIETY OF AMERICA, INC.**  
**(A Non-Profit Organization)**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED MARCH 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support, revenue, and gains:</b>			
Contributions	\$ 78,198	\$ 14,904	\$ 93,102
Membership dues	114,660		114,660
Educational conference	58,630		58,630
District gatherings		9,819	9,819
Publications	9,246		9,246
Investment income (loss), net	(18,107)	(126,113)	(144,220)
Other income	2,853		2,853
	<hr/>	<hr/>	<hr/>
Total support, revenue, and gains	245,480	(101,390)	144,090
<b>Net assets released from restrictions</b>	<hr/>	<hr/>	<hr/>
	47,101	(47,101)	
	<hr/>	<hr/>	<hr/>
	292,581	(148,491)	144,090
<b>Expenses:</b>			
Program services:			
Programs	255,320		255,320
Membership development	18,024		18,024
	<hr/>	<hr/>	<hr/>
Total program services	273,344		273,344
Supporting services:			
Management and general	44,242		44,242
Fundraising	14,628		14,628
	<hr/>	<hr/>	<hr/>
Total supporting services	58,870		58,870
<b>Total expenses</b>	<hr/>	<hr/>	<hr/>
	332,214		332,214
<b>Change in net assets</b>	<hr/>	<hr/>	<hr/>
	(39,633)	(148,491)	(188,124)
<b>Net assets, beginning of year</b>	<hr/>	<hr/>	<hr/>
	698,650	1,803,784	2,502,434
<b>Net assets, end of year</b>	<hr/>	<hr/>	<hr/>
	<u>\$ 659,017</u>	<u>\$ 1,655,293</u>	<u>\$ 2,314,310</u>

See notes to financial statements.

**THE HERB SOCIETY OF AMERICA, INC.**  
**(A Non-Profit Organization)**

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2021

	Program Services			Supporting Services		Total Program and Supporting Services
	Programs	Membership Development	Total Program Services	Management and General	Fundraising	
Executive:						
Board Meetings	\$ 2,011	\$ 335	\$ 2,346	\$ 670	\$ 335	\$ 3,351
National operations:						
Personnel	101,213	14,057	115,270	19,680	5,623	140,573
Professional fees	4,622		4,622	12,498		17,120
Office expenses	10,466	1,163	11,629	2,326	581	14,536
Occupancy	15,979	1,775	17,754	3,551	888	22,193
Depreciation	14,431	1,603	16,034	3,207	802	20,043
Other National operations	2,192	244	2,436	487	121	3,044
District operations	312	42	354	21	41	416
Membership	1,732	1,731	3,463			3,463
Marketing					4,954	4,954
District gathering	700		700			700
Education and development	53,380		53,380			53,380
Botany and horticulture	15,577		15,577			15,577
	<b>\$ 222,615</b>	<b>\$ 20,950</b>	<b>\$ 243,565</b>	<b>\$ 42,440</b>	<b>\$ 13,345</b>	<b>\$ 299,350</b>

See notes to financial statements.

**THE HERB SOCIETY OF AMERICA, INC.**  
**(A Non-Profit Organization)**

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2020

	Program Services			Supporting Services		Total Program and Supporting Services
	Programs	Membership Development	Total Program Services	Management and General	Fundraising	
Executive:						
Board Meetings	\$ 3,659	\$ 610	\$ 4,269	\$ 1,220	\$ 609	\$ 6,098
Executive Committee	86	14	100	29	15	144
Delegates	788	131	919	263	131	1,313
National operations:						
Personnel	81,181	11,275	92,456	15,785	4,510	112,751
Professional fees	6,439		6,439	17,408		23,847
Office expenses	8,572	952	9,524	1,905	476	11,905
Occupancy	16,298	1,811	18,109	3,622	905	22,636
Depreciation	14,817	1,646	16,463	3,292	824	20,579
Other National operations	2,754	306	3,060	612	153	3,825
District operations	1,589	212	1,801	106	211	2,118
Membership	1,067	1,067	2,134			2,134
Marketing					6,794	6,794
National conference	41,132		41,132			41,132
District gathering	6,289		6,289			6,289
Education and development	47,852		47,852			47,852
Botany and horticulture	22,797		22,797			22,797
	<b>\$ 255,320</b>	<b>\$ 18,024</b>	<b>\$ 273,344</b>	<b>\$ 44,242</b>	<b>\$ 14,628</b>	<b>\$ 332,214</b>

See notes to financial statements.

**THE HERB SOCIETY OF AMERICA, INC.**  
**(A Non-Profit Organization)**

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2021 AND 2020

	2021	2020
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,118,469	\$ (188,124)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	20,043	20,579
Loss on disposal of fixed assets	195	
Unrealized losses (gains) on investments	(1,041,994)	221,718
Restricted contributions received	(104,449)	(24,723)
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Due from Third Party	24,000	(23,855)
Inventory and prepaid expenses	(392)	(3,087)
Increase (decrease) in liabilities:		
Accounts payable	(3,273)	(5,220)
Accrued expenses	3,289	2,125
Deferred revenue	(2,072)	(49,462)
Net cash provided by (used in) operating activities	13,816	(50,049)
<b>Cash flows from investing activities:</b>		
Purchases of fixed assets	(1,099)	
Proceeds from sales of investments	25,000	49,961
Purchases of investments	(147,641)	(87,224)
Net cash used in investing activities	(123,740)	(37,263)
<b>Cash flows from financing activities:</b>		
Proceeds from Paycheck Protection Program note payable	23,495	
Restricted contributions received	104,449	24,723
Net cash provided by financing activities	127,944	24,723
<b>Change in cash and cash equivalents</b>	18,020	(62,589)
<b>Cash and cash equivalents, beginning of year</b>	1,497	64,086
<b>Cash and cash equivalents, end of year</b>	<b>\$ 19,517</b>	<b>\$ 1,497</b>

See notes to financial statements.



# THE HERB SOCIETY OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2021 AND 2020

### 1. **Description of organization and summary of significant accounting policies:**

#### **Description of organization:**

The Herb Society of America, Inc. (the "Organization") 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 throughout the United States of America.

#### **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.

#### **Net assets without donor restrictions:**

Net assets without donor restrictions include net assets available for use in general operations and are not subject to donor restrictions.

#### **Net assets with donor restrictions:**

Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets with donor restrictions by donor-imposed restriction is provided in footnote 3.

#### **Functional allocation of expenses:**

Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include executive, national and district operations and membership, which are allocated on the basis of estimates of time and effort.

#### **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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

# THE HERB SOCIETY OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED MARCH 31, 2021 AND 2020

### 1. Description of organization and summary of significant accounting policies (continued):

#### Cash and cash equivalents:

The Organization considers all highly liquid investments available for current use (excluding cash equivalents held in investment brokerage accounts) with remaining maturities at the time of acquisition of three months or less to be cash equivalents.

#### Due from third party:

Due from third party at March 31, 2020 represents amount due from payment processing company, Stripe, an unaffiliated party, in relation to transactions occurring near year end. The amount resulted from excess refund payments which Stripe erroneously processed from the Organization's bank account at year end. The amount was received during year end March 31, 2021.

#### 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, net.

#### Inventory:

Inventory, consisting of books, publications, and apparel are specifically identified and valued at the actual cost incurred by the Organization. The Organization has established an excess inventory reserve. The inventory balance is net of \$5,000 of excess inventory reserve at March 31, 2021 and 2020.

#### Property, plant and equipment:

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

Land improvements	15 years
Buildings and improvements	10 – 40 years
Furniture and equipment	5 – 10 years

The Organization capitalizes purchases or donations of property and equipment that exceed \$500 or extend the useful life. Purchased property and equipment is stated at cost.

The Organization has inexhaustible assets totaling \$29,447 representing a collection of publications for public exhibition. Collections purchased by the Organization are capitalized at cost and presented as Inexhaustible assets 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 donation; if no market exists, then cost is based on appraised value.

# THE HERB SOCIETY OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED MARCH 31, 2021 AND 2020

### 1. Summary of significant accounting policies (continued):

#### Property, plant and equipment (continued):

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as without donor restrictions 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 with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Depreciation expense totaled \$20,043 and \$20,579 for the years ended March 31, 2021 and March 31, 2020, respectively.

#### 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.

#### Revenue recognition:

The Organization generates revenue from contributions, membership dues, and publications.

For membership dues and income from publications revenue is reported at the amount that reflects consideration to which the Organization expects to be entitled in exchange for providing the goods or services. Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the goods and services provided by the Organization. The Organization recognizes revenue in the statements of activities and contract assets in the statements of financial position only when goods and services have been sold and delivered or have been provided. Since the Organization has performed its obligations under the contracts, it has unconditional rights to the consideration recorded as contract assets and therefore, classifies those billed amounts as accounts receivable. There were no contract assets at March 31, 2021 and 2020.

Membership dues are recognized over the periods to which they relate. Dues 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, the average life expectancy of the member.

# THE HERB SOCIETY OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED MARCH 31, 2021 AND 2020

### 1. Summary of significant accounting policies (continued):

#### Revenue recognition (continued):

Revenues from non-exchange transactions (contributions) may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from obligation to make further payments). Contributions whose restrictions are met in the same reporting period are classified as net assets without donor restrictions. Revenues from conditional non-exchange transactions are recognized when the barrier is satisfied. Awards to the Organization from private foundations are recorded as contributions when the value received by the foundation is incidental to the potential public benefit. Contributions that are conditioned upon services to be provided (and where uncertainty exists as to the likelihood of meeting the conditions) are not recorded as revenue until the conditions are met. The Organization records these contributions as revenue when the conditions are met.

#### Contributed services:

The Organization 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.

#### Income taxes:

The Organization is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes on related income pursuant to Section 501 (a) of the Code.

#### Recently adopted accounting standard:

#### Revenue from contracts with customers:

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from contracts with Customers* including all related amendments (Topic 606). The guidance in this ASU supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the industry topics of the FASB Accounting Standards Codification ("ASC"). The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s), (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The Organization adopted the provisions of this ASU effective for the year ended March 31, 2021 using the modified retrospective transition method, however, there was no cumulative effect on the opening net asset balance as of April 1, 2020. Results for the year ended March 31, 2021 are presented under ASC 606; year ended March 31, 2020 comparative information has not been restated and is reported under the accounting standards in effect for that period. There were no material changes to the recording of the revenue by the Organization with the implementation of this ASU.

# THE HERB SOCIETY OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED MARCH 31, 2021 AND 2020

### 1. Summary of significant accounting policies (continued):

#### Recent accounting pronouncements:

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). This ASU affects all entities that enter into a lease, with some specified scope exceptions. This ASU requires lessees to recognize assets and liabilities on the statement of financial position for leases with lease terms greater than twelve months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as finance or operating lease. This ASU amends current guidance that requires only capital leases to be recognized on the lessee's statement of financial position. The ASU will also require additional disclosures on the amount, timing and uncertainty of cash flows arising from leases. During June 2020, FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842) *Effective Dates for Certain Entities* to defer the implementation dates of the previously issued ASUs. Therefore, the Organization is required to adopt and implement the ASU for leases for fiscal years beginning after December 31, 2021 (year end March 31, 2023), however early application is permitted. The Organization is currently evaluating the impact this ASU will have on its financial statements and will adopt the provisions of this ASU upon the effective date.

In September 2020, the FASB issued ASU No. 2020-07, *Not for Profit Entities* (Topic 958): *Presentation and Disclosures by Not for Profit Entities for Contributed Nonfinancial Assets*. This ASU is intended to increase transparency about contributed nonfinancial assets, including how the assets are used and valued. This ASU is effective for fiscal years beginning after June 15, 2021 (year end March 31, 2023). Early adoption of this ASU is permitted and retrospective application is required.

The Organization is currently evaluating the impact these ASUs will have on its financial statements and will adopt the provisions of these ASUs upon the effective dates.

#### Subsequent events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 3, 2022, the date the financial statements were available to be issued.

### 2. Investments:

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents – money markets	\$ 108,873	\$ 125,041
Exchange traded products	1,672,043	870,504
Equity securities, mutual funds – U.S.	651,768	391,230
Fixed income securities – corporate bonds	<u>595,990</u>	<u>477,265</u>
	<u>\$ 3,028,674</u>	<u>\$ 1,864,039</u>

## THE HERB SOCIETY OF AMERICA, INC.

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED MARCH 31, 2021 AND 2020

#### 2. Investments (continued):

The Organization's investments are held and managed by investment managers. Although the Organization has a diverse investment portfolio, a substantial portion of its realization is depended upon the markets in which the investments are traded and the investment managers' ability to properly manage the portfolio.

#### 3. Net assets with donor restrictions:

Net assets with donor-imposed restrictions are restricted for the following purposes or periods at March 31:

	2021	2020
Subject to expenditure for specified purpose:		
National Herb Garden	\$ 149,180	\$ 90,898
Vision	30,568	19,219
District Funds	92,912	61,835
Digital Media Fund	119,540	
Joanne Reed Award	3,647	2,293
Library	15,556	10,072
Members at Large	38,161	25,995
President's Fund	32,048	19,321
Sluder Education Fund	29,851	9,042
	511,463	238,675
Subject to the passage of time:		
Endowment funds held in perpetuity:		
Francis Ellis Price – general operating	1,303,378	834,556
General operating – perpetuity fund	651,360	416,071
Library – Society Library Expenses	73,872	46,446
National Herb Garden	190,136	119,545
	2,218,746	1,416,618
	\$ 2,370,209	\$ 1,655,293

Net assets released from net assets with donor restrictions are as follows:

	2021	2020
Satisfaction of purpose restrictions:		
National Herb Garden	\$ 15,273	\$ 22,510
President's Fund		1,345
District Funds	5,307	7,914
Members at Large	2,000	2,000
Library	2,846	13,332
	25,426	\$ 47,101
Passage of time restrictions:		
Francis Ellis Price	16,667	
General operating	8,333	
	25,000	
	\$ 50,426	

# THE HERB SOCIETY OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED MARCH 31, 2021 AND 2020

### 4. Fair value:

Fair value measurement under U.S. GAAP is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

U.S. GAAP defines a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair values as follows:

- Level 1 – observable inputs such as quoted prices in active markets
- Level 2 – inputs other than quoted prices in active markets that are observable either directly or indirectly
- Level 3 – unobservable inputs for which there is little or no market data

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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 Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy (all Level 1), the Organization's assets measured at March 31 as follows:

	<u>2021</u>	<u>2020</u>
Exchange traded products	\$ 1,672,043	\$ 870,504
Equity securities, mutual funds – U.S.	651,768	391,230
Fixed income securities – corporate bonds	<u>595,990</u>	<u>477,265</u>
Ending balance	<u>\$ 2,919,801</u>	<u>\$ 1,738,999</u>

### 5. Endowments:

The Organization'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 U.S. GAAP, 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 HERB SOCIETY OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED MARCH 31, 2021 AND 2020

### 5. Endowments (continued):

The Board of Directors of the Organization has interpreted the State of Ohio's Uniform Prudent Management of Institutional Fund Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as 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 UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) General economic conditions;
- 2) The possible effect of inflation or deflation;
- 3) The expected tax consequences, if any, of investment decisions or strategies;
- 4) The role that each investment or course of action plays within the overall investment portfolio of the fund;
- 5) The expected total return from income and the appreciation of investments;
- 6) Other resources of the Organization;
- 7) The need of the Organization and of the fund to make distributions and preserve capital;
- 8) An asset's special relationship or special value, if any, to the charitable purposes of the Organization.

Endowment net asset composition by type of fund as of March 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds		\$ 2,730,209	\$ 2,730,209
Board-designated endowment funds	\$ 274,259		274,259
Undesignated endowment funds	<u>24,206</u>		<u>24,206</u>
	<u>\$ 298,465</u>	<u>\$ 2,730,209</u>	<u>\$ 3,028,674</u>

Endowment net asset composition by type of fund as of March 31, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds		\$ 1,655,293	\$ 1,655,293
Board-designated endowment funds	\$ 174,929		174,929
Undesignated endowment funds	<u>33,817</u>		<u>33,817</u>
	<u>\$ 208,746</u>	<u>\$ 1,655,293</u>	<u>\$ 1,864,039</u>



## THE HERB SOCIETY OF AMERICA, INC.

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED MARCH 31, 2021 AND 2020

#### 5. Endowments (continued):

Changes in endowment net assets for the year ended March 31, 2021:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 208,746	\$ 1,655,293	\$ 1,864,039
Investment gain, net	78,032	1,020,893	1,098,925
Contributions	77,875	104,449	182,324
Appropriation of endowment assets for expenditure	<u>(66,188)</u>	<u>(50,426)</u>	<u>(116,614)</u>
Endowment net assets, end of year	<u>\$ 298,465</u>	<u>\$ 2,730,209</u>	<u>\$ 3,028,674</u>

Changes in endowment net assets for the year ended March 31, 2020:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 244,710	\$ 1,803,784	\$ 2,048,494
Investment loss, net	(18,107)	(126,113)	(144,220)
Contributions	68,379	24,723	93,102
Appropriation of endowment assets for expenditure	<u>(86,236)</u>	<u>(47,101)</u>	<u>(133,337)</u>
Endowment net assets, end of year	<u>\$ 208,746</u>	<u>\$ 1,655,293</u>	<u>\$ 1,864,039</u>

#### Return objectives and risk parameters:

The Organization 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 Organization 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 Organization assets are directed by the Finance and Operations Committee of the Organization 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 Organization 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.

# THE HERB SOCIETY OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED MARCH 31, 2021 AND 2020

### 5. Endowments (continued):

#### Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, the Organization 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 Organization 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 and how the investment objectives relate to 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 Organization. The Board of Directors has indicated that annual interest and dividends earned on Board-Designated Endowment Fund assets can be used to support the Organization's operating budget. The use of Donor-Restricted Endowment Fund assets, for the purpose of supporting the Organization's operating budget, is limited to annual interest and dividends earned on fund assets, as determined by donor.

### 6. Liquidity and availability:

The Organization's financial assets available within one year of the statements of financial position for general expenditures are as follows:

	<u>March 31,</u> <u>2021</u>	<u>March 31,</u> <u>2020</u>
Cash and cash equivalents	\$ 19,517	\$ 1,497
Due from third party	<u>                    </u>	<u>24,000</u>
	<u>\$ 19,517</u>	<u>\$ 25,497</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization:

- invests cash in excess of daily requirements in short-term investments;
- has board designated endowment funds that could be made available for general expenditures with board approval in excess of its spending policy and;
- has as part of its general expenditures, expenses for donor restricted purposes that are funded by earnings of investments that are with donor restrictions.

# THE HERB SOCIETY OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED MARCH 31, 2021 AND 2020

### 7. COVID-19:

On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic with multiple jurisdictions in the United States declaring a state of emergency. Certain states issued “stay-at-home” orders for non-essential businesses, as defined. The Organization had determined it does not qualify as an essential business. To date, the Organization has been able to comply with all applicable orders and guidelines to maintain daily operations, however, the Organization was forced to cancel the in-person annual conferences supposed to have taken place in April 2020 and June 2021. These conferences are typically a significant source of revenue for the Organization and the Organization's financial position, results of operations and cash flows could be further impacted in the near future.

This funding was provided to assist with ongoing operations of the Organization. Management has, and will continue to, monitor the situation to make changes to its operations in an attempt to minimize any future financial impact. The Organization was impacted by a provision of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, as summarized below:

#### **Small Business Administration (SBA) Paycheck Protection Program (PPP) note payable:**

During the year ended March 31, 2021, the Organization received a forgivable loan from the SBA PPP totaling \$23,495. The loan funds were provided from the provisions of the CARES Act and are forgivable by the SBA, if amounts are used for eligible payroll costs and other eligible expenses as defined in the CARES Act and other SBA related issued guidance. The Organization received approval for loan forgiveness from the financial institution and the SBA during the year ended March 31, 2022. In accordance with US GAAP, the Organization has recorded the forgivable loan in accordance with FASB ASC 450-30 (Debt) and, therefore has recorded the loan as a current liability until the loan was forgiven by the SBA during the year ending March 31, 2022. The loan is an unsecured two-year note payable with interest at 1%, however, no interest has been accrued on the note since the amount is not material and was forgiven during the year ending March 31, 2022. During the year ending March 31, 2022, the Organization received a second forgivable loan from the SBA PPP totaling \$23,495.