

THE STANLEY SMITH HORTICULTURAL TRUST

FINANCIAL STATEMENTS

December 31, 2015 and 2014

THE STANLEY SMITH HORTICULTURAL TRUST

C O N T E N T S

	Page
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to Financial Statements	5–11

INDEPENDENT AUDITORS' REPORT

To the Trustees
The Stanley Smith Horticultural Trust

We have audited the accompanying financial statements of The Stanley Smith Horticultural Trust, which comprise the statements of financial position of as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets, 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.

Auditors' 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 audit 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 auditors' 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 auditors consider 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 Stanley Smith Horticultural Trust as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Burr Pilger Mayer, Inc.

San Francisco, California
June 7, 2016

THE STANLEY SMITH HORTICULTURAL TRUST

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 23,255	\$ 42,307
Investments, at fair value	15,696,282	17,332,927
Interest, dividends, and capital gains receivable	21,360	31,920
Prepaid federal excise tax	<u>1,229</u>	<u>-</u>
Total assets	<u><u>\$ 15,742,126</u></u>	<u><u>\$ 17,407,154</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 29,109	\$ 26,773
Excise taxes payable	-	19,760
Deferred federal excise tax liability	<u>-</u>	<u>39,529</u>
Total liabilities	29,109	86,062
Net assets - unrestricted	<u>15,713,017</u>	<u>17,321,092</u>
Total liabilities and net assets	<u><u>\$ 15,742,126</u></u>	<u><u>\$ 17,407,154</u></u>

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

THE STANLEY SMITH HORTICULTURAL TRUST
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31, 2015 and 2014

	2015	2014
Net investment income:		
Net realized and unrealized (losses) gains on investments	\$ (1,111,503)	\$ 588,657
Dividends, interest, and other	489,358	487,739
Custodial and investment related expenses	(125,460)	(135,010)
Net investment (loss) income before federal excise tax	(747,605)	941,386
Federal excise tax benefit (expense)	8,388	(17,692)
Net investment (loss) income	(739,217)	923,694
Expenses:		
Grants	753,276	687,697
Grant administration	115,582	117,430
Total expenses	868,858	805,127
Change in net assets	(1,608,075)	118,567
Net assets - unrestricted, beginning of year	17,321,092	17,202,525
Net assets - unrestricted, end of year	\$ 15,713,017	\$ 17,321,092

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

THE STANLEY SMITH HORTICULTURAL TRUST

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (1,608,075)	\$ 118,567
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized losses (gains) on investments	1,111,503	(588,657)
Decrease in deferred federal excise tax liability	(39,529)	(12,898)
Changes in operating assets and liabilities:		
Prepaid federal excise tax	(1,229)	3,270
Interest, dividends, and capital gains receivable	10,560	(5,252)
Accounts payable	2,336	1,198
Excise taxes payable	(19,760)	19,760
	(544,194)	(464,012)
Net cash used in operating activities		
Cash flows from investing activities:		
Proceeds from sale of investments	11,265,410	5,183,045
Purchase of investments	(10,740,268)	(4,711,529)
	525,142	471,516
Net cash provided by investing activities		
(Decrease) increase in cash	(19,052)	7,504
Cash, beginning of year	42,307	34,803
Cash, end of year	\$ 23,255	\$ 42,307
Supplemental disclosure of cash flow information:		
Federal excise taxes paid	\$ 52,000	\$ 7,560

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

THE STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

1. Organization

The Stanley Smith Horticultural Trust (the “Trust”) was established in 1970 for the purpose of making grants to support research and education in ornamental horticulture, primarily in North and South America. The Trust has been classified by the Internal Revenue Service (“IRS”) as a private foundation, as defined in Section 509(a) of the Internal Revenue Code (“IRC”). The Trust may distribute principal or income, or both, for the purposes defined in the Trust agreement. For the years ended December 31, 2015 and 2014, the Trust complied with the IRS requirement to spend or distribute for charitable purposes a minimum of five percent of the average fair market value of its investment assets for the preceding year. The Trust is supported through investment income.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Cash and Cash Equivalents

The Trust considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. The Trust had no cash equivalents at December 31, 2015 and 2014.

Concentration of Credit Risk

The Trust maintains cash balances with two banks. Cash balances are insured by the Federal Deposit Insurance Corporation for up to \$250,000 per insured bank. Cash equivalent and investment balances are insured through the Securities Investor Protection Corporation for up to \$500,000 and Lloyd’s of London for up to \$900,000. Cash and investment balances may at times exceed these limits. To date, the Trust has not experienced any losses in these accounts.

Investments

Investments are stated at quoted market prices or estimated fair values. Gains or losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses that result from sales or maturities of investments are calculated on an adjusted cost basis. Dividend and interest income are accrued when earned.

Covered Calls

The use of call options is a part of the Trust’s investment strategy. Covered calls are recorded at fair value and generally expire within one to three months from the original dates. Cash flows from covered calls are classified as an investing activity on the statement of cash flows.

Fair Value Measurements

Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

Continued

THE STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

Receivables and liabilities are measured at carrying value which approximates fair value due to their short maturity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates.

Grants

Grants are expensed when the unconditional promise to give is approved by the Board of Trustees or management in certain cases. There were no conditional or multi-year promises to give during the years ended December 31, 2015 and 2014.

Income Taxes

Income taxes are not provided for in the financial statements of the Trust because of the tax-exempt status the Trust obtained from the IRS under IRC Section 501(c)(3) and from the Franchise Tax Board under Section 23701(d) of the California Revenue and Tax Code. The Trust maintains its accounts and files its tax returns using the accrual method of accounting. As a private foundation, the Trust is subject to a federal excise tax of 1–2% on its net investment income, excluding unrealized gains. Deferred excise taxes arise primarily from unrealized tax basis gains on investments and are calculated at the rate of 2%.

Risks and Uncertainties

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

Reclassifications

Certain reclassifications have been made to the 2014 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

3. Fair Value Measurements and Investments

Generally accepted accounting principles establish a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Continued

THE STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

3. Fair Value Measurements and Investments, continued

The following is a brief description of these three levels:

Level 1 – Quoted prices in active markets for identical assets.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets, quoted prices for identical or similar assets in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 – Inputs that are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset.

Level 1 investments have been valued at the closing price on the active market on which the securities are traded at December 31, 2015 and 2014.

The following table presents the Trust’s investments measured at fair value on a recurring basis as of December 31, 2015 and 2014:

December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Liabilities) Level 1	Total
U.S. common stocks:		
Aerospace/defense	\$ 245,803	\$ 245,803
Airlines	189,464	189,464
Auto manufacturers	211,350	211,350
Banks	206,765	206,765
Biotechnology	463,995	463,995
Computers	315,780	315,780
Diversified financial services	1,165,596	1,165,596
Electronics	79,244	79,244
Healthcare products	231,135	231,135
Healthcare services	761,881	761,881
Insurance	560,850	560,850
Internet	661,121	661,121
Media	248,292	248,292
Miscellaneous manufacturing	269,282	269,282
Pharmaceuticals	945,406	945,406
Real Estate	214,396	214,396
Retail	263,979	263,979
Semiconductors	298,532	298,532
Software	199,100	199,100
Telecommunications	244,395	244,395
Transportation	125,026	125,026
Trucking and leasing	120,694	120,694
Total U.S. common stocks	8,022,086	8,022,086

Continued

THE STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

3. Fair Value Measurements and Investments, continued

December 31, 2015, continued	Quoted Prices in Active Markets for Identical Assets (Liabilities) Level 1	Total
U.S. preferred stock	\$ 582,750	\$ 582,750
International equity funds	3,039,329	3,039,329
Income investments	1,017,497	1,017,497
Money market funds	506,251	506,251
U.S. debt securities:		
Bond funds - ETF	1,083,770	1,083,770
Mutual funds	1,448,395	1,448,395
Total U.S. debt securities	2,532,165	2,532,165
Liabilities: covered calls	(3,796)	(3,796)
	<u>\$ 15,696,282</u>	<u>\$ 15,696,282</u>
December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Total
U.S. common stocks:		
Aerospace/defense	\$ 602,673	\$ 602,673
Auto manufacturers	226,915	226,915
Banks	574,220	574,220
Biotechnology	558,284	558,284
Chemicals	241,733	241,733
Commercial Services	244,824	244,824
Computers	557,335	557,335
Diversified financial services	1,332,161	1,332,161
Healthcare services	293,139	293,139
Insurance	523,157	523,157
Internet	343,545	343,545
Iron/steel	227,010	227,010
Media	255,244	255,244
Metal fabricate/hardware	264,968	264,968
Miscellaneous manufacturing	259,792	259,792
Oil and gas	195,872	195,872
Oil and gas services	603,774	603,774
Pharmaceuticals	908,661	908,661
Total U.S. common stocks	<u>8,213,307</u>	<u>8,213,307</u>

Continued

THE STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

3. Fair Value Measurements and Investments, continued

December 31, 2014, continued	Quoted Prices in Active Markets for Identical Assets (Level 1)	Total
International equities:		
International equity funds	\$ 3,006,553	\$ 3,006,553
International manufacturing	222,292	222,292
Total international equities	3,228,845	3,228,845
Commodities	849,967	849,967
International bond funds	977,174	977,174
Income investments	1,474,778	1,474,778
Money market funds	361,471	361,471
U.S. debt securities:		
Bond funds - ETF	1,078,275	1,078,275
Mutual funds	1,156,250	1,156,250
Total U.S. debt securities	2,234,525	2,234,525
Liabilities: covered calls	(7,140)	(7,140)
	\$ 17,332,927	\$ 17,332,927

4. Net Assets

Net assets on the statements of financial position are comprised of capital contributed to the Trust and the increase in value through investment activity. Net assets are all considered unrestricted and are comprised of the following for the years ended December 31, 2015 and 2014:

	2015	2014
Contributed capital	\$ 1,600,300	\$ 1,600,300
Contributions	5,479,274	5,479,274
Increase in value, net of expenditures	8,633,443	10,241,518
Total net assets - unrestricted	\$ 15,713,017	\$ 17,321,092

Continued

THE STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

5. Net Realized and Unrealized (Losses) Gains on Investments

Realized gains and losses from the sale of investments are recognized as the difference between sales proceeds and original cost. Unrealized gains and losses include changes in the fair market value during the year. Gains and losses (realized and unrealized) included in earnings are reported in the statements of activities as follows for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Realized gains from the sale of investments, net	\$ 1,263,756	\$ 1,233,526
Unrealized losses on investments held, net	<u>(2,375,259)</u>	<u>(644,869)</u>
Net realized and unrealized (losses) gains on investments	<u>\$ (1,111,503)</u>	<u>\$ 588,657</u>

6. Federal Excise Tax

Deferred excise tax liabilities were provided at a rate of 2% for 2014 on net unrealized gains. The deferred federal excise tax liability was \$0 and \$39,529 as of December 31, 2015 and 2014, respectively. Federal excise tax (benefit) expense was calculated at a rate of 2% and is included in the statements of activities is as follows at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Federal excise tax (benefit) expense:		
Current	\$ 31,141	\$ 30,590
Deferred	<u>(39,529)</u>	<u>(12,898)</u>
Total federal excise tax (benefit) expense	<u>\$ (8,388)</u>	<u>\$ 17,692</u>

7. Related Parties

The Trust Instrument permits the hiring of a trustee in a professional capacity and the payment of reasonable compensation for those services. A trustee of the Trust is an owner of the company that provides investment management services to the Trust. The investment management company was paid \$102,290 and \$107,102 in fees in 2015 and 2014, respectively. The investment management company was paid commissions, which are included in the price of the securities, of \$8,608 and \$3,480 in 2015 and 2014, respectively.

A trustee is the managing member of the company that provides administrative services to the Trust. Fees to the administrative services company were \$30,900 and \$30,000 for the years ended December 31, 2015 and 2014, respectively.

A trustee provides services as a grants director for the Trust. Fees to the grants director were \$55,000 and \$53,045 for the years ended December 31, 2015 and 2014, respectively.

Continued

THE STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

7. **Related Parties**, continued

The trustees were paid trustee fees of \$20,000 and \$23,671 for the years ended December 31, 2015 and 2014, respectively, which are included under custodian and investment related expenses on the statements of activities and changes in net assets.

8. **Subsequent Events**

The Trust evaluated subsequent events for recognition and disclosure through June 7, 2016, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2015 that required recognition or disclosure in such financial statements.