

STANLEY SMITH HORTICULTURAL TRUST

FINANCIAL STATEMENTS

December 31, 2017 and 2016

STANLEY SMITH HORTICULTURAL TRUST

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INDEPENDENT AUDITORS' REPORT

To the Trustees
Stanley Smith Horticultural Trust

We have audited the accompanying financial statements of Stanley Smith Horticultural Trust, which comprise the statements of financial position of as December 31, 2017 and 2016, 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 Stanley Smith Horticultural Trust as of December 31, 2017 and 2016, 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.

BPM LLP

San Francisco, California
June 11, 2018

STANLEY SMITH HORTICULTURAL TRUST

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 39,491	\$ 42,561
Investments, at fair value	17,342,935	15,163,291
Interest, dividends, and capital gains receivable	31,680	32,712
Prepaid federal excise and other taxes	<u>8,079</u>	<u>30,200</u>
Total assets	<u><u>\$ 17,422,185</u></u>	<u><u>\$ 15,268,764</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 26,014	\$ 36,250
Deferred federal excise tax liability	<u>29,416</u>	<u>-</u>
Total liabilities	55,430	36,250
Net assets - unrestricted	<u>17,366,755</u>	<u>15,232,514</u>
Total liabilities and net assets	<u><u>\$ 17,422,185</u></u>	<u><u>\$ 15,268,764</u></u>

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

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

For the years ended December 31, 2017 and 2016

	2017	2016
Net investment income:		
Net realized and unrealized gains on investments	\$ 2,540,828	\$ 53,568
Dividends, interest, and other	558,004	396,363
Custodial and investment related expenses	(137,260)	(112,480)
Net investment income before federal excise tax	2,961,572	337,451
Federal excise and other tax (expenses) benefit	(57,227)	4,885
Net investment income	2,904,345	342,336
Expenses:		
Grants	638,100	693,100
Grant administration	132,004	129,739
Total expenses	770,104	822,839
Change in net assets	2,134,241	(480,503)
Net assets - unrestricted, beginning of year	15,232,514	15,713,017
Net assets - unrestricted, end of year	\$ 17,366,755	\$ 15,232,514

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

STANLEY SMITH HORTICULTURAL TRUST

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 2,134,241	\$ (480,503)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(2,540,828)	(53,568)
Deferred federal excise tax liability	29,416	-
Changes in operating assets and liabilities:		
Prepaid federal excise tax	22,121	(28,971)
Interest, dividends, and capital gains receivable	1,032	(11,352)
Accounts payable	(10,236)	7,141
Net cash used in operating activities	(364,254)	(567,253)
Cash flows from investing activities:		
Proceeds from sale of investments	10,892,969	7,186,319
Purchase of investments	(10,531,785)	(6,599,760)
Net cash provided by investing activities	361,184	586,559
Change in cash	(3,070)	19,306
Cash, beginning of year	42,561	23,255
Cash, end of year	\$ 39,491	\$ 42,561
Supplemental disclosure of cash flow information:		
Federal excise taxes paid	\$ -	\$ 16,212

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

STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

1. Organization

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, 2017 and 2016, 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”).

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.

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, 2017 and 2016.

Concentration of Credit Risk

The Trust maintains cash balances with multiple banks, both directly and under a bank deposit program. 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.

Continued

STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

2. Summary of Significant Accounting Policies, continued

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.

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

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.

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, 2017 and 2016.

Income Taxes

The Trust is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and from the California franchise and/or income taxes under Section 23701(d) of the California Revenue and Taxation Code. The Trust maintains its accounts and files its tax returns using the accrual method of accounting.

Private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the IRC are met) on net investment income, excluding unrealized gains. The Trust paid the 2% rate in 2017 and exceeded the minimum payout requirement to achieve the 1% tax savings in 2016. Deferred excise taxes arise primarily from unrealized tax basis gains on investments and are calculated at the 2% rate by the Trust.

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.

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STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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).

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, 2017 and 2016.

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STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

3. Fair Value Measurements and Investments, continued

The following table presents the Trust's investments measured at fair value on a recurring basis as of December 31, 2017:

December 31, 2017	Quoted Prices in Active Markets (Level 1)	Total
U.S. common stocks:		
Consumer discretionary	\$ 314,604	\$ 314,604
Financials	1,056,259	1,056,259
Energy	267,039	267,039
Healthcare	435,512	435,512
Industrials	671,638	671,638
Information technology	1,811,579	1,811,579
Materials	138,879	138,879
Total U.S. common stocks	4,695,510	4,695,510
U.S. equity funds:		
ETF	2,321,682	2,321,682
Mutual funds	2,245,543	2,245,543
Total U.S. equity funds	4,567,225	4,567,225
International equity funds:		
ETF	1,803,741	1,803,741
Mutual funds	1,294,350	1,294,350
Total U.S. fixed income	3,098,091	3,098,091
Marketable alternatives	920,845	920,845
Bank deposit program funds and cash	371,789	371,789
U.S. fixed income mutual funds	3,692,751	3,692,751
Liabilities: covered calls	(3,276)	(3,276)
Total investments	\$ 17,342,935	\$ 17,342,935

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STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

3. Fair Value Measurements and Investments, continued

The following table presents the Trust's investments measured at fair value on a recurring basis as of December 31, 2016:

December 31, 2016	Quoted Prices in Active Markets (Level 1)	Total
U.S. common stocks:		
Consumer discretionary	\$ 1,163,280	\$ 1,163,280
Financials	1,372,793	1,372,793
Energy	510,334	510,334
Healthcare	1,876,324	1,876,324
Industrials	565,866	565,866
Information technology	2,209,634	2,209,634
Materials	223,158	223,158
Total U.S. common stocks	7,921,389	7,921,389
U.S. preferred stock	498,614	498,614
International equity funds	2,529,657	2,529,657
Marketable alternatives	946,579	946,579
Bank deposit program funds and cash	776,722	776,722
U.S. fixed income:		
ETF	313,024	313,024
Mutual funds	2,180,360	2,180,360
Total U.S. fixed income	2,493,384	2,493,384
Liabilities: covered calls	(3,054)	(3,054)
Total investments	\$ 15,163,291	\$ 15,163,291

The Trust uses the NAV to determine the fair value of all the underlying investments which do not have readily determinable fair values and prepare their financial statements consistent with the measurement principles of an investment company, or have attributes of an investment company. The following table lists the investment in the real estate fund as of December 31, 2017:

Investment	Strategy	NAV in Fund	Number of Funds	Remaining Life	Unfunded Commitments
Real estate fund III	Domestic real estate related assets	\$ -	1	8 years	\$ 990,774

The investment had losses to date and is therefore shown at zero NAV. As a limited partner in the closed-end real estate fund, the Trust may not withdraw from the real estate fund prior to the fund's dissolution.

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STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

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4. Covered Calls

The Trust has written covered calls as part of its investment strategy. Included in equity securities as of December 31, 2017 and 2016 were short calls on various securities. The short calls constituted covered calls and entitled the holder to acquire 10,600 and 25,700 shares at various set prices per share for the years 2017 and 2016, respectively. The 2017 calls expire on January 19, 2018.

The notional and fair values of the calls as of December 31, 2017 and 2016 are as follows:

	2017		2016	
	Notional Value	Fair Value	Notional Value	Fair Value
Covered calls	\$ (846,750)	\$ (3,276)	\$ (1,224,500)	\$ (3,054)

All of the Trust's derivative instruments are marked to current value as a change in net assets. The fair values of these instruments are included in investments in equity securities. The Trust recognized \$12,518 and \$69,800 of net gains related to derivative activity for the years ended December 31, 2017 and 2016, respectively. These net gains are reported as net realized and unrealized gain on investments in the statements of activities.

5. 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, 2017 and 2016:

	2017	2016
Contributed capital	\$ 1,600,300	\$ 1,600,300
Contributions	5,479,274	5,479,274
Grants paid and payable	(19,648,379)	(19,010,279)
Increase in value since inception of the Trust, net of operating expenses	29,935,560	27,163,219
Total net assets - unrestricted	\$ 17,366,755	\$ 15,232,514

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STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

6. Net Realized and Unrealized Gains on Investments

Realized gains from the sale of investments are recognized as the difference between sales proceeds and original cost. Unrealized gains include changes in the fair market value during the year. Gains (realized and unrealized) included in earnings are reported in the statements of activities as follows for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Realized gains from the sale of investments, net	\$ 686,689	\$ 16,516
Unrealized gains on investments held, net	<u>1,854,139</u>	<u>37,052</u>
Net realized and unrealized gains on investments	<u>\$ 2,540,828</u>	<u>\$ 53,568</u>

7. Tax Payout Requirement

The IRC requires private foundations to annually disburse approximately 5% of the market value of investment assets, less the federal excise tax, for the current year by the end of next year. This payout requirement may be satisfied by payments for grants, program-related investments, direct conduct of charitable activities, and certain administrative expenses. As of December 31, 2017 and 2016, the Trust has met the required minimum distributions, but has undistributed income amounts that must be distributed before the end of the next fiscal year of approximately \$792,000 and \$752,000 as of December 31, 2017 and 2016, respectively.

8. Federal Excise Tax

Federal excise tax (benefit) expense was calculated at a rate of 2% in 2017 and 1% in 2016 and is included in the statements of activities as follows at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Federal excise and other taxes (benefit):		
Current federal excise tax (benefit)	\$ 21,996	\$ (12,847)
Deferred federal excise tax	29,416	-
Foreign tax	5,690	7,931
UBIT	<u>125</u>	<u>31</u>
Total federal excise and other taxes (benefit)	<u>\$ 57,227</u>	<u>\$ (4,885)</u>

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STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

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9. 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 \$100,247 and \$92,060 in fees in 2017 and 2016, respectively. The investment management company was paid commissions of \$4,247 and \$9,905 in 2017 and 2016, respectively, which are included in the price of the securities.

A trustee is the managing member of the company that provides administrative services to the Trust. Fees to the administrative services company were \$39,000 and \$39,680 for the years ended December 31, 2017 and 2016, respectively.

A trustee provides services as a grants director for the Trust. Fees to the grants director were \$58,350 and \$56,650 for the years ended December 31, 2017 and 2016, respectively.

The trustees were paid trustee fees of \$20,000 for the years ended December 31, 2017 and 2016, which are included under custodian and investment related expenses on the statements of activities and changes in net assets.

10. Subsequent Events

The Trust evaluated subsequent events for recognition and disclosure through June 11, 2018, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2017 that required recognition or disclosure in such financial statements.