

**Houston Arboretum
& Nature Center**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2016 and 2015



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Houston Arboretum & Nature Center
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June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Houston Arboretum & Nature Center
Houston, Texas

We have audited the accompanying financial statements of Houston Arboretum & Nature Center (the Arboretum), which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

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 audit to obtain reasonable assurance about whether the financial statements are free of 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 Houston Arboretum & Nature Center as of June 30, 2016 and 2015, 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.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Case, Riggs & Ingram, L.L.C.

October 18, 2016

Houston, Texas

Houston Arboretum & Nature Center Statements of Financial Position

<i>June 30,</i>	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 7,050,527	\$ 5,995,273
Program fees receivable	34,131	29,782
Contributions receivable	113,029	13,225
Master Plan pledges receivable	2,519,441	1,348,665
Nature shop inventory	9,744	25,704
Prepaid expenses	14,431	10,195
Total current assets	9,741,303	7,422,844
Long-term investments	2,376,704	2,441,641
Long-term contributions receivable	100,000	-
Long-term Master Plan pledges receivable	1,565,840	1,983,335
Property and equipment, net	4,304,471	2,770,800
Total assets	\$ 18,088,318	\$ 14,618,620
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 2,725	\$ 26,115
Accrued expenses	-	29,518
Capital lease, current portion	11,327	10,795
Total current liabilities	14,052	66,428
Capital lease, net of current portion	8,878	22,285
Total liabilities	22,930	88,713
Commitments and contingencies		
Net assets		
Unrestricted		
Designated	450,815	331,831
Undesignated	5,663,381	4,282,247
	6,114,196	4,614,078
Temporarily restricted	11,117,619	9,082,256
Permanently restricted	833,573	833,573
Total net assets	18,065,388	14,529,907
Total liabilities and net assets	\$ 18,088,318	\$ 14,618,620

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

Houston Arboretum & Nature Center Statement of Activities and Changes in Net Assets

<i>For the year ended June 30, 2016</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and income				
Contributions	\$ 490,219	\$ 432,529	\$ -	\$ 922,748
Master Plan contributions	-	3,697,837	-	3,697,837
Memberships	93,466	-	-	93,466
Gifts-in-kind	68,188	-	-	68,188
Nature shop sales	120,168	-	-	120,168
Special events	449,390	-	-	449,390
Less: cost of direct benefits to members	(122,465)	-	-	(122,465)
Program and education fees	453,920	-	-	453,920
Rental income	141,348	-	-	141,348
Investment income	56,434	-	-	56,434
Net realized and unrealized loss on investments	(34,512)	-	-	(34,512)
Total support and income before release of net assets from restrictions	1,716,156	4,130,366	-	5,846,522
Net assets released from restrictions				
Satisfaction of program restrictions	249,481	(249,481)	-	-
Master Plan	1,845,522	(1,845,522)	-	-
Total net assets released from restrictions	2,095,003	(2,095,003)	-	-
Total support and income	3,811,159	2,035,363	-	5,846,522
Expenses				
Program	1,938,664	-	-	1,938,664
General and administrative	232,555	-	-	232,555
Fundraising	139,822	-	-	139,822
Total expenses	2,311,041	-	-	2,311,041
Change in net assets	1,500,118	2,035,363	-	3,535,481
Net assets at beginning of year	4,614,078	9,082,256	833,573	14,529,907
Net assets at end of year	\$ 6,114,196	\$ 11,117,619	\$ 833,573	\$ 18,065,388

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

Houston Arboretum & Nature Center Statement of Activities and Changes in Net Assets

<i>For the year ended June 30, 2015</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and income				
Contributions	\$ 424,522	\$ 178,262	\$ -	\$ 602,784
Master Plan contributions	-	8,480,345	-	8,480,345
Memberships	108,838	-	-	108,838
Gifts-in-kind	63,821	-	-	63,821
Nature shop sales	107,529	-	-	107,529
Special events	381,266	-	-	381,266
Less: cost of direct benefits to members	(126,041)	-	-	(126,041)
Program and education fees	552,624	-	-	552,624
Rental income	145,718	-	-	145,718
Other income	115	-	-	115
Investment income	53,614	-	-	53,614
Net realized and unrealized gain on investments	22,645	-	-	22,645
<hr/>				
Total support and income before release of net assets from restrictions	1,734,651	8,658,607	-	10,393,258
<hr/>				
Net assets released from restrictions				
Satisfaction of program restrictions	188,111	(188,111)	-	-
Expiration of timing restrictions	100,000	(100,000)	-	-
Master Plan	1,255,894	(1,255,894)	-	-
<hr/>				
Total net assets released from restrictions	1,544,005	(1,544,005)	-	-
<hr/>				
Total support and income	3,278,656	7,114,602	-	10,393,258
<hr/>				
Expenses				
Program	1,941,437	-	-	1,941,437
General and administrative	243,438	-	-	243,438
Fundraising	145,601	-	-	145,601
<hr/>				
Total expenses	2,330,476	-	-	2,330,476
<hr/>				
Change in net assets	948,180	7,114,602	-	8,062,782
<hr/>				
Net assets at beginning of year	3,665,898	1,967,654	833,573	6,467,125
<hr/>				
Net assets at end of year	\$ 4,614,078	\$ 9,082,256	\$ 833,573	\$ 14,529,907

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

Houston Arboretum & Nature Center Statements of Cash Flows

<i>For the years ended June 30,</i>	2016	2015
Operating activities		
Change in net assets	\$ 3,535,481	\$ 8,062,782
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Depreciation	111,053	115,991
Contributions restricted for Master Plan	(3,697,837)	(8,480,345)
Net realized loss (gain) on investments	1,142	(26,526)
Net unrealized loss on investments	33,370	3,881
Change in operating assets and liabilities		
Program fees receivable	(4,349)	5,146
Contributions receivable	(199,804)	106,775
Nature shop inventory	15,960	(5,642)
Prepaid expenses	(4,236)	(1,363)
Accounts payable	(23,390)	(7,636)
Accrued expenses	(29,518)	3,189
Net cash used in operating activities	(262,128)	(223,748)
Investing activities		
Proceeds from sales and maturities of investments	30,425	338,164
Purchases of investments	-	(307,607)
Purchases of property and equipment	(1,644,724)	(991,432)
Net cash used in investing activities	(1,614,299)	(960,875)
Financing activities		
Proceeds from Master Plan contributions	2,944,556	5,856,370
Principal payments on long-term debt	-	(11,806)
Principal payments on capital lease	(12,875)	(3,070)
Net cash provided by financing activities	2,931,681	5,841,494
Net change in cash and cash equivalents	1,055,254	4,656,871
Cash and cash equivalents at beginning of year	5,995,273	1,338,402
Cash and cash equivalents at end of year	\$ 7,050,527	\$ 5,995,273
Supplemental disclosure of noncash investing and financing activities		
Property and equipment acquired under capital lease	\$ -	\$ 36,150
Supplementary cash flow information		
Cash paid for interest	\$ 335	\$ 297

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

Houston Arboretum & Nature Center Notes to Financial Statements

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Houston Arboretum & Nature Center (the Arboretum) is an urban nature sanctuary with a mission to provide education about the natural environment to people of all ages and to protect and enhance the 155-acre Arboretum as a haven and sanctuary for native plants and animals. In fulfillment of that mission, the Arboretum welcomes over 200,000 people per year who come for recreation, birding, meditation, horticulture, and nature discovery, as well as for the many different classes, workshops, programs and events offered. The Arboretum maintains a staff of 24 employees with additional part-time assistance and a large corps of volunteers, who in the 2015-2016 fiscal year provided nearly 12,000 volunteer hours towards the organization's education and conservation efforts.

Despite a downturn in oil prices which has been affecting the Houston economy, the 2015-2016 fiscal year was marked with record attendance and several other achievements.

The Arboretum welcomes area school children, primarily from preschool through fifth grade, for intensive nature science instruction in a hands-on outdoor setting. This year, the Arboretum had over 11,000 students participating in its school programs. For the eighth year, the Arboretum offered grant-funded visits for students from four inner-city Title I elementary schools through the Adopt-A-School Program. Education staff also began an outreach component, helping students plant and harvest a garden at their school campus. The Arboretum also saw increased attendance in its many ongoing children's programs, including Home School, Tadpole Troopers, Naturalist Explorers, DIY Nature classes, and scout programs.

The Arboretum's already robust schedule of adult programs gained traction as well with new additions like Native Plant Propagation, Intros to Drawing and Acrylic Painting, and a series of natural history and science courses called Nature Revealed.

The 2015-2016 fiscal year was marked by protracted periods of intense rain, which caused significant issues with trail maintenance. Rain events in October and April both further damaged the Arboretum's ravine trail network, already closed due to past flooding and a large sinkhole. The wet weather also led to the loss of several Post Oak trees on site. While much of the Conservation team's efforts are dedicated to planning for and implementation of the Master Plan, the team also works to maintain trails, gardens, and boardwalks, grow and plant grasses and other native species, plan and operate native plant sales, and work with volunteer groups. Two of the Arboretum's Conservation staff members are now Certified Arborists and will bring their arboriculture expertise to the Arboretum's many projects.

One of the Arboretum's most significant successes in the 2015-2016 fiscal year was April's Alfresco Gala. The organization also generated income through its annual Arbor Cup Golf Tournament and several evening events. The Arboretum's annual Tapas on the Trails experience was again extended to two nights in February. In October, the ArBOOretum family festival was also relatively well-attended despite torrential downpours, with 1400 participants including nearly 300 children and family members from Small Steps Nurturing Center, one of the Arboretum's educational partners. Other events include celebrations for Arbor Day, held in January, and Earth Day in April, an occasion for promoting recycling and eco-sensitive living.

Houston Arboretum & Nature Center Notes to Financial Statements

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Much of the Arboretum's work this fiscal year was focused on planning and fundraising for implementation of Master Plan. The plan, which was completed in November 2013, calls for restoration of our grounds and expanded facilities for education and visitor orientation. The estimated cost of Phases 1 and 2 is \$30 million and Arboretum has currently raised almost \$17 million towards that goal. This year, Arboretum engaged a supplemental architect to focus on renovation of the Arboretum's Education Building, as well as general and landscape contractors to work on the project. Landscape work began on several pilot areas in the savanna and woodland corridors that will inform best practices for establishment of healthy new ecosystems. Unhealthy invasive understories in these areas were cleared with a variety of methods and partners. The Arboretum design team and staff are currently working to refine priorities for the first phase of construction work, which is estimated to begin in the spring of 2017.

Financial Statement Presentation

The Arboretum's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Arboretum's resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Arboretum and changes therein are classified and reported as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purpose by action of the Board of Directors.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Arboretum and/or passage of time. This classification includes contributions and unconditional promises to give for which the ultimate purpose of the proceeds is not permanently restricted.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Arboretum. Generally, the donors of these assets permit the Arboretum to use all of, or part of, the income earned on the related investments for specific purposes.

Cash Equivalents

For the purposes of the statements of cash flows, the Arboretum considers all highly liquid investments with initial maturities of three months or less at the time of purchase to be cash equivalents.

Included in cash equivalents at June 30, 2016 and 2015 is \$6,233,950 and \$5,292,769, respectively, of restricted cash related to Master Plan contributions received, net of expenses incurred. Additionally, cash equivalents at June 30, 2016 and 2015 include \$450,815 and \$331,831, respectively, of cash restricted for operating reserve fund.

Program Fees Receivable

The Arboretum considers program fees receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. Management evaluates receivables for collectibility on an individual basis. If amounts become uncollectible, they will be charged to operations when that determination is made.

Houston Arboretum & Nature Center Notes to Financial Statements

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions Receivable

Contributions receivable consist of unconditional promises to give. Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are recorded at the present value of their estimated future cash flows, if material. Conditional promises to give are not included as support until such time as the conditions are substantially met. Earnings are charged with a provision for doubtful receivables based on a current review of collectibility of the accounts. At June 30, 2016 and 2015, contributions receivable were considered fully collectible; therefore no allowance was required. The long-term portion of contribution receivable of \$100,000 is expected to be collected in 2018.

Master Plan Pledges Receivable

The Arboretum's Master Plan pledges receivable are comprised of amounts committed from various donors for use in the Master Plan. Master Plan pledges expected to be collected within one year are recorded at net realizable value. Master Plan pledges expected to be collected in future years are recorded at the present value of their estimated future cash flows, if material. Earnings are charged with a provision for doubtful receivables based on a current review of collectibility of the accounts. At June 30, 2016 and 2015, Master Plan pledges receivable were considered fully collectible; therefore no allowance was required. The long-term portion of the Master Plan Pledges of \$1,565,840 will be collected over the next 4 years.

Inventory

Inventory for the nature shop consists of purchased items valued at the lower of specific cost, determined using the first-in, first-out method, or market.

Investments and Investment Return

Investments are recorded at fair value. Investment return includes interest, dividends, capital gain distributions and realized and unrealized gains and losses. Investment return is reported in the statements of activities and changes in net assets as an increase in unrestricted net assets unless the use of the income is limited by donor imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets until expended in accordance with donor imposed restrictions. Marketable securities donated to the Arboretum are recorded at fair value on the date of donation.

Property and Equipment

Property and equipment is stated at cost, or in the case of donated property, at the estimated fair market value at the date of donation. The cost of property and equipment purchased in excess of \$1,000 is capitalized. Depreciation is computed using the straight-line method for financial reporting purposes. Useful lives of the assets are five years for furniture and equipment, grounds and trails, signage and artwork, forty years for buildings, fifteen years for building improvements, ten years for land improvements and five years for the Discovery Room and Library.

Houston Arboretum & Nature Center Notes to Financial Statements

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Routine maintenance, repair, renewal and replacement costs are charged against operations in the year incurred. Expenditures, which materially increase values or extend useful lives of property and equipment, are capitalized. Cost and accumulated depreciation are removed from the accounts when an asset is sold or retired and the resulting gain or loss is included in the statements of activities.

The Arboretum's building is located on land owned by the City of Houston. No rent is paid for the use of the land.

Long-Lived Assets

The Arboretum's long-lived assets are evaluated for impairment in accordance with generally accepted accounting principles which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. This review requires significant judgments both in assessing events and circumstances as well as estimating future cash flows. Should events indicate that any of the assets are impaired, the amount of such impairment will be measured as the difference between the carrying value and the fair value of the impaired asset and the impairment will be recorded in earnings during the period of such impairment. Management believes no impairment has occurred with respect to long-lived assets at June 30, 2016 and 2015.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

The Arboretum recognizes donated services at their fair market value in the period received if the services received create or enhance nonfinancial assets that require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Arboretum's volunteers contributed approximately 12,000 and 14,000 hours of service in support of educational and conservation services for the years ended June 30, 2016 and 2015, respectively; however, the value of the contributed time is not reflected in the accompanying financial statements because it does not meet the criteria for financial statement recognition.

Noncash contributions intended for conversion to cash or use in the Arboretum's facilities are recorded at fair market value at the date of contribution. Significant noncash transactions included in financial statements as gifts-in-kind are as follows:

- Utility expenses paid by the City of Houston totaling \$32,246 and \$33,644 during the years ended June 30, 2016 and 2015, respectively.
- Mustang Rental Services provided the use of heavy equipment in the amount of \$26,937 and \$30,177 during the years ended June 30, 2016 and 2015, respectively, which is included in program expense.

Houston Arboretum & Nature Center Notes to Financial Statements

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are charged to operations when the advertising first takes place. No direct-response advertising is used by the Arboretum. Advertising expense totaled \$189,435 and \$270,450, respectively, for the years ended June 30, 2016 and 2015.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets and the schedules of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Federal Income Taxes

The Arboretum is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for federal income tax has been made in these financial statements.

The Arboretum accounts for uncertain tax positions, when it is more likely than not, that such an asset or a liability will be realized. As of June 30, 2016, management believes there were no uncertain tax positions.

Use of Estimates

The preparation of the 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. Estimates that have the most impact on financial position and results of operations primarily relate to the collectability of receivables, the useful lives and recoverability of property and equipment, in-kind donations, and the allocation of functional expenses. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Fair Value Considerations

The Arboretum uses fair value to measure monetary and certain nonmonetary financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy established and prioritized fair value measurements into three levels based on the nature of the inputs. The hierarchy gives the highest priority to inputs based on market data from independent sources (observable inputs-Level 1) and the lowest priority to a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs-Level 3).

Houston Arboretum & Nature Center Notes to Financial Statements

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fair value option allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an entity elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. The Arboretum did not elect the fair value option for the measurement of any eligible assets or liabilities.

Subsequent Events

The Arboretum has evaluated subsequent events through October 18, 2016, which is the date the financial statements were available to be issued. No matters were identified affecting the accompanying financial statements or related disclosures.

NOTE 2: FAIR VALUE MEASUREMENTS

Fair value is defined as 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 on the measurement date. The three tier fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Inputs other than Level 1 inputs that are either directly or indirectly observable such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or other inputs not directly observable, but derived principally from, or corroborated by, observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity.

The Arboretum utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Investments in exchange traded funds are included in Level 1 as they are currently traded in active markets.

Houston Arboretum & Nature Center Notes to Financial Statements

NOTE 2: FAIR VALUE MEASUREMENTS (Continued)

Assets measured at fair value on a recurring basis are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016			
Exchange traded funds	\$ 2,376,704	\$ -	\$ -
June 30, 2015			
Exchange traded funds	\$ 2,441,641	\$ -	\$ -

The following summarizes the investment return in the statements of activities and changes in net assets:

<i>For the year ended June 30,</i>	2016	2015
Interest and dividend income	\$ 56,434	\$ 53,614
Net realized and unrealized (loss) gain	(34,512)	22,645
Expenses	(12,940)	(12,954)
Total investment income	\$ 8,982	\$ 63,305

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position and the statements of activities and changes in net assets.

The Arboretum's remaining financial instruments (primarily cash and cash equivalents, receivables and payables) are carried in the financial statements at amounts that reasonably approximate fair value.

Houston Arboretum & Nature Center Notes to Financial Statements

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>June 30,</i>	2016	2015
Building	\$ 1,414,808	\$ 1,414,808
Building improvements	231,299	231,299
Land improvements	349,872	349,872
Furniture and equipment	335,140	303,492
Grounds and trails	295,774	295,774
Discovery room and library	342,791	342,791
Signage	141,859	141,859
Construction in progress	3,402,622	1,789,546
Artwork	25,000	25,000
Total property and equipment	6,539,165	4,894,441
Less: accumulated depreciation	(2,234,694)	(2,123,641)
Property and equipment, net	\$ 4,304,471	\$ 2,770,800

Construction in progress represents capitalized design costs under the Master Plan. Under the terms of the agreement with City of Houston, Master Plan and all future capital improvement projects will transfer to the City at the end of the project.

Depreciation expense totaled \$111,053 and \$115,991 for the years ended June 30, 2016 and 2015, respectively.

NOTE 4: LINE OF CREDIT

The Arboretum has a \$70,000 unsecured bank line of credit which matures on December 16, 2016. Amounts borrowed under this agreement bear interest at the bank's prime rate as published in the Wall Street Journal per annum. At June 30, 2016 and 2015 the outstanding balance on the line of credit was zero.

NOTE 5: CAPITAL LEASE OBLIGATIONS

The Arboretum is the lessee of equipment accounted for as capital lease which is included in property and equipment in the accompanying financial statements. At June 30, 2016, the cost and accumulated depreciation on the equipment totaled \$36,150 and \$7,230, respectively. At June 30, 2015, the cost and accumulated depreciation on the equipment totaled \$36,150 and \$1,808, respectively. Payment is due in monthly installment of \$1,004, maturing March 2018. Equipment held under capital lease is amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. Amortization of equipment acquired under capital lease is included in depreciation expense.

Houston Arboretum & Nature Center Notes to Financial Statements

NOTE 5: CAPITAL LEASE OBLIGATIONS (Continued)

Future minimum lease payments under the capital lease is as follows:

<i>Year ending June 30,</i>			
2017	\$		12,052
2018			9,039
<hr/>			
Total minimum payments			21,091
Less: amounts representing interest			(886)
<hr/>			
Present value of net minimum lease payments			20,205
Less: current portion			(11,327)
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	\$		8,878
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NOTE 6: DESIGNATED UNRESTRICTED NET ASSETS

During the year ended June 30, 2015, the Arboretum's Board of Directors approved setting up a \$1 million operating reserve fund. This reserve will be built up over time using unrestricted contributions received by the Arboretum. As of June 30, 2016 and 2015, the Arboretum has designated \$450,815 and \$331,831, respectively, to its operating reserve fund.

NOTE 7: TEMPORARY RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

<i>June 30,</i>	2016	2015
Discovery room renovation project	\$ -	\$ 1,181
Operational grant - time restriction	200,000	-
Adopt-A-School program	19,500	12,650
Educational programs	9,380	36,500
Children's programs	5,000	-
Master Plan	10,883,739	9,031,425
Other	-	500
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	\$ 11,117,619	\$ 9,082,256
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Houston Arboretum & Nature Center Notes to Financial Statements

NOTE 8: ENDOWMENT

The Arboretum has donor-restricted endowment funds which are maintained in accordance with explicit donor stipulations. The Arboretum is subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) which has been enacted by the state of Texas. The Board of Directors of the Arboretum has interpreted TUPMIFA 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 the interpretation, the Arboretum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as unrestricted net assets until those amounts are appropriated by the Arboretum in a manner consistent with the standard of prudence prescribed by TUPMIFA.

In accordance with TUPMIFA, the Arboretum considers the following factors in making determination to appropriate accumulated donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Arboretum and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Arboretum
- (7) The investment policies and objectives of the Arboretum

The primary investment objectives of the endowment funds are to preserve the purchasing power of the endowment funds and all future contributions, to provide a stream of income of 3-5% of the value of the endowment funds (based on a three-year rolling average of market values) on an annual basis to fund operations of the Arboretum, to maximize return within reasonable and prudent levels of risk and to maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy.

Endowment funds by net asset classification are as follows:

<i>June 30,</i>	2016	2015
Unrestricted net assets	\$ 1,561,932	\$ 1,648,441
Permanently restricted net assets	833,573	833,573
	\$ 2,395,505	\$ 2,482,014

Houston Arboretum & Nature Center Notes to Financial Statements

NOTE 8: ENDOWMENT (Continued)

Changes in endowment net assets are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, June 30, 2014	\$ 1,670,330	\$ 833,573	\$ 2,503,903
Contributions	-	-	-
Investment return			
Interest and dividend income	53,420	-	53,420
Net appreciation	22,645	-	22,645
Other changes - advisor fees	(12,954)	-	(12,954)
Amounts appropriated for expenditures	(85,000)	-	(85,000)
Endowment net assets, June 30, 2015	1,648,441	833,573	2,482,014
Contributions	-	-	-
Investment return			
Interest and dividend income	55,943	-	55,943
Net loss (realized and unrealized)	(34,512)	-	(34,512)
Other changes - advisor fees	(12,940)	-	(12,940)
Amounts appropriated for expenditures	(95,000)	-	(95,000)
Endowment net assets, June 30, 2016	1,561,932	\$ 833,573	\$ 2,395,505

NOTE 9: OPERATING LEASE

The Arboretum leases office equipment under operating leases expiring in October 2018. Rental expense under these leases totaled approximately \$10,000 for the years ended June 30, 2016 and 2015, respectively. Noncancellable future minimum lease payments under the operating lease is as follows:

<i>Year ending June 30,</i>	
2017	\$ 9,744
2018	9,744
2019	2,436
	\$ 21,924

Houston Arboretum & Nature Center Notes to Financial Statements

NOTE 10: MANAGEMENT AGREEMENT

The Arboretum entered into a management agreement with the City of Houston on December 7, 2015. The agreement grants the Arboretum license and concession rights and privileges to managing and maintaining the Aline McAshan Botanical Hall for Children (the Hall) and gift shop merchandising. Under the agreement, all additions to existing structures and all new structures constructed by the Arboretum become property of the City upon expiration or termination of the agreement. Additionally, all gross receipts from any source, excluding Endowment Fund activities, from the Arboretum's management of the Hall are required to be expended toward the Arboretum's programs, operation and maintenance of the Hall, renovations to existing structures and improvements and for construction of additional structures. All such gross receipts not expended become the property of the City at expiration or termination of the agreement. The Arboretum shall also pay the City in semi – annual installments, an annual amount of \$35,000 beginning in City's fiscal year 2020 and in fiscal years thereafter, and the following amounts in prior fiscal years, \$10,500 in fiscal year 2017, \$17,500 in fiscal year 2018 and \$24,500 in fiscal year 2019.

The agreement expires December 6, 2045. If the Arboretum fails to maintain or loses its Federal tax exempt status during or subsequent to the agreement term, all gross receipts described above become property of the City.

NOTE 11: CONCENTRATION OF CREDIT RISK

At various times during the year, the Arboretum's cash balances may exceed federally insured limits. The Arboretum has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents, due to the financial strength of the financial institutions where deposits are held.

The Arboretum received 34% of its contributions during 2016 from two donors. At June 30, 2016, amounts due from four donors accounted for 60% of the Arboretum's receivable. The Arboretum received 78% of its contributions during 2015 from five donors. At June 30, 2015, amounts due from four donors accounted for 83% of the Arboretum's receivable.

NOTE 12: TAX DEFERRED RETIREMENT PLAN

The Arboretum has a tax deferred retirement plan whereby employees may elect to contribute a portion of their salary to the plan. Under the plan, the Arboretum is required to contribute a matching amount of each employee's contribution, up to a maximum of 6% of each employee's annual salary. The amounts charged to contribution expense under the plan totaled \$21,154 and \$18,548 for 2016 and 2015, respectively.

NOTE 13: COMMITMENTS AND CONTINGENCIES

The Arboretum has entered into contractual agreements with various vendors for construction projects under the Master Plan. Commitments of the Arboretum under these contracts at June 30, 2016 totaled \$841,554 which will be paid with funds raised under the Master Plan.



SUPPLEMENTARY INFORMATION

Houston Arboretum & Nature Center Schedules of Functional Expenses

<i>For the years ended June 30,</i>	2016				2015			
	Program	General and Administrative	Fundraising	Total	Program	General and Administrative	Fundraising	Total
Advertising and promotion	\$ 188,333	\$ 180	\$ 922	\$ 189,435	\$ 269,600	\$ 191	\$ 659	\$ 270,450
Audit and accounting fees	10,614	44,593	-	55,207	5,000	42,580	-	47,580
Bank charges	1,385	29,398	1,132	31,915	1,979	30,416	-	32,395
Building maintenance	52,783	308	275	53,366	57,176	390	325	57,891
Communications	9,848	844	2,363	13,055	13,802	300	1,688	15,790
Depreciation excluding nature shop depreciation	103,279	2,776	2,776	108,831	107,871	2,900	2,900	113,671
Employee benefits	205,821	25,080	20,843	251,744	170,643	27,303	22,752	220,698
Insurance	27,699	3,506	2,805	34,010	22,048	4,660	2,940	29,648
Investment expense	-	12,940	-	12,940	-	12,954	-	12,954
Nature shop	100,620	-	-	100,620	92,559	-	-	92,559
Office expenses	21,943	1,454	6,320	29,717	44,847	2,100	4,865	51,812
Printing	39,909	1,140	10,728	51,777	43,683	1,126	10,374	55,183
Professional development	9,929	-	927	10,856	5,395	296	1,518	7,209
Program and education expense	204,789	191	2,781	207,761	233,472	199	-	233,671
Rentals - operating costs	20,628	-	-	20,628	27,573	-	-	27,573
Salaries and wages	898,528	109,294	87,435	1,095,257	805,760	116,618	97,181	1,019,559
Travel and entertainment	10,310	851	515	11,676	6,385	1,405	399	8,189
Utilities	32,246	-	-	32,246	33,644	-	-	33,644
Total	\$ 1,938,664	\$ 232,555	\$ 139,822	\$ 2,311,041	\$ 1,941,437	\$ 243,438	\$ 145,601	\$ 2,330,476

See independent auditor's report.