

**Houston Arboretum  
& Nature Center**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**JUNE 30, 2018 and 2017**



**CRI** CARR  
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**Houston Arboretum & Nature Center**  
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## **INDEPENDENT AUDITORS' 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, 2018 and 2017, and the related statements of activities 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 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, 2018 and 2017, 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 25, 2018

Houston, Texas

## Houston Arboretum & Nature Center Statements of Financial Position

<i>June 30,</i>	<b>2018</b>	2017
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 6,875,947	\$ 9,406,396
Program fees receivable	39,197	41,216
Contributions receivable	105,300	100,000
Master Plan pledges receivable	737,540	1,678,868
Nature shop inventory	10,299	5,326
Prepaid expenses	-	11,352
Total current assets	<b>7,768,283</b>	11,243,158
Long-term investments	2,610,104	2,542,381
Long-term contributions receivable	200,000	-
Long-term Master Plan pledges receivable	2,945,000	651,416
Property and equipment, net	13,321,373	5,369,097
Total assets	<b>\$ 26,844,760</b>	\$ 19,806,052
<b>Liabilities and net assets</b>		
Current liabilities		
Accounts payable	\$ 1,455,694	\$ 129,258
Accrued expenses	7,287	551
Deferred revenue	12,000	-
Capital lease obligation	-	8,811
Total liabilities	<b>1,474,981</b>	138,620
Commitments and contingencies		
Net assets		
Unrestricted		
Designated	696,504	600,785
Undesignated	14,789,448	6,624,687
Total unrestricted net assets	<b>15,485,952</b>	7,225,472
Temporarily restricted	9,050,254	11,608,387
Permanently restricted	833,573	833,573
Total net assets	<b>25,369,779</b>	19,667,432
Total liabilities and net assets	<b>\$ 26,844,760</b>	\$ 19,806,052

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

## Houston Arboretum & Nature Center Statement of Activities

<i>For the year ended June 30, 2018</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and income</b>				
Contributions	\$ 496,136	\$ 515,050	\$ -	\$ 1,011,186
Master Plan contributions	-	5,579,085	-	5,579,085
Memberships	85,119	-	-	85,119
Gifts-in-kind	62,409	-	-	62,409
Nature shop sales	99,654	-	-	99,654
Special events	422,051	-	-	422,051
Less: cost of direct benefits to members	(108,268)	-	-	(108,268)
Program and education fees	449,119	-	-	449,119
Rental income	115,270	-	-	115,270
Other Income	171,716	-	-	171,716
Interest and dividend income	107,093	-	-	107,093
Net realized and unrealized gain on investments	138,648	-	-	138,648
<b>Total support and income before release of net assets from restrictions</b>	<b>2,038,947</b>	<b>6,094,135</b>	<b>-</b>	<b>8,133,082</b>
<b>Net assets released from restrictions</b>				
Satisfaction of program restrictions	241,070	(241,070)	-	-
Expiration of timing restrictions	100,000	(100,000)	-	-
Master Plan	8,311,198	(8,311,198)	-	-
<b>Total net assets released from restrictions</b>	<b>8,652,268</b>	<b>(8,652,268)</b>	<b>-</b>	<b>-</b>
<b>Total support and income</b>	<b>10,691,215</b>	<b>(2,558,133)</b>	<b>-</b>	<b>8,133,082</b>
<b>Expenses</b>				
Program	2,093,710	-	-	2,093,710
General and administrative	176,081	-	-	176,081
Fundraising	160,944	-	-	160,944
<b>Total expenses</b>	<b>2,430,735</b>	<b>-</b>	<b>-</b>	<b>2,430,735</b>
<b>Change in net assets</b>	<b>8,260,480</b>	<b>(2,558,133)</b>	<b>-</b>	<b>5,702,347</b>
<b>Net assets at beginning of year</b>	<b>7,225,472</b>	<b>11,608,387</b>	<b>833,573</b>	<b>19,667,432</b>
<b>Net assets at end of year</b>	<b>\$ 15,485,952</b>	<b>\$ 9,050,254</b>	<b>\$ 833,573</b>	<b>\$ 25,369,779</b>

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

## Houston Arboretum & Nature Center Statement of Activities

<i>For the year ended June 30, 2017</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and income</b>				
Contributions	\$ 327,064	\$ 222,968	\$ -	\$ 550,032
Master Plan contributions	-	1,936,112	-	1,936,112
Memberships	92,315	-	-	92,315
Gifts-in-kind	86,338	-	-	86,338
Nature shop sales	118,127	-	-	118,127
Special events	585,376	-	-	585,376
Less: cost of direct benefits to members	(159,368)	-	-	(159,368)
Program and education fees	482,987	-	-	482,987
Rental income	102,958	-	-	102,958
Investment income	57,292	-	-	57,292
Net realized and unrealized loss on investments	218,337	-	-	218,337
Total support and income before release of net assets from restrictions	1,911,426	2,159,080	-	4,070,506
Net assets released from restrictions				
Satisfaction of program restrictions	180,028	(180,028)	-	-
Expiration of timing restrictions	100,000	(100,000)	-	-
Master Plan	1,388,284	(1,388,284)	-	-
Total net assets released from restrictions	1,668,312	(1,668,312)	-	-
Total support and income	3,579,738	490,768	-	4,070,506
<b>Expenses</b>				
Program	2,092,203	-	-	2,092,203
General and administrative	264,352	-	-	264,352
Fundraising	111,907	-	-	111,907
Total expenses	2,468,462	-	-	2,468,462
<b>Change in net assets</b>	1,111,276	490,768	-	1,602,044
<b>Net assets at beginning of year</b>	6,114,196	11,117,619	833,573	18,065,388
<b>Net assets at end of year</b>	\$ 7,225,472	\$ 11,608,387	\$ 833,573	\$ 19,667,432

*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>	<b>2018</b>	2017
<b>Operating activities</b>		
Change in net assets	\$ 5,702,347	\$ 1,602,044
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	211,323	91,988
Bad debt expense	-	2,780
Non-cash contribution	10,375	(10,358)
Contributions restricted for Master Plan	(5,579,085)	(1,936,112)
Net realized gain on investments	(28,541)	(4,951)
Net unrealized gain on investments	(110,107)	(213,386)
Change in operating assets and liabilities		
Program fees receivable	2,019	(9,865)
Contributions receivable	(205,300)	113,029
Nature shop inventory	(4,973)	4,418
Prepaid expenses	11,352	3,079
Accounts payable	1,326,436	126,533
Accrued expenses	6,736	551
Deferred revenue	12,000	-
Net cash provided by (used in) operating activities	1,354,582	(230,250)
<b>Investing activities</b>		
Proceeds from sales and maturities of investments	60,550	63,018
Purchases of property and equipment	(7,879,016)	(727,074)
Net cash used in investing activities	(7,818,466)	(664,056)
<b>Financing activities</b>		
Proceeds from Master Plan contributions	3,942,246	3,261,569
Principal payments on capital lease	(8,811)	(11,394)
Net cash provided by financing activities	3,933,435	3,250,175
<b>Net change in cash and cash equivalents</b>	<b>(2,530,449)</b>	2,355,869
<b>Cash and cash equivalents at beginning of year</b>	<b>9,406,396</b>	7,050,527
<b>Cash and cash equivalents at end of year</b>	<b>\$ 6,875,947</b>	<b>\$ 9,406,396</b>
<b>Supplemental disclosure of noncash investing and financing activities</b>		
Master Plan capital additions funded on behalf of Arboretum	\$ 284,583	\$ 429,540
<b>Supplementary cash flow information</b>		
Cash paid for interest	\$ 1,466	\$ 351

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

## Houston Arboretum & Nature Center Notes to Financial Statements

### NOTE 1: OVERVIEW AND MANAGEMENT'S DISCUSSION OF ACTIVITIES (UNAUDITED)

#### *Overview*

The mission of the Houston Arboretum & Nature Center (the Arboretum) is to provide education about the natural environment to people of all ages and to protect and enhance the Arboretum as a haven and sanctuary for native plants and animals. More than 300,000 people visit the Arboretum every year to participate in educational programming, observe native wildlife, and explore the 155-acre site. The Arboretum maintains a staff of 25 employees with additional part-time assistance and a large corps of volunteers, who in the 2017-2018 fiscal year contributed nearly 17,000 hours towards the organization's education programs, conservation efforts, and special events.

The fiscal year ended June 30, 2018 was another busy year for the Houston Arboretum & Nature Center, marked by record event attendance and significant master plan progress. The year began with Hurricane Harvey, which hit Houston in late August and caused historic and devastating flooding throughout the city. Fortunately, the Arboretum sustained only relatively minor damage in the storm. The building's roof, already at the end of its useful life, experienced several leaks that damaged ceiling tiles and carpet. On the grounds, the site's deep-rooted grasses soaked up days of rainwater and there was very little damage to the trails and gardens. The Arboretum received an insurance payment to cover the damage to its roof and building interior.

The area of the Arboretum which sustained the most damage was the site's bayou ravine, on the northwest corner of the property. As in previous flood events, this tributary filled with water as Buffalo Bayou came out of its banks, and held high water for over two weeks. The impact of the storm on the ravine informed plans for its restoration, which over the next several months were amended to include longer, higher bridges, different trail surfaces, and stabilization materials. Overall, the impact of the storm was to delay master plan construction slightly; programming was also affected due to school closures and cancellations.

Despite delays in fall programming caused by Hurricane Harvey, program registration remained high across the board. 10,400 elementary school students participated in school field trip programs in 2017-2018, only slightly down from the organization's record of 11,000 students. The Arboretum again partnered with four 'adopted' schools to bring each student to the Arboretum twice during the school year for hands-on programming. The organization also continued its longstanding partnership with Small Steps Nurturing Center, a preschool for low-income students. Other program highlights include 700 students enrolled in scout programs, record home school registration, and 1,500 participants for the Arboretum's popular Monday morning Tyke Hikes. The addition of 4 year-olds to winter, spring, and summer camps allowed for increased reach for those programs, and the organization's annual fall celebration, ArBoretum, had record attendance for the third consecutive year.

The organization's special events, including the Alfresco Gala, Arbor Cup Golf Tournament, Tapas on the Trails, and a variety of evening events designed to welcome adults to the outdoor experience of the Arboretum, continue to draw large crowds. Rental income remains high as the Arboretum attracts weddings, parties, and corporate events.

## Houston Arboretum & Nature Center Notes to Financial Statements

### NOTE 1: OVERVIEW AND MANAGEMENT'S DISCUSSION OF ACTIVITIES (UNAUDITED) (Continued)

#### *Master Plan*

Master plan work continues on site as the first phases of our plan were completed this year. In January, the Arboretum's new entrance off the 610 feeder opened to the public. This entrance represents the completion of Phase 1 of the master plan and provides access to a new parking loop and a network of connector trails. The new entrance improves site infrastructure and accessibility and provides a special drop-off location for the many school buses bringing students to the Arboretum for field trips. The 610 entrance also features a large area of woodland and savanna restoration. After only one growing season the area is already flourishing.

In June, the Arboretum opened the second phase of the project, the new parking loop and constructed wetlands at the Woodway entrance. This entrance features two new ponds, expanded parking, and a new system of trails and boardwalks looping through the restored savanna to connect with existing trails. The new wetland ponds serve many functions: they will help reduce flooding during large rain events, supply a source for sustainable irrigation, and provide a new location for educational programs, as well as a home for wildlife. Habitat restoration efforts are already producing results, with several new species of birds nesting in the savanna areas and unusual water birds making a home at the site's new ponds. The influx of new and uncommon wildlife, as well as the successful growth of new trees and grasses, indicates that restoration is producing the desired result of improving the health of the Arboretum's ecosystems.

Several other elements of the master plan are currently underway. The next portion of the project features a Conservation Center for ecosystem management and conservation office space, and restoration of the northwestern ravine and trails is ongoing. In the fall of 2018, construction will begin on the new administrative building, which will allow the Arboretum's staff to move out of the current building in preparation for expansion of classroom spaces and the construction of a courtyard and children's nature play area. The master plan is being funded by the 'Where the Wild Things Grow' capital campaign, which has exceeded its Phase 1-4 campaign goal with a current total of \$22.7 million.

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *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.

## Houston Arboretum & Nature Center Notes to Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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, 2018 and 2017 is \$5,768,168 and \$8,479,669, respectively, of restricted cash related to Master Plan contributions received, net of expenses incurred. Additionally, cash equivalents at June 30, 2018 and 2017 include \$696,504 and \$600,785, 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 collectability on an individual basis. If amounts become uncollectible, they will be charged to operations when that determination is made. Program fees receivable totaling \$2,780 were written off during 2017, as they were deemed uncollectible. There were no program fees receivable written off during 2018.

#### ***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 collectability of the accounts. At June 30, 2018 and 2017, contributions receivable were considered fully collectible; therefore no allowance was required. The long-term portion of contribution receivable of \$200,000 at June 30, 2018 is expected to be collected in 2020 and 2021.

#### ***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 collectability of the accounts. At June 30, 2018 and 2017, Master Plan pledges receivable were considered fully collectible; therefore no allowance was required. The long-term portion of the Master Plan Pledges of \$2,945,000 at June 30, 2018, will be collected over the next five years. The long-term portion of the Master Plan pledges of \$651,416 at June 30, 2017, is expected to be collected over the next three years.

## Houston Arboretum & Nature Center Notes to Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***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 net realizable value.

#### ***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 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.

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.

Land used by the Arboretum for its building and nature center operations is 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, 2018 and 2017.

## Houston Arboretum & Nature Center Notes to Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***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 17,000 and 13,000 hours of service in support of educational and conservation services for the years ended June 30, 2018 and 2017, 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 \$36,146 and \$26,693 during the years ended June 30, 2018 and 2017, respectively.
- Mustang Rental Services provided the use of heavy equipment in the amount of \$26,263 and \$36,779 during the years ended June 30, 2018 and 2017, respectively, which is included in program expense.

#### ***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 \$49,196 and \$223,497, respectively, for the years ended June 30, 2018 and 2017.

#### ***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 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, 2018, management believes there were no uncertain tax positions.

## Houston Arboretum & Nature Center Notes to Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *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.

#### *Fair Value Considerations*

The Arboretum may use 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).

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 25, 2018, which is the date the financial statements were available to be issued. No matters were identified affecting the accompanying financial statements or related disclosures.

#### *Recent Financial Accounting Pronouncement*

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, net assets will be presented in two classes: net assets with donor restrictions and net assets without donor restrictions. Underwater endowments will be included in net assets with donor restrictions and new or enhanced disclosures regarding the composition of net assets will be required. Disclosures regarding liquidity and availability of resources for general operating expenditures within one year of the date of the statement of financial position must also be presented. The ASU requires expenses to be presented by both nature and function, and investment return will be presented net of investment expenses. Absent specific donor stipulations, the Arboretum will use the placed-in-service approach for reporting expirations of restrictions on long-lived assets. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the Arboretum's financial statements. As of June 30, 2018 and 2017, the Arboretum did not early adopt this standard.

## Houston Arboretum & Nature Center Notes to Financial Statements

### NOTE 3: 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 investments. 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.

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)
<b>June 30, 2018</b>			
Exchange traded funds	\$ 2,610,104	\$ -	\$ -
<b>June 30, 2017</b>			
Exchange traded funds	\$ 2,542,381	\$ -	\$ -

## Houston Arboretum & Nature Center Notes to Financial Statements

### NOTE 3: FAIR VALUE MEASUREMENTS (Continued)

The following summarizes the investment return in the statements of activities:

<i>For the years ended June 30,</i>	<b>2018</b>	<b>2017</b>
Interest and dividend income	\$ 107,093	\$ 57,292
Net realized and unrealized gain	138,648	218,337
Expenses	(15,770)	(15,770)
<b>Total investment return</b>	<b>\$ 229,971</b>	<b>\$ 259,859</b>

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.

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.

### NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>June 30,</i>	<b>2018</b>	<b>2017</b>
Building	\$ 1,414,808	\$ 1,414,808
Building improvements	231,299	231,299
Land improvements	352,840	353,049
Furniture and equipment	339,219	335,140
Grounds and trails	295,774	295,774
Discovery room and library	342,791	342,791
Signage	141,859	141,859
Master plan and construction in progress	12,715,788	4,556,059
Artwork	25,000	25,000
<b>Total property and equipment</b>	<b>15,859,378</b>	<b>7,695,779</b>
<b>Less: accumulated depreciation</b>	<b>(2,538,005)</b>	<b>(2,326,682)</b>
<b>Property and equipment, net</b>	<b>\$ 13,321,373</b>	<b>\$ 5,369,097</b>

## Houston Arboretum & Nature Center Notes to Financial Statements

### NOTE 4: PROPERTY AND EQUIPMENT (Continued)

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 \$211,323 and \$91,988 for the years ended June 30, 2018 and 2017, respectively.

### NOTE 5: LINE OF CREDIT

The Arboretum obtained a \$100,000 bank line of credit on June 28, 2017 which matures on June 28, 2019. Amounts borrowed under this agreement bear interest at the bank's prime rate as published in the Wall Street Journal per annum, plus 0.5%. The line is secured by the Arboretum's properties. There are reporting requirements associated with the line with which the Arboretum was in compliance with at June 30, 2018. At June 30, 2018 and 2017, the outstanding balance on the line of credit was zero.

### 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, 2018 and 2017, the Arboretum has designated \$696,504 and \$600,785, 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>	<b>2018</b>	<b>2017</b>
Operational grant - time restriction	\$ 302,500	\$ 100,000
Adopt-A-School program	28,300	22,500
Educational programs	20,000	53,000
Conservation projects	-	1,320
Master Plan	8,699,454	11,431,567
	<b>\$ 9,050,254</b>	<b>\$ 11,608,387</b>

## 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>	<b>2018</b>	<b>2017</b>
Unrestricted net assets	\$ <b>1,802,780</b>	\$ 1,736,565
Permanently restricted net assets	<b>833,573</b>	833,573
	<b>\$ 2,636,353</b>	<b>\$ 2,570,138</b>

## Houston Arboretum & Nature Center Notes to Financial Statements

### NOTE 8: ENDOWMENT (Continued)

Endowment funds in the accompanying statements of financial position are as follows:

<i>June 30,</i>	<b>2018</b>	2017
Cash and cash equivalents	\$ 26,249	\$ 27,757
Long-term investments	<b>2,610,104</b>	2,542,381
	<b>\$ 2,636,353</b>	\$ 2,570,138

Changes in endowment net assets are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	\$ 1,561,932	\$ 833,573	\$ 2,395,505
Contributions	10,358	-	10,358
Investment return			
Interest and dividend income	56,708	-	56,708
Net appreciation	218,337	-	218,337
Other changes - advisor fees	(15,770)	-	(15,770)
Amounts appropriated for expenditures	(95,000)	-	(95,000)
Endowment net assets, June 30, 2017	1,736,565	833,573	2,570,138
Contributions	<b>(10,375)</b>	-	<b>(10,375)</b>
Investment return			
Interest and dividend income	<b>59,670</b>	-	<b>59,670</b>
Net appreciation	<b>138,648</b>	-	<b>138,648</b>
Other changes - advisor fees	<b>(16,728)</b>	-	<b>(16,728)</b>
Amounts appropriated for expenditures	<b>(105,000)</b>	-	<b>(105,000)</b>
Endowment net assets, June 30, 2018	<b>\$ 1,802,780</b>	<b>\$ 833,573</b>	<b>\$ 2,636,353</b>

### NOTE 9: OPERATING LEASE

The Arboretum leases office equipment under operating leases expiring in October 2018. Rental expense under these leases totaled approximately \$7,300 and \$12,000 for the years ended June 30, 2018 and 2017, respectively. Noncancellable future minimum lease payments under the operating lease are \$2,436 for 2019.

## 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 70% of its contributions during 2018 from two donors. At June 30, 2018, an amount due from one donor accounted for 70% of the Arboretum's receivable. The Arboretum received 49% of its contributions during 2017 from three donors. At June 30, 2017, amounts due from five donors accounted for 57% 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 \$28,402 and \$25,353 for 2018 and 2017, 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, 2018 and 2017 totaled \$2,179,120 and \$5,909,192, respectively, which will be paid with funds raised under the Master Plan.



## Houston Arboretum & Nature Center Notes to Financial Statements

### **NOTE 14: AGREEMENT WITH UPTOWN TIRZ**

During 2017, the Arboretum entered into an agreement with Uptown TIRZ under which Uptown TIRZ will reimburse the Arboretum for expenditures on the Master Plan up to a maximum of \$3,585,000. For the years ended June 30, 2018 and 2017, the Arboretum recognized \$284,583 and \$429,540 as contributions from Uptown Houston TIRZ for disbursements made by Uptown TIRZ on behalf of the Arboretum.

### **NOTE 15: RELATED PARTY TRANSACTION**

During 2018 and 2017, the Arboretum paid approximately \$43,000 and \$20,000 , respectively in costs under the Master Plan to a firm owned by one of the Board Members.



**SUPPLEMENTARY INFORMATION**

**Houston Arboretum & Nature Center  
Schedules of Functional Expenses**

<i>For the years ended June 30,</i>	<b>2018</b>				<b>2017</b>			
	Program	General and Administrative	Fundraising	Total	Program	General and Administrative	Fundraising	Total
Advertising and promotion	\$ 47,979	\$ -	\$ 1,217	\$ 49,196	\$ 218,427	\$ -	\$ 5,070	\$ 223,497
Audit and accounting fees	-	37,480	-	37,480	-	42,615	-	42,615
Bad debt expense	-	-	-	-	-	2,780	-	2,780
Bank charges	703	31,456	386	32,545	1,590	33,287	703	35,580
Building maintenance	53,280	300	300	53,880	56,634	300	300	57,234
Communications	9,901	379	2,452	12,732	9,837	439	1,787	12,063
Depreciation excluding nature shop depreciation	196,446	8,551	2,350	207,347	85,549	2,300	2,300	90,149
Employee benefits	260,278	14,177	28,223	302,678	204,250	28,184	15,319	247,753
Insurance	23,721	3,177	3,761	30,659	29,015	2,664	2,176	33,855
Investment expense	-	15,770	-	15,770	-	15,770	-	15,770
Nature shop	98,458	-	-	98,458	113,678	-	-	113,678
Office expenses	20,347	1,034	3,598	24,979	27,419	1,173	2,727	31,319
Printing	46,967	721	8,805	56,493	40,127	1,137	8,500	49,764
Professional development	6,326	158	417	6,901	6,974	157	900	8,031
Program and education expen	252,623	101	-	252,724	268,335	104	-	268,439
Rentals - operating costs	11,401	-	-	11,401	16,751	-	-	16,751
Salaries and wages	1,022,512	61,289	108,893	1,192,694	979,620	131,895	71,943	1,183,458
Travel and entertainment	6,622	1,488	542	8,652	7,304	1,547	182	9,033
Utilities	36,146	-	-	36,146	26,693	-	-	26,693
<b>Total</b>	<b>\$2,093,710</b>	<b>\$ 176,081</b>	<b>\$ 160,944</b>	<b>\$ 2,430,735</b>	<b>\$ 2,092,203</b>	<b>\$ 264,352</b>	<b>\$ 111,907</b>	<b>\$ 2,468,462</b>

*See independent auditors' report.*