

**Houston Arboretum
& Nature Center**

FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019



CRI CARR
RIGGS &
INGRAM

CPAs and Advisors

CRIcpa.com

Houston Arboretum & Nature Center
Table of Contents
June 30, 2020 and 2019

	Page
REPORT	
Independent Auditors' Report	1
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	7
Notes to Financial Statements	8



CRI CARR
RIGGS &
INGRAM
CPAs and Advisors

Carr, Riggs & Ingram, LLC
Two Riverway, 15th Floor
Houston, TX 77056

(713) 621-8090
(713) 621-6907 (fax)
www.cricpa.com

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, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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, 2020 and 2019, 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.

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

December 8, 2020
Houston, Texas

Houston Arboretum & Nature Center Statements of Financial Position

June 30,	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 859,495	\$ 2,132,821
Grants receivable	-	51,807
Program fees receivable	-	25,672
Promises to give	100,000	108,500
Master Plan promises to give	1,017,300	727,880
Nature shop inventory	14,345	13,472
Total current assets	1,991,140	3,060,152
Long-term investments	2,648,064	2,669,158
Long-term promises to give	-	100,000
Long-term Master Plan promises to give	1,810,000	2,554,000
Property and equipment, net	5,714,290	6,670,886
Total assets	\$ 12,163,494	\$ 15,054,196
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 621,575	\$ 295,550
Accrued expenses	-	676
Contract liabilities	171,798	7,500
Refundable advance - PPP	334,265	-
Total current liabilities	1,127,638	303,726
Line of Credit	1,659,187	-
Total liabilities	2,786,825	303,726
Commitments and contingencies		
Net assets		
Without donor restrictions		
Designated for specific purpose	382,721	582,721
Undesignated	4,835,523	3,800,880
Total	5,218,244	4,383,601
With donor restrictions	4,158,425	10,366,869
Total net assets	9,376,669	14,750,470
Total liabilities and net assets	\$ 12,163,494	\$ 15,054,196

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, 2020</i>	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and support			
Contributions	\$ 502,308	\$ 237,127	\$ 739,435
Master Plan contributions	-	1,264,356	1,264,356
State grant	148,193	-	148,193
Memberships	133,171	-	133,171
Gifts-in-kind	52,778	-	52,778
Nature shop sales	33,497	-	33,497
Special events	325,397	-	325,397
Less: cost of direct benefits to members	(43,476)	-	(43,476)
Program and education fees	364,721	-	364,721
Rental income	30,054	-	30,054
Other Income	137,515	-	137,515
Investment return, net	103,630	-	103,630
<hr/>			
Total operating revenue and support before release of net assets from restrictions	1,787,788	1,501,483	3,289,271
<hr/>			
Net assets released from restrictions			
Satisfaction of program restrictions	313,886	(313,886)	-
Expiration of timing restrictions	100,000	(100,000)	-
Master Plan	7,296,041	(7,296,041)	-
<hr/>			
Total net assets released from restrictions	7,709,927	(7,709,927)	-
<hr/>			
Total operating revenue and support	9,497,715	(6,208,444)	3,289,271
<hr/>			
Operating expenses			
Program	2,187,813	-	2,187,813
General and administrative	274,667	-	274,667
Fundraising	164,968	-	164,968
<hr/>			
Total operating expenses	2,627,448	-	2,627,448
<hr/>			
Change in net assets from operations	6,870,267	(6,208,444)	661,823
<hr/>			
Other changes in net assets			
Conveyance of Master Plan assets to City of Houston	(5,522,644)	-	(5,522,644)
Loss on retirement of property and equipment	(395,758)	-	(395,758)
<hr/>			
Change in net assets	951,865	(6,208,444)	(5,256,579)
<hr/>			
Net assets at beginning of year, as reported	4,383,601	10,366,869	14,750,470
<hr/>			
Adjustments arising from adoption of ASC 606	(117,222)	-	(117,222)
<hr/>			
Net assets at beginning of year, as restated	4,266,379	10,366,869	14,633,248
<hr/>			
Net assets at end of year	\$ 5,218,244	\$ 4,158,425	\$ 9,376,669

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, 2019</i>	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and support			
Contributions	\$ 480,620	\$ 245,650	\$ 726,270
Master Plan contributions	-	1,405,230	1,405,230
State grant	51,807	-	51,807
Memberships	127,250	-	127,250
Gifts-in-kind	59,610	-	59,610
Nature shop sales	91,369	-	91,369
Special events	449,926	-	449,926
Less: cost of direct benefits to members	(95,726)	-	(95,726)
Program and education fees	486,994	-	486,994
Rental income	101,898	-	101,898
Other income	26,997	-	26,997
Investment return, net	248,296	-	248,296
Total operating revenue and support before release of net assets from restrictions	2,029,041	1,650,880	3,679,921
Net assets released from restrictions			
Satisfaction of program restrictions	199,625	(199,625)	-
Expiration of timing restrictions Master Plan	102,500	(102,500)	-
	865,713	(865,713)	-
Total net assets released from restrictions	1,167,838	(1,167,838)	-
Total operating revenue and support	3,196,879	483,042	3,679,921
Operating expenses			
Program	1,933,415	-	1,933,415
General and administrative	320,535	-	320,535
Fundraising	170,730	-	170,730
Total operating expenses	2,424,680	-	2,424,680
Change in net assets	772,199	483,042	1,255,241
Other changes in net assets			
Conveyance of Master Plan assets to City of Houston	(11,273,272)	-	(11,273,272)
Loss on retirement of property and equipment	(601,278)	-	(601,278)
Change in net assets	(11,102,351)	483,042	(10,619,309)
Net assets at beginning of year	15,485,952	9,883,827	25,369,779
Net assets at end of year	\$ 4,383,601	\$ 10,366,869	\$ 14,750,470

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

Houston Arboretum & Nature Center Statements of Functional Expenses

	2020				2019			
	Program	General and Administrative	Fundraising	Total	Program	General and Administrative	Fundraising	Total
Advertising and promotion	\$ 30,966	\$ 351	\$ 1,349	\$ 32,666	\$ 27,633	\$ -	\$ 5,155	\$ 32,788
Audit and accounting fees	-	32,879	-	32,879	-	38,565	-	38,565
Bank charges and interest expense	41,440	8,970	55	50,465	14,974	20,451	464	35,889
Building maintenance	13,060	34,310	-	47,370	18,981	36,733	103	55,817
Communications	5,949	10,242	-	16,191	4,983	8,244	-	13,227
Cost of special events	-	-	43,476	43,476	-	-	95,726	95,726
Depreciation excluding nature shop depreciation	63,612	2,153	2,153	67,918	80,134	2,100	2,100	84,334
Employee benefits	290,800	27,201	32,828	350,829	271,466	32,903	31,682	336,051
Insurance	1,435	33,385	-	34,820	1,976	30,667	-	32,643
Nature shop	129,745	-	-	129,745	116,204	-	-	116,204
Office expenses	23,244	10,222	2,900	36,366	11,661	13,051	2,292	27,004
Printing	11,343	13,525	5,793	30,661	12,439	11,323	9,680	33,442
Professional development	9,800	185	-	9,985	13,326	1,764	2,500	17,590
Program and education expense	416,877	-	-	416,877	254,795	-	-	254,795
Rentals - operating costs	6,804	-	-	6,804	14,397	-	-	14,397
Salaries and wages	1,064,983	99,356	119,795	1,284,134	1,037,772	123,356	116,670	1,277,798
Travel and entertainment	8,292	1,888	95	10,275	6,348	1,378	84	7,810
Paid parking expense	42,489	-	-	42,489	12,644	-	-	12,644
Utilities	26,974	-	-	26,974	33,682	-	-	33,682
Total expenses	2,187,813	274,667	208,444	2,670,924	1,933,415	320,535	266,456	2,520,406
Cost of special events reported separately	-	-	(43,476)	(43,476)	-	-	(95,726)	(95,726)
Total operating expenses	\$ 2,187,813	\$ 274,667	\$ 164,968	\$ 2,627,448	\$ 1,933,415	\$ 320,535	\$ 170,730	\$ 2,424,680

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>	2020	2019
Operating activities		
Change in net assets	\$ (5,256,579)	\$ (10,619,309)
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Depreciation	69,642	86,014
Conveyance of Master Plan assets to City of Houston	5,522,644	11,273,272
Loss on retirement of property and equipment	395,758	601,278
Non-cash contribution	(5,552)	-
Contributions restricted for Master Plan	(1,264,356)	(1,405,230)
Net realized gain on investments	(38,011)	(4,190)
Net unrealized (gain) loss on investments	4,612	(111,697)
Change in operating assets and liabilities		
Grants receivable	51,807	(51,807)
Program fees receivable	25,672	13,525
Promises to give	108,500	96,800
Nature shop inventory	(873)	(3,173)
Accounts payable	(167,930)	(1,270,682)
Accrued expenses	(676)	(6,611)
Contract liabilities	47,076	(4,500)
Refundable advance - PPP	334,265	-
Net cash used in operating activities	(174,001)	(1,406,310)
Investing activities		
Proceeds from sales and maturities of investments	2,673,618	56,833
Purchases of investments	(2,613,573)	-
Purchases of property and equipment	(4,475,367)	(4,964,304)
Net cash used in investing activities	(4,415,322)	(4,907,471)
Financing activities		
Proceeds from Master Plan contributions	1,656,810	1,570,655
Borrowings on line of credit	1,659,187	-
Net cash provided by financing activities	3,315,997	1,570,655
Net change in cash and cash equivalents	(1,273,326)	(4,743,126)
Cash and cash equivalents at beginning of year	2,132,821	6,875,947
Cash and cash equivalents at end of year	\$ 859,495	\$ 2,132,821
Supplemental disclosure of noncash investing and financing activities		
Master Plan capital additions included in accounts payable	\$ 493,955	\$ 110,538
Master Plan capital additions funded on behalf of Arboretum	\$ 62,126	\$ 235,235
Decrease in beginning net assets on adoption of ASC 606	\$ 117,222	\$ -
Supplementary cash flow information		
Cash paid for interest	\$ 14,981	717

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

Houston Arboretum & Nature Center (the Arboretum) serves the greater Houston area as an urban nature sanctuary and center for nature education. The mission of 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. The Arboretum's staff of naturalist educators creates and implements programs that introduce people to the natural world and encourage hands-on exploration and discovery. This outdoor exploration takes place in the Arboretum's 155 acres of native habitat, a collection of ecosystems comprising savanna, prairie, wetland, and woodland that showcase the natural beauty of the region.

The Arboretum's fiscal year 2019-2020 was marked by continued progress on the organization's Master Plan, record-setting attendance numbers, and the effects of the global COVID-19 pandemic. More than 500,000 people visited the Arboretum this year to participate in educational programs, explore beautiful native landscapes, and discover the diverse wildlife of the Texas Gulf Coast.

Master Plan Implementation

Construction on the Arboretum's transformational Master Plan continued at a rapid pace. This year, much of the focus was on built structures that will enable the organization to better fulfill its mission. In August 2019, the staff moved into its new Administration Building, a 7000 square foot building with new office spaces, conference and collaboration rooms, and a large workroom for volunteers, cooking and craft classes, and botany work. This move enabled the Arboretum's team to begin work on the western portion of the Nature Center, an area which previously housed staff offices but was converted into two additional classrooms, a new entrance lobby, and a relocated Nature Shop. This portion of the building was completed in February 2020. The remainder of the Nature Center will be complete in Fall 2020, bringing online two new indoor classrooms and a flexible outdoor classroom space, as well as featuring the renovation of three existing classrooms and storage closets, kitchen, and restrooms.

Work also began on the final elements of the project, scheduled to be complete late 2020: two outdoor spaces designed to be the jewel of the Arboretum experience: an innovative Nature Playscape for children and families of all ages, and an expansive Courtyard linking the three portions of the Education Campus. Fundraising continued for the project's final phases; at the end of the fiscal year the Arboretum had raised \$25.4 million towards completion of the Master Plan.

Mission Activities: Education and Conservation

The Arboretum continued its work providing hands-on science education to children and adults throughout the region. The year started with attendance records in several programs, including home school, Tyke Hikes, and Girl Scout programs, and two new free programs: a weekend guided nature hike and a Roving Naturalist outpost available on Saturdays and Sundays. Just over 7,500 schoolchildren participated in the Arboretum's field trip programming this year, a decrease from years past as field trips were canceled beginning in March.

Houston Arboretum & Nature Center Notes to Financial Statements

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

The Arboretum's conservation team continues to improve and maintain the site's 155 acres, including trails, gardens, and ponds, throughout the year. Much of their work this year focused on maintenance of newly restored savanna and prairie areas, which need special attention as new species are established, and an additional staff member was hired to assist with invasive species management. Thanks to a reimbursable grant from Texas Parks and Wildlife, the Arboretum was able to completely rebuild all inner loop boardwalks and decks, making the trails safer and more attractive, and a new event lawn was installed near the Woodway entrance as part of master plan implementation.

Effects of COVID-19 on Operations

The Arboretum experienced several setbacks due to the COVID-19 pandemic. In April, the organization's annual Alfresco gala was canceled for the first time in 43 years, though the Arboretum still benefited from the generosity of many donors who allowed the organization to keep their contributions as donations. Program income was heavily impacted by stay-at-home orders beginning in March. Spring Break Camp was canceled, as was other in-person programming for both children and adults. In-person Summer Camp, one of the organization's most important sources of revenue, was canceled, and naturalist staff rushed to create virtual camp options with weekly material pick-ups, which proved to be very popular. Offering this alternative to in-person Summer Camp allowed the Arboretum to reduce the enormous loss it experienced on canceled summer programming. Volunteer programs were temporarily taken offline in mid-March, which created a challenge for the conservation team as the Arboretum depends heavily on volunteer efforts to assist with maintenance of our 5 miles of trails and acres of planted display gardens.

Throughout the spring and summer, Arboretum staff members worked diligently to create new virtual program offerings, maintain the grounds with limited assistance, and plan for the continued effects of the pandemic. Concurrently, the Arboretum experienced a rapid rise in visitorship owing in large part to the COVID-19 pandemic as the site's trails became a well-utilized reprieve for Houstonians seeking a healthy outlet. Beginning in March 2020, attendance numbers were on average 10,000-12,000 more people per month than at corresponding months in 2019. This increased foot traffic has allowed the Arboretum to improve its visibility in the community, and the organization remains committed to providing a safe and beautiful respite for Houstonians throughout the coming year.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updated (ASUs).

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.

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, 2020 and 2019 is \$750 and \$1,113,084, respectively, of restricted cash related to Master Plan contributions received, net of expenses incurred. Additionally, cash equivalents at June 30, 2020 and 2019 include \$382,721 and \$582,721, respectively, of cash designated by the Board of Directors for operating reserve fund.

Grants Receivable

Grants receivable consist of state grants and are considered to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when that determination is made.

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.

The following table provides information about receivables from contracts with customers:

<i>June 30,</i>	2020	2019
Receivables from contracts, beginning of year	\$ 25,672	\$ 39,197
Receivables from contracts, end of year	\$ -	\$ 25,672

Promises to Give

Receivables 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. Earnings are charged with a provision for doubtful receivables based on a current review of collectability of the accounts. At June 30, 2020 and 2019, promises to give were considered fully collectible; therefore no allowance was required.

Houston Arboretum & Nature Center Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Master Plan Promises to Give

The Arboretum's Master Plan promises to give are comprised of amounts committed from various donors for use in the Master Plan. Master Plan promises to give expected to be collected within one year are recorded at net realizable value. Master Plan promises to give 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, 2020 and 2019, Master Plan promises to give were considered fully collectible; therefore no allowance was required. The long-term portion of the Master Plan promises to give of \$1,810,000 and \$2,554,000 at June 30, 2020 and 2019, respectively, will be collected in various years through 2024.

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, realized and unrealized gains and losses, and investment fees. Investment return is reported in the statements of activities as an increase in net assets without donor restrictions 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 net assets with donor restriction 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 to fifteen years for furniture and equipment, fifteen years for grounds and trails, discovery room and library, signage and artwork and ten years for land improvements. Prior to 2020, grounds and trails, discovery room and library, signage and all furniture and equipment were depreciated over five years. This change in estimate is a result of management's reassessment of remaining useful lives of assets during the year. The effect of this change was to decrease depreciation expense and increase the change in net assets for 2020 by approximately \$141,000.

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.

Houston Arboretum & Nature Center Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020 and 2019.

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.

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

Refundable Advance and Revenue Recognition – PPP Loan

In April 2020, the Arboretum received a loan in the amount of \$334,265 under the Paycheck Protection Program (PPP) pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act and administered by the U.S. Small Business Administration (the "SBA"). (See Note 7).

The Arboretum is recognizing revenue from the PPP loan following the guidance under FASB ASC 958- 605, government grant model. PPP loan funds are considered a conditional contribution and recorded as a refundable advance on the statements of financial position until all barriers are met. The Arboretum considers the barriers to be incurrence of eligible costs, maintaining specified levels of payroll and employment, and the release of the debt by the SBA. Revenue is recognized once conditions have been substantially met or explicitly waived.

Houston Arboretum & Nature Center Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The Arboretum reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Net Assets with Donor Restrictions – Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Arboretum. The donors of these assets permit the Arboretum to use all of the income earned on related investments for general purposes. Net assets with donor restrictions also include net assets subject to donor-imposed stipulations that may or will be met either by actions of the Arboretum and/or passage of time.
- Net Assets without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations but may be designated for specific purpose by action of the Board of Directors.

Revenue Recognition

The Arboretum recognizes contributions when cash, other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Contributions received are recorded as increases in net assets with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. When restrictions expire (that is, when a stipulated time restriction ends or purposes restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

The Arboretum also receives funding from state grants, which are conditioned upon certain performance requirements and/or occurrence of allowable qualifying expenses. Support funded by grants is recognized as the Arboretum performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Memberships, nature shop sales, program and education fees, rental income and other programs are accounted for under ASC Topic 606, Revenue from Contracts with Customers (ASC 606) as exchange transactions, and revenue is recognized when performance obligations under the terms of the contracts with customers are satisfied. Membership dues are recognized over time as the member benefits are received and consumed simultaneously during the membership period. Revenues for summer discovery classes, preschool classes, spring break camp and homeschool classes (included in program and education fees) are recognized over time, as these classes are conducted. Customers that officially withdraw are able to request a refund of their fees or accept credit towards a future class. All other program and education fees are recognized at a point in time. Included in program and education fees is \$178,759 and \$225,695 of revenues recognized over time for 2020 and 2019, respectively. Rental income and other programs are recognized at a point in time. Revenue for nature shop sales are recognized at the point of sale. Prior to the adoption of ASC 606, Arboretum recognized revenue when persuasive evidence of an arrangement existed, delivery of services had occurred, the sales price was fixed or determinable and collectability was reasonably assured.

Houston Arboretum & Nature Center Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special events revenue represents the amount paid by donors, sponsors, and attendees of a fundraising event. Ticket sales include elements of both contributions and exchange transactions and are recognized when an event occurs. Cost of direct donor benefits provided represents the costs of goods and services provided in exchange for the amount paid by event attendees.

Advance payments received from customers for program services and future events are reflected as a contract liability in the statements of financial position. The following table provides information about contract liabilities from contracts with customers:

<i>June 30,</i>	2020	2019
Contract liabilities, beginning of year	\$ 124,722	\$ 12,000
Contract liabilities, end of year	\$ 171,798	\$ 7,500

Difference between ending balance for 2019 and opening balance for 2020 represents adjustments arising from adoption of ASC 606.

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 5,000 and 9,000 hours of service in support of educational and conservation services for the years ended June 30, 2020 and 2019, 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 \$26,974 and \$33,682 during the years ended June 30, 2020 and 2019, respectively.
- Mustang Rental Services provided the use of heavy equipment in the amount of \$20,825 and \$25,928 during the years ended June 30, 2020 and 2019, respectively, which is included in program expense.

Advertising

Advertising costs are charged to operations when the advertising first takes place. Advertising expense totaled \$32,666 and \$32,788, respectively, for the years ended June 30, 2020 and 2019.

Houston Arboretum & Nature Center Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses

The cost of providing certain activities of the Arboretum have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Costs identifiable to a program or supporting service are charged directly to that service. Shared costs are allocated amongst the various programs and supporting services. Personnel costs are allocated based on estimated time and effort. Depreciation and other occupancy expenses are allocated based on square footage occupied by the program or supporting service. Other expenses are allocated based on estimates of usage of benefits.

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, 2020 and 2019, management believes there were no uncertain tax positions.

Newly Adopted Financial Accounting Pronouncement

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance specifies that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU and its amendments supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry specific guidance.

Effective July 1, 2019, the Arboretum adopted ASC 606, using the modified retrospective method. This method allows the standard to be adopted retrospectively through a cumulative adjustment recognized upon adoption. Therefore, financial statements for prior periods continue to be reported under the accounting standards in effect for those years. With one exception, the timing of revenue recognition is not affected by the new standard. With the adoption of ASC 606, revenues for summer discovery classes, preschool classes, spring break camp and homeschool classes are now recognized over time as these classes are incurred.

The initial application was applied to all open contracts at July 1, 2019. The effects of adopting ASC 606 was to decrease beginning net assets without donor restrictions by \$117,222, and increase program and education fees and change in net assets without donor restrictions for 2020 by \$9,601.

Houston Arboretum & Nature Center Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This new guidance is effective for transactions in which an organization serves as a resource recipient for fiscal years beginning after December 15, 2018. Effective July 1, 2019, the Arboretum applied the provisions of this ASU on a modified prospective basis, which did not result in material impact to the financial statements.

Recent Financial Accounting Pronouncements

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendments in this update apply to Not-for-Profit entities that receive contributed nonfinancial assets. Under the guidance, entities are required to (1) present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and (2) disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statements of activities by category that depicts the type of contributed nonfinancial assets and certain qualitative information. This new guidance is required to be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021. Early adoption is permitted. The Arboretum is currently evaluating the impact of the guidance on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU and its amendments supersedes the leasing guidance in Topic 840, entitled *Leases*. Under the guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. For nonpublic entities, the standard is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Arboretum is currently evaluating the impact of the guidance on its financial statements.

Note 3: LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of the Arboretum's liquidity management, it structures its financial assets to be available as its general expenditures as liabilities become due. For purposes of analyzing resources available to meet general expenditures over a twelve month period, the Arboretum considers all expenditures related to its ongoing activities to create, improve, and protect the nature sanctuary.

Houston Arboretum & Nature Center Notes to Financial Statements

Note 3: LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30, 2020 and 2019 include of the following:

<i>June 30,</i>	2020	2019
Cash and cash equivalents	\$ 859,495	\$ 2,132,821
Grants receivable	-	51,807
Program fees receivable	-	25,672
Promises to give	100,000	108,500
Master Plan promises to give	1,017,300	727,880
Investments	1,849,750	1,863,927
Total financial assets	\$ 3,826,545	\$ 4,910,607
Less those unavailable for general expenditure within one year due to:		
Purpose restrictions - Master Plan	(1,018,050)	(1,840,964)
Board designated for operating reserve	(382,721)	(582,721)
Financial assets available to meet cash needs for general expenditures within one year	\$ 2,425,774	\$ 2,486,922

The Arboretum's Board of Directors has designated a portion of its resources without donor restrictions as a board-designated operating reserve, to be used for cash management purposes. These funds amounting to \$382,721 and \$582,721 at June 30, 2020 and 2019, respectively, are invested in money market accounts but remain available to be spent at the Board of Director's discretion.

The Arboretum's endowment funds consist of donor-restricted endowments as well as income from those funds. Accumulated investment gain from these endowments, as of June 30, 2020 and 2019, totaled \$1,849,750 and \$1,863,927, respectively. Income from endowments are not restricted, is held in level 1 investments, and can be transferred immediately to be used for general expenditure.

As mentioned in Note 8, the Arboretum has a \$200,000 revolving credit facility with a bank, which can be used to provide working capital for general operating and development expenses in the next 12 months to meet any liquidity needs of the Arboretum.

Note 4: 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 38% of its contributions during 2020 from three donors. At June 30, 2020, an amount due from one donor accounted for 79% of the Arboretum's receivables. The Arboretum received 39% of its contributions during 2019 from two donors. At June 30, 2019, an amount due from one donor accounted for 75% of the Arboretum's receivables.

Houston Arboretum & Nature Center Notes to Financial Statements

Note 5: 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)
June 30, 2020			
Exchange traded funds	\$ 2,648,064	\$ -	\$ -
June 30, 2019			
Exchange traded funds	\$ 2,669,158	\$ -	\$ -

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.

Houston Arboretum & Nature Center Notes to Financial Statements

Note 6: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>June 30,</i>	2020	2019
Land improvements	\$ 352,839	\$ 352,839
Furniture and equipment	442,208	341,213
Grounds and trails	278,747	353,366
Discovery room and library	282,100	342,791
Signage	376,499	141,859
Master plan and construction in progress	4,546,373	6,575,691
Artwork	25,000	25,000
Total property and equipment	6,303,766	8,132,759
Less: accumulated depreciation	(589,476)	(1,461,873)
Property and equipment, net	\$ 5,714,290	\$ 6,670,886

Construction in progress represents capitalized 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. On July 1, 2018, the Arboretum transferred ownership of completed Master Plan assets to the City of Houston with a total net book value of \$10,451,559. Transferred assets primarily related to infrastructure, new parking loops and restoration of the savanna ecosystem. On January 22, 2019, the Arboretum transferred ownership of completed Master Plan assets to the City of Houston with a total net book value of \$821,713. Transferred assets primarily related to conservation center. On November 30, 2019, the Arboretum transferred ownership of completed Master Plan assets to the City of Houston with a total net book value of \$5,522,644, which included a 5,500 square foot Administration building and land improvements in the northwest ravine area of the Arboretum.

Property and equipment with a net book value of \$395,758 and \$601,278 were demolished as part of Master Plan construction, or were not in service at June 30, 2020 and 2019, respectively. Accordingly, a loss on retirement of property and equipment has been recorded in the statements of activities for the years ended June 30, 2020 and 2019.

Fully depreciated property and equipment totaling \$942,039 was retired from service during 2020.

Depreciation expense totaled \$69,642 and \$86,014 for the years ended June 30, 2020 and 2019, respectively.

Note 7: REFUNDABLE ADVANCE – PPP LOAN

In April 2020, the Arboretum received a loan in the amount of \$334,265 under the PPP pursuant to the CARES Act and administered by the SBA. The PPP provides for forgivable loans to qualifying organizations. The loan and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll costs, rent and utilities and the borrower maintains specified levels of payroll and employment.

Houston Arboretum & Nature Center Notes to Financial Statements

Note 7: REFUNDABLE ADVANCE – PPP LOAN (Continued)

Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. Principal and interest payments on the loan commence in November 2020 with 18 monthly payments of \$18,811 through the loan maturity date of April 2022. If the Arboretum submits its loan forgiveness application within ten months after the end of its loan forgiveness covered period, the principal and interest payments shall be deferred until SBA determines the loan forgiveness amount.

The Arboretum is using the PPP loan funds for its payroll and benefits costs, rent, and utilities, purposes consistent with the PPP. While the Arboretum currently believes that its use of the PPP funds are meeting the conditions for forgiveness of the PPP loan, PPP loan funds are recorded as a refundable advance on the statements of financial position as of June 30, 2020 as all barriers for recognition of this conditional contribution have not been met.

Subsequent to the year end, the Arboretum has received full forgiveness from the SBA related to the PPP loan.

Note 8: LINE OF CREDIT

At July 1, 2018, the Arboretum had a \$100,000 bank line of credit facility, which was scheduled to mature on June 28, 2021. Amounts borrowed under this agreement bore interest at the LIBOR rate per annum, plus a margin. The line was secured by the Arboretum's properties. There were reporting requirements associated with the line. No borrowings were made on the line in 2020 and 2019. The line of credit facility was terminated during 2020.

In September 2019, the Arboretum entered into a credit agreement with another bank. The credit agreement is secured by certain Master Plan promises to give. Pledged receivables totaled \$2,520,000 at June 30, 2020. The credit agreement provides for a non-revolving credit facility in an aggregate sum not to exceed \$3,250,000. No more than two advances are allowed on the non-revolving credit facility in a calendar month. The non-revolving credit facility bears interest at the LIBOR rate per annum, plus 2.25% and is stated to mature on September 27, 2023. Advances under the non-revolving credit facility shall be used by the Arboretum for working capital resulting from the timing differences in the collection of pledges associated with the Arboretum's Master Plan multi-phased construction project. The credit agreement also provides for a revolving credit facility of \$200,000 which bears interest at the LIBOR rate per annum, plus 2.25% and is stated to mature on September 27, 2021. Advances under the revolving credit facility shall be used by Arboretum for working capital for general operating and development expenses. At June 30, 2020, the outstanding balance on the line of credit was \$1,659,187.

Houston Arboretum & Nature Center Notes to Financial Statements

Note 9: NET ASSETS DESIGNATED FOR SPECIFIC PURPOSE

During the year ended June 30, 2015, as part of the Arboretum's liquidity management, the Arboretum's Board of Directors voted to designate up to \$1,000,000, using resources without donor restrictions, to the Master Plan as a designated operating reserve. The reserve is to be used for cash management purposes during the construction process, when areas of operations may be interrupted and temporarily suspended. During the fiscal years ending June 30, 2020 and 2019, the Arboretum took board approved draws of \$200,000 and \$100,000, respectively, from the operating reserve. As of June 30, 2020 and 2019, the operating reserve balances were \$382,721 and \$582,721, respectively.

Note 10: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are as follows:

<i>June 30,</i>	2020	2019
Subject to expenditure for specific purpose		
Adopt-A-School program	\$ 17,566	\$ 49,325
Educational programs	-	45,000
Master Plan	3,207,286	9,238,971
Subject to passage of time	100,000	200,000
Subject to spending policy and appropriations		
Perpetual endowment fund	833,573	833,573
	\$ 4,158,425	\$ 10,366,869

Note 11: 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 net assets with donor restriction – perpetual in nature (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulation to the perpetual 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 perpetual in nature is classified as net assets without donor restrictions.

Houston Arboretum & Nature Center Notes to Financial Statements

Note 11: ENDOWMENT (Continued)

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>	2020	2019
With Donor Restrictions		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donors	\$ 833,573	\$ 833,573
Without Donor Restrictions		
Accumulated investment gains	1,849,750	1,863,927
	\$ 2,683,323	\$ 2,697,500

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

<i>June 30,</i>	2020	2019
Cash and cash equivalents	\$ 35,259	\$ 28,342
Long-term investments	2,648,064	2,669,158
	\$ 2,683,323	\$ 2,697,500

Houston Arboretum & Nature Center Notes to Financial Statements

Note 11: ENDOWMENT (Continued)

Changes in endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	\$ 1,802,780	\$ 833,573	\$ 2,636,353
Investment return			
Interest and dividend income	66,993	-	66,993
Net appreciation	115,887	-	115,887
Other changes - advisor fees	(16,733)	-	(16,733)
Amounts appropriated for expenditures	(105,000)	-	(105,000)
Endowment net assets, June 30, 2019	1,863,927	833,573	2,697,500
Contributions	5,552	-	5,552
Investment return			
Interest and dividend income	68,568	-	68,568
Net appreciation	33,399	-	33,399
Other changes - advisor fees	(9,811)	-	(9,811)
Amounts appropriated for expenditures	(111,885)	-	(111,885)
Endowment net assets, June 30, 2020	\$ 1,849,750	\$ 833,573	\$ 2,683,323

Note 12: STATE GOVERNMENT FUNDING

On January 28, 2019, the Arboretum was awarded state funding through the Texas Parks and Wildlife Department (TPWD) to construct a new boardwalk on its premises. The contract provides that the state will reimburse allowable expenses of the project up to a maximum of \$200,000. Project expenses reimbursed by TPWD totaled \$148,193 and \$51,807 for the years ended June 30, 2020 and 2019, respectively.

Note 13: 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, 2020 and 2019, the Arboretum recognized \$262,126 and \$235,235 as contributions from Uptown Houston TIRZ for disbursements made by Uptown TIRZ directly to or on behalf of the Arboretum.

Houston Arboretum & Nature Center Notes to Financial Statements

Note 14: 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: \$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 15: 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 \$28,004 and \$35,719 for 2020 and 2019, respectively.

Note 16: COMMITMENTS AND CONTINGENCIES

Contracts

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, 2020 totaled \$964,846 which will be paid with funds raised under the Master Plan.

Operating Lease

The Arboretum leases office equipment under operating lease expiring in June 2022. Rental expense under these leases totaled approximately \$8,600 and \$8,700 for the years ended June 30, 2020 and 2019, respectively. Noncancellable future minimum lease payments under the operating lease are \$8,573 for the years 2021 and 2022.

Houston Arboretum & Nature Center Notes to Financial Statements

Note 16: COMMITMENTS AND CONTINGENCIES (Continued)

COVID-19

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. The continued spread of the COVID-19 pandemic has given rise in uncertainties that may have a significant negative impact on the operating activities and results of the Arboretum. The occurrence and extent of such impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions of travel of meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

Note 17: SUBSEQUENT EVENTS

The Arboretum has evaluated subsequent events through December 8, 2020, which is the date the financial statements were available to be issued. Except as noted in Note 7, no matters were identified affecting the accompanying financial statements or related disclosures.