



**Houston Arboretum & Nature Center**

**FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Opinion**

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, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Houston Arboretum & Nature Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Houston Arboretum & Nature Center's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Houston Arboretum & Nature Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Houston Arboretum & Nature Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Carr, Rigg & Ingram, L.L.C.*

Houston, Texas  
November 1, 2023

## Houston Arboretum & Nature Center Statements of Financial Position

<i>June 30,</i>	<b>2023</b>	2022
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 705,618	\$ 948,249
Promises to give	34,712	100,640
Master Plan promises to give	-	612,500
Employee retention credits receivable	-	512,211
Asset held for sale	-	321,558
Nature shop inventory	33,433	19,633
Total current assets	<b>773,763</b>	2,514,791
Long-term investments	4,494,724	3,062,985
Long-term Master Plan promises to give	-	500,000
Property and equipment, net	1,411,839	1,184,700
Total assets	<b>\$ 6,680,326</b>	<b>\$ 7,262,476</b>
<b>Liabilities and net assets</b>		
Current liabilities		
Accounts payable	\$ 69,521	\$ 30,452
Accrued liabilities	39,930	51,221
Contract liabilities	278,564	258,720
Total current liabilities	<b>388,015</b>	340,393
Line of credit	-	1,103,883
Total liabilities	<b>388,015</b>	1,444,276
Net assets		
Without donor restrictions		
Designated for specific purpose	382,721	382,721
Undesignated	4,972,248	4,424,606
Total net assets	<b>5,354,969</b>	4,807,327
With donor restrictions	937,342	1,010,873
Total net assets	<b>6,292,311</b>	5,818,200
Total liabilities and net assets	<b>\$ 6,680,326</b>	<b>\$ 7,262,476</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, 2023</i>	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating revenue and support</b>			
Contributions	\$ 631,211	\$ 581,624	\$ 1,212,835
Contributions of nonfinancial assets	37,521	-	37,521
Government grants - employee retention credits	169,682	-	169,682
Memberships	192,679	-	192,679
Nature shop sales	86,928	-	86,928
Special events	581,012	-	581,012
Less: cost of direct benefits to members	(136,368)	-	(136,368)
Program and education fees	706,649	-	706,649
Rental income	339,281	-	339,281
Other income	327,697	-	327,697
Investment return, net	357,125	-	357,125
Total operating revenue and support before release of net assets from restrictions	3,293,417	581,624	3,875,041
Net assets released from restrictions			
Satisfaction of program restrictions	555,155	(555,155)	-
Expiration of timing restrictions	100,000	(100,000)	-
Total net assets released from restrictions	655,155	(655,155)	-
Total operating revenue and support	3,948,572	(73,531)	3,875,041
<b>Operating expenses</b>			
Program	2,692,197	-	2,692,197
General and administrative	495,699	-	495,699
Fundraising	213,034	-	213,034
Total operating expenses	3,400,930	-	3,400,930
<b>Change in net assets</b>	547,642	(73,531)	474,111
<b>Net assets at beginning of year</b>	4,807,327	1,010,873	5,818,200
<b>Net assets at end of year</b>	\$ 5,354,969	\$ 937,342	\$ 6,292,311

*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, 2022</i>	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating revenue and support</b>			
Contributions	\$ 1,034,209	\$ 358,942	\$ 1,393,151
Master Plan contributions	-	121,000	121,000
Contributions of nonfinancial assets	351,496	-	351,496
Government grants - employee retention credits	512,211	-	512,211
Memberships	98,669	-	98,669
Nature shop sales	65,599	-	65,599
Special events	481,638	-	481,638
Less: cost of direct benefits to members	(103,389)	-	(103,389)
Program and education fees	623,734	-	623,734
Rental income	244,139	-	244,139
Other income	331,929	-	331,929
Investment return, net	(462,424)	-	(462,424)
<b>Total operating revenue and support before release of net assets from restrictions</b>	<b>3,177,811</b>	<b>479,942</b>	<b>3,657,753</b>
Net assets released from restrictions			
Satisfaction of program restrictions	412,942	(412,942)	-
Expiration of timing restrictions	100,000	(100,000)	-
Master Plan	1,341,551	(1,341,551)	-
<b>Total net assets released from restrictions</b>	<b>1,854,493</b>	<b>(1,854,493)</b>	<b>-</b>
<b>Total operating revenue and support</b>	<b>5,032,304</b>	<b>(1,374,551)</b>	<b>3,657,753</b>
<b>Operating expenses</b>			
Program	2,455,818	-	2,455,818
General and administrative	458,920	-	458,920
Fundraising	193,065	-	193,065
<b>Total operating expenses</b>	<b>3,107,803</b>	<b>-</b>	<b>3,107,803</b>
<b>Change in net assets from operations</b>	<b>1,924,501</b>	<b>(1,374,551)</b>	<b>549,950</b>
<b>Other changes in net assets</b>			
Conveyance of Master Plan assets to City of Houston	(1,470,415)	-	(1,470,415)
<b>Change in net assets</b>	<b>454,086</b>	<b>(1,374,551)</b>	<b>(920,465)</b>
<b>Net assets at beginning of year</b>	<b>4,353,241</b>	<b>2,385,424</b>	<b>6,738,665</b>
<b>Net assets at end of year</b>	<b>\$ 4,807,327</b>	<b>\$ 1,010,873</b>	<b>\$ 5,818,200</b>

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

## Houston Arboretum & Nature Center Statements of Functional Expenses

For the years ended June 30,

2023

2022

	2023				2022			
	Program	General and Administrative	Fundraising	Total	Program	General and Administrative	Fundraising	Total
Advertising and promotion	\$ 51,666	\$ -	\$ 6,546	\$ 58,212	\$ 37,168	\$ -	\$ 603	\$ 37,771
Audit and accounting fees	5,985	66,145	7,200	79,330	-	32,505	-	32,505
Bank charges and interest expense	66,019	21,556	123	87,698	38,556	54,882	234	93,672
Building maintenance	94,332	52,606	-	146,938	69,377	56,529	2,570	128,476
Communications	3,527	22,745	-	26,272	8,276	20,857	-	29,133
Cost of special events	-	-	136,368	136,368	-	-	103,389	103,389
Depreciation excluding nature shop depreciation	104,893	2,820	2,820	110,533	92,407	2,484	2,484	97,375
Employee benefits	363,441	59,712	40,066	463,219	341,814	50,964	37,784	430,562
Insurance	1,428	37,732	-	39,160	1,243	35,289	-	36,532
Nature shop	107,053	-	-	107,053	76,539	-	-	76,539
Office expenses	24,581	10,272	1,188	36,041	23,240	8,774	2,021	34,035
Printing	20,311	9,905	14,393	44,609	17,270	15,023	11,162	43,455
Professional development	8,403	-	2,211	10,614	9,446	-	2,124	11,570
Program and education expense	361,333	-	-	361,333	362,835	-	-	362,835
Rentals - operating costs	124,791	-	-	124,791	77,378	-	-	77,378
Salaries and wages	1,256,869	205,446	137,851	1,600,166	1,215,740	179,809	133,602	1,529,151
Travel and entertainment	16,031	6,760	636	23,427	10,274	1,804	481	12,559
Paid parking expense	60,571	-	-	60,571	61,651	-	-	61,651
Utilities	20,963	-	-	20,963	12,604	-	-	12,604
<b>Total expenses</b>	<b>2,692,197</b>	<b>495,699</b>	<b>349,402</b>	<b>3,537,298</b>	<b>2,455,818</b>	<b>458,920</b>	<b>296,454</b>	<b>3,211,192</b>
Cost of special events reported separately	-	-	(136,368)	(136,368)	-	-	(103,389)	(103,389)
<b>Total operating expenses</b>	<b>\$ 2,692,197</b>	<b>\$ 495,699</b>	<b>\$ 213,034</b>	<b>\$ 3,400,930</b>	<b>\$ 2,455,818</b>	<b>\$ 458,920</b>	<b>\$ 193,065</b>	<b>\$ 3,107,803</b>

*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>2023</b>	2022
<b>Operating activities</b>		
Change in net assets	\$ 474,111	\$ (920,465)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	112,789	99,363
Conveyance of Master Plan assets to City of Houston	-	1,470,415
Contributions of nonfinancial assets	-	(321,558)
Contributions restricted for Master Plan	-	(121,000)
Net realized (gain) loss on investments	9,570	(110,992)
Net unrealized (gain) loss on investments	(288,621)	618,699
Change in operating assets and liabilities		
Promises to give	65,928	109,360
Employee retention credits receivable	512,211	(460,990)
Nature shop inventory	(13,800)	(3,984)
Accounts payable	39,069	(3,622)
Accrued liabilities	(11,291)	-
Contract liabilities	19,844	178,255
<b>Net cash provided by operating activities</b>	<b>919,810</b>	533,481
<b>Investing activities</b>		
Proceeds from sales and maturities of investments	914,274	547,390
Purchases of investments	(2,066,962)	(905,605)
Proceeds from sales of property and equipment	321,558	-
Purchases of property and equipment	(339,928)	(104,915)
<b>Net cash used in investing activities</b>	<b>(1,171,058)</b>	(463,130)
<b>Financing activities</b>		
Proceeds from Master Plan contributions	1,112,500	843,500
Net repayments on line of credit	(1,103,883)	(822,500)
<b>Net cash provided by financing activities</b>	<b>8,617</b>	21,000
<b>Net change in cash and cash equivalents</b>	<b>(242,631)</b>	91,351
<b>Cash and cash equivalents at beginning of year</b>	<b>948,249</b>	856,898
<b>Cash and cash equivalents at end of year</b>	<b>\$ 705,618</b>	<b>\$ 948,249</b>
<b>Supplementary cash flow information</b>		
Cash paid for interest	\$ 37,067	\$ 41,999

*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)

**MISSION:** Houston Arboretum & Nature Center serves the greater Houston area as an urban nature sanctuary and center for nature education. Its mission 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.

**VISION (added in FY 22-23):** We seek to be “nature connectors,” stewards and providers of best-in-class nature-centered experiences and knowledge for a diverse Houston.

FY22-23 continued the positive trend of financial success that the Houston Arboretum & Nature Center has enjoyed since master plan completion, with income exceeding budget by a large margin in several categories. Of note, restricted and unrestricted giving were each more than \$100,000 over budget, due in large part to several special projects funded and installed on the grounds, including the Butterfly Bungalow, new Sensory Garden, Emmott Circle Bird Drip, and Arrowwood Pond decking. Rental income continues to grow as the Arboretum's new spaces are utilized for weddings and corporate rentals, and this year's gala and golf tournaments both generated more income than budgeted. Program income was slightly lower than budget, affected by the cancellation of Tapas on the Trails due to staff transitions. Expenses were largely in line with budget, with salaries and benefits slightly lower than expected driven by staffing changes and building and grounds expenses marginally higher due to ongoing repair and maintenance adjustments. School field trips and other educational programs were conducted entirely in person for the first time since FY18-19, and the return to in-person programming was a welcome experience for both staff and students.

Expenses remained largely steady with only minor areas of expansion. Salaries and benefits increased in response to efforts made by the Board Compensation Committee to bring salaries in line with market rates and ensure consistency across internal departments.

Earlier in the year, the Arboretum's board embarked on a strategic planning process. Working with a consultant selected from several candidates, the Arboretum's board, staff, and volunteers worked to formulate a plan that will guide the Arboretum's efforts to expand the quality, impact and access to conservation and education programming, create opportunities to expand and deepen engagement with Houstonians and invest further organizational capacity, people and systems that will allow the organization to be successful in reaching its goals with efficacy and efficiency.

The impetus for the strategic plan was the completion of the Master Plan, as well as the organization's successful navigation of the Covid-19 crisis. The master plan, generously funded by many partners, enabled the Arboretum to expand its built spaces, restore tens of acres of native Gulf Coast habitat, and debut new educational facilities. The opportunities afforded by these new spaces and an expanded programming staff have allowed for additional class offerings and increased interest from the public, but this growth has also led to concern about gradually broadening objectives. The strategic plan – and the intensive process leading to its creation – allows the Arboretum's board and staff to focus attention on its vision and mission to create a more thoughtful, targeted approach to engaging a diverse Houston.

## Houston Arboretum & Nature Center Notes to Financial Statements

### 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).

#### ***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 and Cash Equivalents***

For 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 and cash equivalents. Included in cash and cash equivalents at June 30, 2022 is \$10,171 of restricted cash related to Master Plan contributions received, net of expenses incurred. There is no restricted cash as of June 30, 2023. Additionally, cash and cash equivalents at June 30, 2023 and 2022 includes \$382,721 of cash designated by the Board of Directors for an operating reserve fund, and \$57,293 and \$209,452, respectively, related to endowment funds.

#### ***Program Fees Receivable***

As of June 30, 2023 and 2022, there were no program fees receivable. Management evaluates receivables for collectability on an individual basis. If amounts become uncollectible, they will be charged to operations when that determination is made.

#### ***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, 2023 and 2022, promises to give were considered fully collectible; therefore no allowance was required. There was no long-term portion of promises to give at June 30, 2023 and 2022.

## 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, 2022, 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 \$500,000 at June 30, 2022 was collected in 2023. As the Master Plan completed in 2023, no more promises to give were made during the year ended June 30, 2023.

#### ***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.

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, 2023 and 2022.

#### ***Asset Held for Sale***

During the year ended June 30, 2022, the Arboretum received a bequest upon the death of a long-time volunteer, which included the volunteer's real estate. The title of the real estate transferred to the Arboretum in June 2022. As of and for the year ended June 30, 2022, the Arboretum had an asset held for sale of \$321,558 in the statement of financial position and the related contribution was included as a contribution of a nonfinancial asset in the statement of activities. The real estate was sold during the year ended June 30, 2023.

#### ***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.

## 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***

##### Contributions and Special Events

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.

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.

##### Memberships, Nature Shop, Program and Education Fees, Rental and Other Income

Memberships, nature shop sales, program and education fees, rental and other program income 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.

## Houston Arboretum & Nature Center Notes to Financial Statements

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

#### *Revenue Recognition (Continued)*

##### Memberships, Nature Shop, Program and Education Fees, Rental and Other Income (Continued)

Membership dues are recognized over time as the member benefits are received and consumed simultaneously during the membership period. Revenues for summer discovery classes, winter discovery classes, preschool classes, spring break camp and homeschool classes (included in program and education fees) are recognized over time, as the 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 \$342,261 and \$196,925 of revenues recognized over time for 2023 and 2022, 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.

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>	<b>2023</b>	<b>2022</b>
Contract liabilities, beginning of year	\$ 258,720	\$ 80,465
Contract liabilities, end of year	\$ 278,564	\$ 258,720

##### Gifts-In-Kind, Donated Goods and Services

The Arboretum's policy related to gifts-in-kind is to utilize the assets given to carry out the mission of the Arboretum. If an asset is provided that does not allow the Arboretum to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset.

During the year ended June 30, 2022, the Arboretum received a bequest of real estate. In August 2022, the Arboretum sold the real estate for \$321,558. Due to the proximity of the sale date to the donation, the sale price was used as an estimate of the fair value of the contribution for the year ended June 30, 2022.

The City of Houston pays for the utility costs of the Arboretum. Utility expenses incurred by the Arboretum totaled \$20,963 and \$12,604 based on current market rates for the years ended June 30, 2023 and 2022, respectively.

The Arboretum performs routine maintenance requiring the use of heavy equipment. Mustang Rental Services provides the use of heavy equipment at no cost to the Arboretum, but based on current market rental rates, the Arboretum would have paid \$16,558 during both of the years ended June 30, 2023 and 2022.

## Houston Arboretum & Nature Center Notes to Financial Statements

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

#### *Revenue Recognition (Continued)*

##### Gifts-In-Kind, Donated Goods and Services (Continued)

The Arboretum received other miscellaneous services from third parties totaling \$776 based on current market rates for the year ended June 30, 2022. None were received for the year ended June 30, 2023.

Most gifts-in-kind received by the Arboretum for the years ended June 30, 2023 and 2022 were considered without donor restrictions and able to be used by the Arboretum as determined by the board of directors and management.

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 6,500 and 5,200 hours of service in support of educational and conservation services for the years ended June 30, 2023 and 2022, 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.

##### Government grants – Employee Retention Credits

The CARES Act provides an employee retention credit (ERC), which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The tax credit is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020. Additional relief provisions were passed by the United States government, which extended and slightly expanded the qualified wage caps on these credits through September 30, 2021. Based on these additional provisions, the tax credit during 2021 is equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee was increased to \$10,000 of qualified wages per quarter.

The ERC is considered a non-exchange transaction with a government entity and the Arboretum is recognizing revenue following the guidance under FASB ASC 958-605, government grant model. The ERC has been recognized for the quarters in which the Arboretum qualified and used the credit against qualifying payroll and health care costs. The Arboretum did not receive any advances on the ERC.

The employee retention credits receivable at June 30, 2022 are \$512,211 which represents refunds due on the 2020 Form 941-X Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund for the quarter ending December 31, 2020 and the 2021 Form 941-X Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund for the quarters ending June 30, 2021 and September 30, 2021. All amounts were collected in the year ended June 30, 2023. During the year ended June 30, 2023, an additional \$169,682 was received for employee retention credit granted for quarter ending March 31, 2021, all of which was collected before year-end.



## Houston Arboretum & Nature Center Notes to Financial Statements

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

#### ***Advertising***

Advertising costs are charged to operations when the advertising first takes place. Advertising expense totaled \$58,212 and \$37,771, respectively, for the years ended June 30, 2023 and 2022.

#### ***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, 2023 and 2022, management believes there were no uncertain tax positions.

#### ***Reclassifications***

Certain reclassifications were made to prior year balances to conform with current year presentation.

#### ***Subsequent Events***

Management has evaluated subsequent events through the date the financial statements were available to be issued, November 1, 2023. See Note 7, Line of Credit. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

## Houston Arboretum & Nature Center Notes to 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.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30, 2023 and 2022 include of the following:

<i>June 30,</i>	<b>2023</b>	2022
Cash and cash equivalents	\$ <b>705,618</b>	\$ 948,249
Promises to give	<b>34,712</b>	100,640
Master Plan promises to give	-	612,500
Employee Retention Credits receivable	-	512,211
Asset held for sale	-	321,558
Investments	<b>4,494,724</b>	3,062,985
<b>Total financial assets</b>	<b>5,235,054</b>	5,558,143
Less those unavailable for general expenditure within one year due to:		
Purpose restrictions - Master Plan	-	(622,671)
Perpetual endowment funds	<b>(833,573)</b>	(833,573)
Board designated for operating reserve	<b>(382,721)</b>	(382,721)
<b>Financial assets available to meet cash needs for general expenditures within one year</b>	<b>\$ 4,018,760</b>	<b>\$ 3,719,178</b>

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 at June 30, 2023 and 2022, 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, 2023 and 2022, totaled \$2,304,330 and \$2,030,206, respectively. Income from endowments is not restricted, is held in level 1 investments, and can be transferred immediately to be used for general expenditure.

As mentioned in Note 7, 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.

## Houston Arboretum & Nature Center Notes to Financial Statements

### 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 49% of its contributions during 2022 from one donor. No donor made up more than 10% of contributions in 2023. At June 30, 2022, an amount due from one donor accounted for 66% of the Arboretum's receivables. At June 30, 2023, amounts due from two donors accounted for 85% of the Arboretum's receivables.

At June 30, 2023, amounts due to one vendor accounted for 21% of the Arboretum's accounts payable. No single vendor made up more than 10% of accounts payable at June 30, 2022.

### Note 5: FAIR VALUE MEASUREMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (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. There are three levels of inputs that may be used to measure fair values:

*Level 1:* Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

*Level 2:* Significant other observable inputs other than Level 1 prices, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs, other than quoted prices, that are:
  - observable; or
  - can be corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2023 and 2022.

## Houston Arboretum & Nature Center Notes to Financial Statements

### Note 5: FAIR VALUE MEASUREMENTS (Continued)

*Exchange Traded Funds (ETFs)*: Valued at the daily closing net asset value (NAV) as reported by the fund.

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, 2023</b>			
<b>Exchange traded funds</b>	<b>\$ 4,494,724</b>	<b>\$ -</b>	<b>\$ -</b>
<b>June 30, 2022</b>			
Exchange traded funds	\$ 3,062,985	\$ -	\$ -

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.

### Note 6: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>June 30,</i>	<b>2023</b>	2022
Land improvements	\$ 365,435	\$ 352,839
Building improvements	49,631	26,622
Furniture and equipment	554,200	510,832
Grounds and trails	611,951	364,377
Discovery room and library	282,100	282,100
Signage	403,004	389,624
Artwork	25,000	25,000
Total property and equipment	<b>2,291,321</b>	1,951,394
Less: accumulated depreciation	<b>(879,482)</b>	(766,694)
Property and equipment, net	<b>\$ 1,411,839</b>	\$ 1,184,700

## Houston Arboretum & Nature Center Notes to Financial Statements

### Note 6: PROPERTY AND EQUIPMENT (Continued)

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. On December 10, 2020, the Arboretum transferred ownership of completed Master Plan assets to the City of Houston with a total net book value of \$4,202,406, which included renovation of the 11,000 square foot Nature Center. In July 2021, the Arboretum transferred ownership of completed Master Plan assets to the City of Houston with a total net book value of \$1,470,415, which included the playground and courtyard areas. The Master Plan was fully completed during the year ended June 30, 2022.

Depreciation expense totaled \$112,789 and \$99,363 for the years ended June 30, 2023 and 2022, respectively.

### Note 7: LINE OF CREDIT

In September 2019, the Arboretum entered into a credit agreement with a bank. The credit agreement is secured by certain Master Plan promises to give. Pledged receivables totaled \$1,100,000 at June 30, 2022. 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. Effective December 2, 2022, the non-revolving credit facility bears interest at the 1 month SOFR index rate per annum, plus 2.25% and was stated to mature on September 27, 2023. Prior to December 2, 2022, the facility bore interest at the LIBOR rate per annum plus 2.25%. 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 1 month SOFR index rate per annum effective December 2, 2022, plus 2.25% and was stated to mature on September 27, 2023. Prior to December 2, 2022, the facility bore interest at the LIBOR rate per annum plus 2.25%. Advances under the revolving credit facility shall be used by Arboretum for working capital for general operating and development expenses. At June 30, 2022, the outstanding balance on the line of credit was \$1,103,883. During the year ended June 30, 2023, the Arboretum paid in full the balance of the line of credit. On September 27, 2023, the Arboretum renewed the \$200,000 revolving credit facility through September 27, 2024 under the same terms.

The line of credit agreements contain various reporting requirements which are required to be met by the Arboretum on a quarterly or annual basis.

**Houston Arboretum & Nature Center**  
**Notes to Financial Statements**

**Note 8: 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 years ended June 30, 2023 and 2022, the Arboretum did not take any board approved draws from the operating reserve. As of June 30, 2023 and 2022, the operating reserve balance was \$382,721 for both years.

**Note 9: NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are as follows:

<i>June 30,</i>	<b>2023</b>	<b>2022</b>
<b>Subject to expenditure for specific purpose</b>		
Educational programs	\$ 63,000	\$ 20,000
Adopt-A-School program	27,500	10,000
Butterfly Bungalow	10,000	15,000
Equipment purchases	2,000	-
Conservation projects	1,269	27,500
Boardwalk projects	-	4,800
<b>Subject to passage of time</b>	-	100,000
<b>Subject to spending policy and appropriations</b>		
Perpetual endowment fund	833,573	833,573
	<b>\$ 937,342</b>	<b>\$ 1,010,873</b>

**Note 10: 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.

**Houston Arboretum & Nature Center**  
**Notes to Financial Statements**

**Note 10: ENDOWMENT (Continued)**

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.

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>2023</b>	2022
With Donor Restrictions		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donors	\$ <b>833,573</b>	\$ 833,573
Without Donor Restrictions		
Accumulated investment gains	<b>2,304,330</b>	2,030,206
	<b>\$ 3,137,903</b>	\$ 2,863,779

**Houston Arboretum & Nature Center**  
**Notes to Financial Statements**

**Note 10: ENDOWMENT (Continued)**

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

<i>June 30,</i>	<b>2023</b>	2022
Cash and cash equivalents	\$ 57,293	\$ 209,452
Long-term investments	<b>3,080,610</b>	2,654,327
	<b>\$ 3,137,903</b>	\$ 2,863,779

Changes in endowment net assets are as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, June 30, 2021	\$ 2,456,923	\$ 833,573	\$ 3,290,496
Investment return			
Interest and dividend income	63,291	-	63,291
Net depreciation	(469,310)	-	(469,310)
Other changes - advisor fees	(20,698)	-	(20,698)
Endowment net assets, June 30, 2022	2,030,206	833,573	2,863,779
Investment return			
Interest and dividend income	<b>69,391</b>	-	<b>69,391</b>
Net appreciation	<b>222,400</b>	-	<b>222,400</b>
Other changes - advisor fees	<b>(17,667)</b>	-	<b>(17,667)</b>
Endowment net assets, June 30, 2023	<b>\$ 2,304,330</b>	<b>\$ 833,573</b>	<b>\$ 3,137,903</b>

**Note 11: 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, 2023 and 2022, the Arboretum recognized \$100,000 in both years 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 12: 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 13: 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 \$65,301 and \$62,022 for the years ended June 30, 2023 and 2022, respectively.