

Houston Botanic Garden

Financial Statements
and Independent Auditors' Report
for the year ended December 31, 2020

Houston Botanic Garden

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Independent Auditors' Report

To the Board of Directors of
Houston Botanic Garden:

We have audited the accompanying financial statements of Houston Botanic Garden, which comprise the statement of financial position as of December 31, 2020 and the related statements of activities, of cash flows, and of functional expenses for the year then ended, and the related notes to the financial statements.

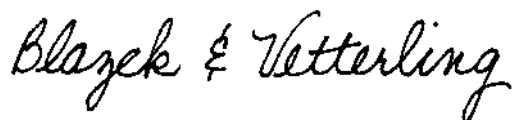
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our 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 Botanic Garden as of December 31, 2020 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



December 23, 2021

Houston Botanic Garden

Statement of Financial Position as of December 31, 2020

ASSETS

Cash	\$ 1,150,423
Prepaid expenses	33,802
Contributions receivable (<i>Note 3</i>)	5,675,633
Property, net (<i>Note 4</i>)	33,039,282
Right to use property – operating agreement (<i>Note 6</i>)	<u>3,000,000</u>
TOTAL ASSETS	<u>\$ 42,899,140</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	\$ 189,114
Construction payables	2,596,945
Deferred memberships	144,669
Federal Paycheck Protection Program – refundable advance	109,900
Note payable (<i>Note 5</i>)	<u>344,089</u>
Total liabilities	<u>3,384,717</u>
Commitments (<i>Note 4</i>)	
Net assets:	
Without donor restrictions	33,838,790
With donor restrictions for garden expansion	<u>5,675,633</u>
Total net assets	<u>39,514,423</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 42,899,140</u>

See accompanying notes to financial statements.

Houston Botanic Garden

Statement of Activities for the year ended December 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 1,138,732	\$ 2,585,452	\$ 3,724,184
Admission and other fees	208,802		208,802
Memberships	60,290		60,290
Gift shop sales	32,094		32,094
Costs of goods sold	(15,848)		(15,848)
Other income	<u>37,318</u>		<u>37,318</u>
Total revenue	1,461,388	2,585,452	4,046,840
Net assets released from restrictions:			
Capital expenditures	<u>20,075,967</u>	<u>(20,075,967)</u>	
Total	<u>21,537,355</u>	<u>(17,490,515)</u>	<u>4,046,840</u>
EXPENSES:			
Botanic garden and guest services	988,242		988,242
Management and general	510,700		510,700
Marketing	242,150		242,150
Fundraising	<u>356,648</u>		<u>356,648</u>
Total expenses	<u>2,097,740</u>		<u>2,097,740</u>
CHANGES IN NET ASSETS	19,439,615	(17,490,515)	1,949,100
Net assets, beginning of year	<u>14,399,175</u>	<u>23,166,148</u>	<u>37,565,323</u>
Net assets, end of year	<u>\$ 33,838,790</u>	<u>\$ 5,675,633</u>	<u>\$ 39,514,423</u>

See accompanying notes to financial statements.

Houston Botanic Garden

Statement of Cash Flows for the year ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Changes in net assets from operations	\$ 1,949,100
Adjustments to reconcile changes in net assets from operations to net cash used by operating activities:	
Depreciation	54,353
Contributions restricted for capital expansion	(2,569,952)
Changes in operating assets and liabilities:	
Prepaid expenses	(25,663)
Accounts payable and accrued expenses	95,436
Deferred memberships	144,669
Federal Paycheck Protection Program – refundable advance	<u>109,900</u>
Net cash used by operating activities	<u>(242,157)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property	<u>(16,547,876)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds of note payable	344,089
Proceeds from capital expansion contributions	<u>5,860,864</u>
Net cash provided by financing activities	<u>6,204,953</u>

NET CHANGE IN CASH (10,585,080)

Cash, beginning of year 11,735,503

Cash, end of year \$ 1,150,423

See accompanying notes to financial statements.

Houston Botanic Garden

Statement of Functional Expenses for the year ended December 31, 2020

	BOTANIC GARDEN AND GUEST SERVICES	MANAGEMENT AND GENERAL	MARKETING	FUNDRAISING	TOTAL EXPENSES
Salaries and related expenses	\$ 633,364	\$ 221,199	\$ 67,277	\$ 282,206	\$ 1,204,046
Contract services	145,018	35,876		42,437	223,331
Technology and communications	20,744	100,099	36,000	4,855	161,698
Professional services			138,873		138,873
Furniture and equipment	67,544	10,378		7,173	85,095
Plants and supplies	48,111	7,195		1,957	57,263
Depreciation	17,280	35,647		1,427	54,354
Professional development	10,100	38,791		1,330	50,221
Credit card and other fees	6,156	17,967			24,123
Utilities	1,960	19,825			21,785
Insurance	21,229				21,229
Printing and postage	2,894	3,682		10,732	17,308
Dues	971	3,227		2,397	6,595
Building and grounds maintenance	5,459	719			6,178
Office supplies	934	3,918		345	5,197
Travel	1,169	2,107		117	3,393
Other	5,309	10,070		1,672	17,051
Total expenses	<u>\$ 988,242</u>	<u>\$ 510,700</u>	<u>\$ 242,150</u>	<u>\$ 356,648</u>	<u>\$ 2,097,740</u>

See accompanying notes to financial statements.

Houston Botanic Garden

Notes to Financial Statements for the year ended December 31, 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Formed in 2002, Houston Botanic Garden (HBG) is a nonprofit organization whose mission is to enrich lives through discovery, education, and the conservation of plants and the natural environment. The Garden broke ground in 2019 on a 132-acre site located a short distance from downtown Houston. Since 2015, HBG has raised over \$38 million to construct the first phase of the gardens, which opened to the public in fall 2020 as a major addition to Houston’s cultural landscape and growing list of greenspaces. The Garden provides a place for visitors to learn about plants, conservation, and nature; connects Houstonians across different cultures and ethnicities; and closes an existing gap in the world-class city’s collection of amenities for residents and tourists.

Federal income tax status – HBG is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Cash – Bank deposits exceed the federally insured limit per depositor per institution.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contributions revenue. An allowance for uncollectible contributions receivable is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and donor-by-donor analysis of balances. At December 31, 2020, management has determined that an allowance for uncollectible contributions receivable is not necessary.

Property is reported at cost if purchased and at fair value at the date of gift if donated. HBG capitalizes property that has a cost or fair value of \$5,000 or greater and an estimated useful life of more than one year. HBG recognizes depreciation using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 30 years.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *net assets with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the organization is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when conditions have been met.

Admission and other fees are derived primarily from admission to the gardens and guest programs. Revenue is recognized when the services are provided in an amount that reflects the consideration that HBG expects to be entitled to in exchange for those services. The nature of these services does not give rise to contract costs, refunds, or other related obligations. Admission fees entitle visitors to a single day access and are collected and recognized as revenue at the point of sale.

Membership fees are comprised of an exchange element based on the value of benefits provided, and a contribution element for the difference between the total membership fees paid and the exchange element and are due at the time of purchase. Memberships provide various benefits based on membership level such as admission, special exhibits and events, private tours, discounted facility rentals, discounts at the gift shop, and invitations to private events. Membership admission fees represent the fair value of benefits provided to members and are recognized ratably over the annual membership period based on the output method. The fair value of each benefit is based on the expected utilization. Payments for membership admission fees received for performance obligations not yet satisfied are reported as deferred memberships. The excess of membership dues paid over membership benefits is recognized upon receipt and is reported with contributions.

Thrift shop sales are collected and recognized net of discounts (and estimated returns) at the point of sale.

In-kind contributions – Donated materials and services are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of volunteers have contributed significant amounts of time in connection with HBG for which no amount has been recorded in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Advertising and marketing costs are expensed as incurred.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or other supporting activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs and contract services are allocated on the basis of estimated time and effort expended. Occupancy and maintenance related costs are estimated based upon the property usage.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31, 2020 are represented by approximately \$1,000,000 in cash. For purposes of analyzing resources available to meet general expenditures over a 12-month period, HBG considers all expenditures related to its ongoing activities (excluding capital expenditures), as well as the conduct of services undertaken to support these activities, to be general expenditures.

HBG received a Paycheck Protection Program (PPP) loan through the Small Business Administration totaling \$109,900, which is reported as a refundable advance at December 31, 2020. PPP loan principal and interest may be forgiven, in whole or in part, if the HBG meets eligibility requirements and uses the loan to fund qualified payroll and other eligible costs. Management expects to receive full forgiveness and will be recognizing these funds as contributions in 2021.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2020 are as follows:

Contributions receivable for garden expansion	\$ 5,741,628
Discount to net present value	<u>(65,995)</u>
Contributions receivable, net	<u>\$ 5,675,633</u>

Contributions receivable at December 31, 2020 are expected to be collected as follows:

Receivable in less than one year	\$ 3,441,128
Receivable in one to five years	<u>2,300,500</u>
Total contributions receivable	<u>\$ 5,741,628</u>

At December 31, 2020, approximately 79% of contributions receivable are due from 6 donors.

NOTE 4 – PROPERTY

Property at December 31, 2020 is comprised of the following:

Gardens	\$ 5,565,564
Buildings	4,489,576
Land improvements	10,589,035
Equipment, furnishings and vehicles	236,342
Construction in progress	<u>12,234,732</u>
Total property	33,115,249
Accumulated depreciation	<u>(75,967)</u>
Property, net	<u>\$ 33,039,282</u>

As of December 31, 2020, HBG has entered into various construction commitments. Approximately \$1,000,000 remains outstanding under these contract commitments.

NOTE 5 – NOTE PAYABLE

In December 2020, HBG entered into a note agreement with a bank to borrow up to \$6.1 million during the period from December 2020 through December 2024. Proceeds from the note are to be used to finance the construction of the botanical gardens project. The line of credit bears interest at AMERIBOR plus 2% (2.1% at December 31, 2020). Interest is due monthly until December 2024 when principal and accrued interest are due monthly. The note is secured by proceeds from the contributions and pledges related to the campaign and certain property.

NOTE 6 – OPERATING AGREEMENT WITH THE CITY OF HOUSTON

In 2015, HBG entered into a 30-year operating agreement with the City of Houston (the City) to develop a sustainable botanic garden on the 132 acres formerly known as the Glenbrook Golf Course. HBG agreed to raise the necessary funding to create, construct and operate a botanic garden. In exchange for this commitment, the City has granted an irrevocable option to be exercised by HBG for the use of this property. The agreement includes the option for HBG to renew this agreement for two consecutive 30-year terms. HBG occupancy of the property began in April 2018. The City provided up to \$1 million in bridge and road improvements for the project. Any net proceeds from fees received must be used toward the administration, operation, maintenance and improvements of the botanic garden.

NOTE 7 – SUBSEQUENT EVENTS

Subsequent to December 31, 2020, HBG drew down approximately \$1.45 million in additional debt to fund garden construction.

Management has evaluated subsequent events through December 23, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
