

The Houston Audubon Society, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2017 and 2016

The Houston Audubon Society, Inc.

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Independent Auditors' Report

To the Board of Directors of
The Houston Audubon Society, Inc.:

We have audited the accompanying financial statements of The Houston Audubon Society, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities, of functional expenses, and of 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 our audits 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 The Houston Audubon Society, Inc. as of June 30, 2017 and 2016 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.

Blazek & Vetterling

October 4, 2017

The Houston Audubon Society, Inc.

Statements of Financial Position as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 462,037	\$ 405,996
Pledges receivable	96,995	190,333
Other current assets	48,437	37,618
Investments (Note 2)	2,360,940	1,944,379
Cash surrender value of life insurance	184,591	178,319
Depreciable property, net (Note 3)	657,297	575,689
Nature sanctuaries (Note 4)	<u>3,934,924</u>	<u>3,934,924</u>
 TOTAL ASSETS	 <u>\$ 7,745,221</u>	 <u>\$ 7,267,258</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 40,152	\$ 43,000
Deferred revenue	<u>3,195</u>	<u>1,375</u>
Total liabilities	<u>43,347</u>	<u>44,375</u>
Net assets (Note 8):		
Unrestricted (Note 5)	3,444,314	3,034,357
Temporarily restricted (Note 6)	626,608	569,574
Permanently restricted (Note 7)	<u>3,630,952</u>	<u>3,618,952</u>
Total net assets	<u>7,701,874</u>	<u>7,222,883</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 7,745,221</u>	 <u>\$ 7,267,258</u>

See accompanying notes to financial statements.

The Houston Audubon Society, Inc.

Statement of Activities for the year ended June 30, 2017

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 466,807	\$ 566,192	\$ 12,000	\$ 1,044,999
Special events	340,284			340,284
Direct donor benefits	(58,956)			(58,956)
Admission and program fees	193,882			193,882
Merchandise sales	63,738			63,738
Investment return, net (<i>Note 2</i>)	<u>199,188</u>	<u>26,668</u>		<u>225,856</u>
Total revenue	1,204,943	592,860	12,000	1,809,803
Net assets released from restrictions:				
Expenditures for program purposes	433,730	(433,730)		
Capital expenditures	<u>102,096</u>	<u>(102,096)</u>		
Total	<u>1,740,769</u>	<u>57,034</u>	<u>12,000</u>	<u>1,809,803</u>
EXPENSES:				
Program services:				
Sanctuaries and habitat conservation	549,820			549,820
Environmental education and outreach	<u>403,810</u>			<u>403,810</u>
Total program services	953,630			953,630
Management and general	174,128			174,128
Fundraising	<u>203,054</u>			<u>203,054</u>
Total expenses	<u>1,330,812</u>			<u>1,330,812</u>
CHANGES IN NET ASSETS	409,957	57,034	12,000	478,991
Net assets, beginning of year	<u>3,034,357</u>	<u>569,574</u>	<u>3,618,952</u>	<u>7,222,883</u>
Net assets, end of year	<u>\$ 3,444,314</u>	<u>\$ 626,608</u>	<u>\$ 3,630,952</u>	<u>\$ 7,701,874</u>

See accompanying notes to financial statements.

The Houston Audubon Society, Inc.

Statement of Activities for the year ended June 30, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 466,446	\$ 494,132		\$ 960,578
Special events	279,469			279,469
Direct donor benefits	(62,662)			(62,662)
Admission and program fees	183,349			183,349
Merchandise sales	45,260			45,260
Investment return, net (<i>Note 2</i>)	<u>(32,010)</u>	<u>2,979</u>		<u>(29,031)</u>
Total revenue	879,852	497,111		1,376,963
Net assets released from restrictions:				
Expenditures for program purposes	383,668	(383,668)		
Capital expenditures	<u>127,678</u>	<u>(127,678)</u>		
Total	<u>1,391,198</u>	<u>(14,235)</u>		<u>1,376,963</u>
EXPENSES:				
Program services:				
Sanctuaries and habitat conservation	486,696			486,696
Environmental education and outreach	<u>390,793</u>			<u>390,793</u>
Total program services	877,489			877,489
Management and general	150,614			150,614
Fundraising	<u>186,095</u>			<u>186,095</u>
Total expenses	<u>1,214,198</u>			<u>1,214,198</u>
CHANGES IN NET ASSETS	177,000	(14,235)		162,765
Net assets, beginning of year	<u>2,857,357</u>	<u>583,809</u>	<u>\$ 3,618,952</u>	<u>7,060,118</u>
Net assets, end of year	<u>\$ 3,034,357</u>	<u>\$ 569,574</u>	<u>\$ 3,618,952</u>	<u>\$ 7,222,883</u>

See accompanying notes to financial statements.

The Houston Audubon Society, Inc.

Statement of Functional Expenses for the year ended June 30, 2017

<u>EXPENSES</u>	<u>SANCTUARIES AND HABITAT CONSERVATION</u>	<u>ENVIRONMENTAL EDUCATION AND OUTREACH</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and benefits	\$ 309,137	\$ 266,406	\$ 575,543	\$ 127,852	\$ 154,072	\$ 857,467
Professional fees	41,279	19,982	61,261	35,234	11,853	108,348
Sanctuary and property maintenance	52,528	5,580	58,108	451	451	59,010
Communications	5,625	38,967	44,592	1,734	2,042	48,368
Depreciation	31,102	12,293	43,395	1,199	1,199	45,793
Insurance	27,478	10,275	37,753	3,094	1,158	42,005
Supplies	20,633	11,221	31,854	1,136	1,980	34,970
Printing, publications, and postage	3,448	8,912	12,360	517	12,215	25,092
Utilities	11,590	4,186	15,776	738	738	17,252
Cost of merchandise sold	15,044	1,853	16,897			16,897
Licenses, accreditations, and subscriptions	9,950		9,950		6,573	16,523
Travel	8,056	2,946	11,002	125	574	11,701
Member and donor events		2,794	2,794		6,980	9,774
Educational classes and fieldtrips		8,458	8,458			8,458
Grants and awards	2,970	1,339	4,309	228	22	4,559
Conferences and professional development	1,011	1,173	2,184	122	40	2,346
Other	9,969	7,425	17,394	1,698	3,157	22,249
Total expenses	<u>\$ 549,820</u>	<u>\$ 403,810</u>	<u>\$ 953,630</u>	<u>\$ 174,128</u>	<u>\$ 203,054</u>	<u>\$ 1,330,812</u>

See accompanying notes to financial statements.

The Houston Audubon Society, Inc.

Statement of Functional Expenses for the year ended June 30, 2016

<u>EXPENSES</u>	<u>SANCTUARIES AND HABITAT CONSERVATION</u>	<u>ENVIRONMENTAL EDUCATION AND OUTREACH</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and benefits	\$ 292,170	\$ 251,972	\$ 544,142	\$ 116,103	\$ 136,603	\$ 796,848
Professional fees	9,551	19,736	29,287	23,348	10,465	63,100
Sanctuary and property maintenance	42,477	7,218	49,695	549	550	50,794
Communications	5,325	34,436	39,761	1,712	2,228	43,701
Depreciation	29,940	8,165	38,105	1,199	1,199	40,503
Insurance	30,084	12,081	42,165	3,294	1,402	46,861
Supplies	21,421	11,396	32,817	1,846	1,443	36,106
Printing, publications, and postage	950	9,943	10,893	538	10,483	21,914
Utilities	12,407	4,520	16,927	795	796	18,518
Cost of merchandise sold	15,779	1,921	17,700			17,700
Licenses, accreditations, and subscriptions	290		290		5,568	5,858
Travel	11,567	4,264	15,831	129	656	16,616
Member and donor events		5,157	5,157		11,940	17,097
Educational classes and fieldtrips	440	7,021	7,461			7,461
Grants and awards	2,276	3,225	5,501			5,501
Conferences and professional development	3,994	2,145	6,139			6,139
Other	8,025	7,593	15,618	1,101	2,762	19,481
Total expenses	<u>\$ 486,696</u>	<u>\$ 390,793</u>	<u>\$ 877,489</u>	<u>\$ 150,614</u>	<u>\$ 186,095</u>	<u>\$ 1,214,198</u>

See accompanying notes to financial statements.

The Houston Audubon Society, Inc.

Statements of Cash Flows for the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 478,991	\$ 162,765
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	45,793	40,503
Donated sanctuary land		(10,070)
Net realized and unrealized (gain) loss on investments	(184,984)	78,231
Change in cash surrender value of life insurance	(6,272)	(6,986)
Changes in operating assets and liabilities:		
Pledges receivable	93,338	49,990
Other current assets	(10,819)	17,478
Accounts payable and accrued expenses	(2,848)	13,478
Deferred revenue	<u>1,820</u>	<u>(4,225)</u>
Net cash provided by operating activities	<u>415,019</u>	<u>341,164</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(644,592)	(186,436)
Sales of investments	238,822	41,803
Change in money market mutual funds held as investments	174,193	5,523
Purchases of depreciable property	(127,401)	(33,376)
Purchases of sanctuary land	<u> </u>	<u>(115,933)</u>
Net cash used by investing activities	<u>(358,978)</u>	<u>(288,419)</u>
NET CHANGE IN CASH	56,041	52,745
Cash, beginning of year	<u>405,996</u>	<u>353,251</u>
Cash, end of year	<u>\$ 462,037</u>	<u>\$ 405,996</u>

See accompanying notes to financial statements.

The Houston Audubon Society, Inc.

Notes to Financial Statements for the years ended June 30, 2017 and 2016

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Houston Audubon Society, Inc. (HAS) is a Texas nonprofit corporation organized in 1969 as an autonomous and self-supporting chapter of the National Audubon Society. HAS was founded to promote conservation of wildlife and natural resources. Habitat conservation, natural science education and conservation advocacy are the pillars guiding the organization’s work. HAS’s stated mission is to advance the conservation of birds and positively impact their supporting environments through leading and nurturing a community that values and supports birds. Strategies to achieve that mission include protecting priority habitats for birds, creating bird friendly communities, and inspiring people to learn more about and appreciate birds in their natural environment. HAS currently has approximately 4,200 members, coordinates over 700 volunteers, conducts nature based education programs, and owns and manages 17 nature sanctuaries on the upper Texas coast. The over 3,400 acres of land permanently protected within these sanctuaries feature diverse habitats including piney woods, marshes, and endangered coastal prairies. Several sanctuaries are open to the public, including two urban sanctuary centers located in Houston, Texas. HAS’s headquarters and native plant nursery are located at the Edith L. Moore Nature Sanctuary in west Houston. In fiscal year 2017, HAS applied for accreditation as a certified land trust through the Land Trust Accreditation Commission.

Federal income tax status – HAS 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)(2).

Cash includes demand deposits and cash on hand. At times, demand deposits exceed the federally insured limit per depositor per institution.

Inventory consists of books, T-shirts, and miscellaneous items for sale at High Island, Sims Bayou Urban Nature Center, and Edith L. Moore Nature Sanctuary. Inventory is reported at the lower of cost or market.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are reported at the present value of their estimated future cash flows. The discounts on those amounts are computed using the risk-free interest rates applicable to the years in which the promises are received. At June 30, 2017, all pledges receivable are expected to be collected within one year.

Investments are reported at fair value. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless the use of investment return is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets until expended in accordance with donor imposed restrictions.

Depreciable property having a cost of more than \$5,000 and an estimated life of more than one year is reported at cost, if purchased, or at fair value at the date of gift, if donated. Depreciation is computed on the straight-line method over estimated useful lives of 40 years for buildings, 5 to 15 years for land and building improvements and 5 years for furniture, fixtures and equipment.

Nature sanctuaries are reported at cost, or in the case of donated land, at estimated fair value at the date of the gift. Certain sanctuaries are subject to permanent donor restrictions and must be maintained in perpetuity as nature preserves.

Net asset classification – Contributions, investment return and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions and investment return restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include contributions, including nature sanctuaries, that donors have restricted in perpetuity.

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 restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Non-cash contributions – Donated materials and use of facilities 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 donated.

Over 700 volunteers have contributed over 14,000 hours of time in connection with programs and administration for which no amount has been recorded in the financial statements because the donated services did not meet the criteria for recognition under generally accepted accounting principles.

Special events – HAS holds various fundraising events during the year in which the donors receive direct benefits for their donations. The costs of the direct benefits have been subtracted from the contributions received from the donors in determining total support and revenue for HAS.

Fees for programs and other services are recognized at the time the services are provided. Fees collected in advance are recognized as deferred revenue.

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 of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at June 30, 2017 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Exchange-traded domestic equity funds:				
Large-cap growth	\$ 271,247			\$ 271,247
Large-cap value	243,572			243,572
Mid-cap growth	181,450			181,450
Small-cap value	159,524			159,524
Mid-cap value	110,494			110,494
Small-cap growth	93,161			93,161
Alternative strategies mutual funds:				
Bank loan	77,880			77,880
Energy limited partnership	74,188			74,188
Multi-alternative	68,792			68,792
Preferred stock	63,204			63,204
Real estate	50,598			50,598
Managed futures	44,918			44,918
Tactical allocation	42,377			42,377
Commodities broad basket	40,630			40,630
Exchange-traded international equity funds:				
International blend	363,428			363,428
Exchange-traded domestic bond funds:				
Intermediate government	155,119			155,119
Inflation-protected	128,715			128,715
High yield	52,898			52,898
Domestic bond mutual funds:				
Intermediate term bond	61,377			61,377
Nontraditional bond	50,735			50,735
Money market mutual funds	26,633			26,633
Total assets measured at fair value	<u>\$ 2,360,940</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,360,940</u>

Assets measured at fair value at June 30, 2016 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Exchange-traded domestic equity funds:				
Large-cap growth	\$ 172,055			\$ 172,055
Large-cap value	142,148			142,148
Mid-cap growth	138,311			138,311
Small-cap value	123,169			123,169
Mid-cap value	90,560			90,560
Small-cap growth	70,511			70,511
Alternative strategies mutual funds:				
Bank loan	64,716			64,716
Energy limited partnership	73,722			73,722
Multi-alternative	54,299			54,299
Preferred stock	25,278			25,278
Real estate	29,243			29,243
Managed futures	35,898			35,898
Tactical allocation	26,670			26,670
Commodities broad basket	21,398			21,398
Exchange-traded international equity funds:				
International blend	310,007			310,007
Exchange-traded domestic bond funds:				
Intermediate government	131,954			131,954
Inflation-protected	108,559			108,559
High yield	42,435			42,435
Domestic bond mutual funds:				
Intermediate term bond	42,414			42,414
Nontraditional bond	40,206			40,206
Money market mutual funds	<u>200,826</u>			<u>200,826</u>
Total assets measured at fair value	<u>\$ 1,944,379</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,944,379</u>

Valuation methods used for assets measured at fair value are as follows:

- *Exchange-traded funds* are valued at the closing price reported on the active market on which the individual funds are traded.
- *Mutual funds* are valued at the reported net asset value of shares held.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while HAS believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

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 that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return consists of the following:

	<u>2017</u>	<u>2016</u>
Realized and unrealized gain (loss) on investments	\$ 184,984	\$ (78,231)
Interest and dividends	48,466	52,761
Oil and gas revenue	2,884	2,894
Change in cash surrender value of life insurance	6,272	6,986
Investment management fees	<u>(16,750)</u>	<u>(13,441)</u>
Investment return, net	<u>\$ 225,856</u>	<u>\$ (29,031)</u>

NOTE 3 – DEPRECIABLE PROPERTY

Depreciable property is comprised of the following:

	<u>2017</u>	<u>2016</u>
Buildings	\$ 540,298	\$ 540,298
Land and building improvements	432,079	355,822
Furniture, fixtures and equipment	<u>214,817</u>	<u>163,673</u>
Total depreciable property, at cost	1,187,194	1,059,793
Accumulated depreciation	<u>(529,897)</u>	<u>(484,104)</u>
Depreciable property, net	<u>\$ 657,297</u>	<u>\$ 575,689</u>

NOTE 4 – NATURE SANCTUARIES

Nature sanctuaries as of June 30, 2017 are comprised of the following:

	<u>APPROXIMATE ACREAGE</u>	<u>CARRYING VALUE</u>
High Island sanctuaries (Louis Smith Boy Scout Woods, Smith Oaks, Eubanks Woods and S.E. Gast Red Bay)	256	\$ 1,032,251
Bolivar Flats Shorebird Sanctuary	1,215	970,023
Horseshoe Marsh Bird Sanctuary	666	640,932
Champions property	13	345,000
Winters Bayou Sanctuary	165	253,000
Edith L. Moore Nature Sanctuary	18	165,137
Carolyn Raizes Davis Bird Sanctuary	63	152,680
Damuth Sanctuary	628	126,901
Mundy Marsh Bird Sanctuary	368	100,000
Sims Bayou Urban Nature Center	1	79,000
Dos Vacas Muertas Bird Sanctuary	6	60,000
McFarlane Marsh	66	10,000
North Deer Island Sanctuary	7	0
Garwood property	<u>2</u>	<u>0</u>
Total nature sanctuaries	<u>3,474</u>	<u>\$ 3,934,924</u>

NOTE 5 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Undesignated	\$ 1,947,066	\$ 1,691,845
Invested in depreciable property	657,297	575,689
Land held as nature sanctuaries	529,801	529,801
Board-designated for general endowment	256,827	235,022
Board-designated for property conservation defense	51,323	
Board-designated for Edith L. Moore Nature Sanctuary cabin maintenance	<u>2,000</u>	<u>2,000</u>
Total unrestricted net assets	<u>\$ 3,444,314</u>	<u>\$ 3,034,357</u>

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Bolivar sanctuaries management	\$ 269,558	\$ 269,558
Accumulated earnings on land purchase endowment	146,436	128,729
Bird-Friendly Communities initiative	50,000	
General sanctuary support	50,000	
Accumulated earnings on endowment to support operations	46,847	37,888
Field Station development	20,000	
Fondren Bridge rebuilding	17,500	
Sims Bayou Urban Nature Center trail restoration	10,000	
Restricted for future period		100,000
Sanctuary interns		10,338
Sims Bayou Urban Nature Center barn repair		10,000
Other	<u>16,267</u>	<u>13,061</u>
Total temporarily restricted net assets	<u>\$ 626,608</u>	<u>\$ 569,574</u>

NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Land held as nature sanctuaries	\$ 3,405,123	\$ 3,405,123
Land purchase endowment	123,264	123,264
Callery Alexander general endowment	75,000	75,000
General endowment	<u>27,565</u>	<u>15,565</u>
Total permanently restricted net assets	<u>\$ 3,630,952</u>	<u>\$ 3,618,952</u>

NOTE 8 – ENDOWMENT FUNDS

Endowment net asset composition as of June 30, 2017 is as follows:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds		\$ 193,285	\$ 225,829	\$ 419,114
Board-designated endowment funds	<u>\$ 256,827</u>	_____	_____	<u>256,827</u>
Endowment net assets	<u>\$ 256,827</u>	<u>\$ 193,285</u>	<u>\$ 225,829</u>	<u>\$ 675,941</u>

Endowment net asset composition as of June 30, 2016 is as follows:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds		\$ 166,617	\$ 213,829	\$ 380,446
Board-designated endowment funds	<u>\$ 235,022</u>	_____	_____	<u>235,022</u>
Endowment net assets	<u>\$ 235,022</u>	<u>\$ 166,617</u>	<u>\$ 213,829</u>	<u>\$ 615,468</u>

Changes in endowment net assets are as follows:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, June 30, 2015	<u>\$ 239,507</u>	<u>\$ 163,637</u>	<u>\$ 210,829</u>	<u>\$ 613,973</u>
Contributions			3,000	3,000
Investment return:				
Interest and dividends	4,485	4,004		8,489
Net realized and unrealized loss	<u>(8,970)</u>	<u>(1,024)</u>		<u>(9,994)</u>
Net investment return	<u>(4,485)</u>	<u>2,980</u>	_____	<u>(1,505)</u>
Endowment net assets, June 30, 2016	<u>235,022</u>	<u>166,617</u>	<u>213,829</u>	<u>615,468</u>
Contributions			12,000	12,000
Investment return:				
Interest and dividends	3,179	2,974		6,153
Net realized and unrealized gain	<u>18,626</u>	<u>23,694</u>		<u>42,320</u>
Net investment return	<u>21,805</u>	<u>26,668</u>	_____	<u>48,473</u>
Endowment net assets, June 30, 2017	<u>\$ 256,827</u>	<u>\$ 193,285</u>	<u>\$ 225,829</u>	<u>\$ 675,941</u>

The Board of Directors of HAS has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (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 this interpretation, HAS classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by HAS in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, HAS considers

the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of HAS and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of HAS
- The investment policies of HAS

Spending Policies and Return Objectives

HAS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment in such a manner as to preserve and enhance the net asset value. The endowment funds consist of contributions that are permanently restricted by the donor, as well as board-designated funds. HAS expects its endowment funds, over time, to provide an average annual rate of return of 5%. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, HAS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Distributions are determined by the Board of Directors and the Executive Director.

NOTE 9 – CONDITIONAL PLEDGE

HAS received a conditional pledge for approximately \$240,000 from a foundation with payments contingent upon completing three tasks and meeting certain conditions. At June 30, 2017, two of the tasks were underway, but none have been completed.

NOTE 10 – RETIREMENT PLANS

Effective January 2017, HAS sponsors a §401(k) plan covering employees aged 21 and older who have completed one year and 1,000 hours of employment. Eligible employees may contribute from 1% to 92% of their salary to the plan, subject to the Internal Revenue Service limits. HAS matches employee contributions of 1% plus one-half of employee contributions of 2% to 6%, for a maximum employer match of 3.5% of each employee's salary. HAS contributed \$9,747 to this plan during 2017.

Through December 2016, HAS participated in a defined contribution retirement plan covering employees earning \$5,000 or more per year. HAS matched employee contributions up to 3% of each employee's salary. HAS contributed \$8,767 to this plan during 2017 and \$18,464 during 2016.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 4, 2017, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.