

The Houston Audubon Society, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2020 and 2019

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, 2020 and 2019 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.

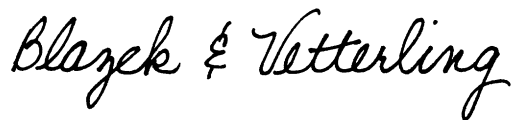
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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, 2020 and 2019 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



October 28, 2020

The Houston Audubon Society, Inc.

Statements of Financial Position as of June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 115,582	\$ 689,322
Short-term investments (Note 3)	986,460	1,920,506
Contributions receivable	2,722	273,569
Other assets	174,298	109,840
Long-term investments (Note 3)	2,883,675	2,850,064
Cash surrender value of life insurance	204,529	197,584
Depreciable property, net (Note 4)	3,453,382	1,176,229
Nature sanctuaries (Note 5)	<u>3,999,235</u>	<u>3,984,701</u>
TOTAL ASSETS	<u>\$ 11,819,883</u>	<u>\$ 11,201,815</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 58,155	\$ 54,950
Construction payable	200,029	
Deferred revenue	7,020	3,845
Payroll Protection Program refundable advance (Note 2)	<u>188,600</u>	
Total liabilities	<u>453,804</u>	<u>58,795</u>
Net assets (Note 8):		
Without donor restrictions (Note 6)	6,211,898	4,161,700
With donor restrictions (Note 7)	<u>5,154,181</u>	<u>6,981,320</u>
Total net assets	<u>11,366,079</u>	<u>11,143,020</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,819,883</u>	<u>\$ 11,201,815</u>

See accompanying notes to financial statements.

The Houston Audubon Society, Inc.

Statement of Activities for the year ended June 30, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 451,871	\$ 732,636	\$ 1,184,507
Special events	421,101		421,101
Direct donor benefits	(68,093)		(68,093)
Admission and program fees	111,953		111,953
Merchandise sales	60,794		60,794
Net investment return	<u>27,180</u>	<u>40,876</u>	<u>68,056</u>
Total revenue	1,004,806	773,512	1,778,318
Net assets released from restrictions:			
Expenditures for program purposes	255,738	(255,738)	
Capital expenditures	<u>2,344,913</u>	<u>(2,344,913)</u>	
Total	<u>3,605,457</u>	<u>(1,827,139)</u>	<u>1,778,318</u>
EXPENSES:			
Program services:			
Sanctuaries and habitat conservation	562,668		562,668
Environmental education and outreach	<u>541,862</u>		<u>541,862</u>
Total program services	1,104,530		1,104,530
Management and general	210,186		210,186
Fundraising	<u>240,543</u>		<u>240,543</u>
Total expenses	<u>1,555,259</u>		<u>1,555,259</u>
CHANGES IN NET ASSETS	2,050,198	(1,827,139)	223,059
Net assets, beginning of year	<u>4,161,700</u>	<u>6,981,320</u>	<u>11,143,020</u>
Net assets, end of year	<u>\$ 6,211,898</u>	<u>\$ 5,154,181</u>	<u>\$ 11,366,079</u>

See accompanying notes to financial statements.

The Houston Audubon Society, Inc.

Statement of Activities for the year ended June 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 433,941	\$ 637,841	\$ 1,071,782
Special events	386,019		386,019
Direct donor benefits	(77,963)		(77,963)
Admission and program fees	196,969		196,969
Merchandise sales	67,915		67,915
Net investment return	102,927	85,507	188,434
Other revenue	110,924		110,924
Total revenue	1,220,732	723,348	1,944,080
Net assets released from restrictions:			
Expenditures for program purposes	387,576	(387,576)	
Capital expenditures	321,496	(321,496)	
Total	1,929,804	14,276	1,944,080
EXPENSES:			
Program services:			
Sanctuaries and habitat conservation	546,823		546,823
Environmental education and outreach	522,171		522,171
Total program services	1,068,994		1,068,994
Management and general	199,328		199,328
Fundraising	229,014		229,014
Total expenses	1,497,336		1,497,336
CHANGES IN NET ASSETS	432,468	14,276	446,744
Net assets, beginning of year	3,729,232	6,967,044	10,696,276
Net assets, end of year	\$ 4,161,700	\$ 6,981,320	\$ 11,143,020

See accompanying notes to financial statements.

The Houston Audubon Society, Inc.

Statement of Functional Expenses for the year ended June 30, 2020

<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	\$ 325,372	\$ 333,847	\$ 659,219	\$ 154,855	\$ 189,870	\$ 1,003,944
Professional fees	17,266	55,248	72,514	41,658	13,409	127,581
Depreciation	62,281	16,918	79,199	1,546	1,546	82,291
Sanctuary and property maintenance	51,764	25,027	76,791	617	617	78,025
Communications	6,848	37,079	43,927	1,660	2,034	47,621
Insurance	25,800	12,081	37,881	3,560	1,219	42,660
Supplies	21,612	17,883	39,495	678	1,946	42,119
Utilities	15,314	5,651	20,965	691	692	22,348
Printing, publications, and postage	976	6,639	7,615	697	13,923	22,235
Grants and awards	10,782	7,183	17,965	264	10	18,239
Travel	7,690	3,627	11,317	334	478	12,129
Licenses, accreditations, and subscriptions	442	93	535	118	7,766	8,419
Educational classes and fieldtrips	116	7,657	7,773			7,773
Member and donor events		573	573		3,922	4,495
Conferences and professional development	1,446	342	1,788	70		1,858
Cost of merchandise sold		1,560	1,560			1,560
Other	14,959	10,454	25,413	3,438	3,111	31,962
Total expenses	<u>\$ 562,668</u>	<u>\$ 541,862</u>	<u>\$ 1,104,530</u>	<u>\$ 210,186</u>	<u>\$ 240,543</u>	1,555,259
Direct donor benefits						<u>68,093</u>
Total						<u>\$ 1,623,352</u>

See accompanying notes to financial statements.

The Houston Audubon Society, Inc.

Statement of Functional Expenses for the year ended June 30, 2019

<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	\$ 300,934	\$ 333,266	\$ 634,200	\$ 145,661	\$ 182,376	\$ 962,237
Professional fees	23,598	41,080	64,678	40,382	12,220	117,280
Depreciation	53,168	16,712	69,880	1,299	1,299	72,478
Sanctuary and property maintenance	47,700	5,686	53,386	653	652	54,691
Communications	6,972	36,215	43,187	1,514	1,861	46,562
Insurance	31,138	12,159	43,297	3,044	1,226	47,567
Supplies	22,276	19,962	42,238	1,649	2,489	46,376
Utilities	13,254	5,686	18,940	747	746	20,433
Printing, publications, and postage	4,048	7,924	11,972	488	7,712	20,172
Grants and awards	2,319	8,723	11,042	306	94	11,442
Travel	7,996	5,255	13,251	297	791	14,339
Licenses, accreditations, and subscriptions	310	225	535	193	7,559	8,287
Educational classes and fieldtrips		8,471	8,471			8,471
Member and donor events		2,056	2,056		6,097	8,153
Conferences and professional development	3,648	5,947	9,595		80	9,675
Cost of merchandise sold	9,745	2,212	11,957			11,957
Other	19,717	10,592	30,309	3,095	3,812	37,216
Total expenses	<u>\$ 546,823</u>	<u>\$ 522,171</u>	<u>\$ 1,068,994</u>	<u>\$ 199,328</u>	<u>\$ 229,014</u>	1,497,336
Direct donor benefits						<u>77,963</u>
Total						<u>\$ 1,575,299</u>

See accompanying notes to financial statements.

The Houston Audubon Society, Inc.

Statements of Cash Flows for the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 223,059	\$ 446,744
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	82,291	72,478
Contributions restricted for capital projects	(447,666)	(286,599)
Contributions restricted for endowment	(121,250)	
Net realized and unrealized (gain) loss on investments	36,394	(26,551)
Change in cash surrender value of life insurance	(6,945)	(6,654)
Changes in operating assets and liabilities:		
Contributions receivable	270,847	185,395
Other assets	(64,458)	(55,077)
Accounts payable and accrued expenses	3,205	13,861
Construction payable	200,029	
Deferred revenue	3,175	(2,030)
Refundable advance	<u>188,600</u>	
Net cash provided by operating activities	<u>367,281</u>	<u>341,567</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net sales of short-term investments	934,046	459,415
Purchases of long-term investments	(494,757)	(2,717,737)
Sales of long-term investments	470,571	2,410,225
Change in money market mutual funds held as investments	(45,819)	(4,244)
Purchases of sanctuary land	(14,534)	(49,777)
Purchases of depreciable property	<u>(2,359,444)</u>	<u>(505,814)</u>
Net cash used by investing activities	<u>(1,509,937)</u>	<u>(407,932)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital projects	447,666	286,599
Proceeds from contributions restricted for endowment	<u>121,250</u>	
Net cash provided by financing activities	<u>568,916</u>	<u>286,599</u>
NET CHANGE IN CASH	(573,740)	220,234
Cash, beginning of year	<u>689,322</u>	<u>469,088</u>
Cash, end of year	<u>\$ 115,582</u>	<u>\$ 689,322</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contributions of marketable securities (sold upon receipt)	\$119,828	\$59,905

See accompanying notes to financial statements.

The Houston Audubon Society, Inc.

Notes to Financial Statements for the years ended June 30, 2020 and 2019

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. Land and 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 3,600 members, coordinates 350 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 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 and world-renowned coastal sanctuaries located in High Island and the Bolivar Peninsula, Texas. HAS’s headquarters and native plant nursery are located at the Edith L. Moore Nature Sanctuary in west Houston. In 2018, HAS was awarded accreditation by the Land Trust Accreditation Commission, demonstrating its commitment to a sound program of land conservation and stewardship. After receiving critical funding in 2018, several capital projects were commenced to expand public access within key sanctuaries, including a major visitor enhancement at Smith Oaks Sanctuary in High Island, which was close to completion by the end of fiscal year 2020.

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.

Short-term investments are reported at fair value and consist of U. S. Government and Treasury money market mutual funds as of June 30, 2020, and certificates of deposit invested through a Certificate of Deposit Account Registry Service and U. S. Treasury securities with a stated maturity date of 90 days or less as of June 30, 2019. All other investments are considered long-term.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Contributions 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 risk-free interest rates applicable to the years in which the promises are received. At June 30, 2020, all contributions receivable are expected to be collected within one year.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

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 20 to 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 donor restrictions and must be maintained in perpetuity as nature preserves.

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. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from a donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before HAS is entitled to receive or retain funding. Conditional contributions are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as refundable advances.

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 provided by donation.

In 2020, approximately 350 volunteers have contributed over 5,600 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. In 2019, approximately 660 volunteers contributed over 13,600 hours of time. The reduction in volunteers and hours in 2020 was due primarily to COVID safety protocols and the resulting closures of sanctuaries and cancellations of programming during the busy spring migration season.

Special events revenue is the total paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Direct donor benefit costs represent the cost of goods and services provided to attendees of the special events.

Admission and program fees are derived from providing admission to sanctuaries, education and outreach programs, habitat management and facility rentals. Fees are due and recognized at the point in time when the services are provided to the customer in an amount that reflects the consideration HAS expects to be entitled to in exchange for those services. There are \$16,500 of contract assets resulting from fees at June 30, 2020 and 2019, and \$15,000 at June 30, 2018. There are no liabilities resulting from fees at June 30, 2020, 2019, or 2018.

Merchandise sales are derived from themed apparel, educational books, native plants and other items at three HAS locations. Sales of these items are recognized at the point in time when the sales price is collected and the purchased items are provided to the customer. There are no contract assets or liabilities resulting from merchandise sales at June 30, 2020, 2019, or 2018.

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 fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Professional fees, salaries and related costs are allocated on the basis of estimated time and effort expended. Expenses related to facilities are allocated based on square footage.

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.

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 June 30 comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 115,582	\$ 689,322
Short-term investments	986,460	1,920,506
Contributions receivable	2,722	273,569
Long-term investments	<u>2,883,675</u>	<u>2,850,064</u>
Total financial assets	3,988,439	5,733,461
Less financial assets not available for general expenditure:		
Endowment investments not expected to be appropriated in the next 12 months	(1,771,613)	(1,630,621)
Restricted by donors for capital projects and additions	<u>(443,708)</u>	<u>(2,237,978)</u>
Total financial assets available for general expenditure	<u>\$ 1,773,118</u>	<u>\$ 1,864,862</u>

Financial assets available for general expenditure include amounts expected to be appropriated from donor-restricted assets and endowment earnings during the upcoming year. For purposes of analyzing resources available to meet general expenditures over a 12-month period, HAS considers all expenditures related to its ongoing activities of land and habitat conservation, natural science education, and conservation advocacy, as well as the conduct of services undertaken to support those activities, to be general expenditures.

HAS received a Paycheck Protection Program (PPP) loan of \$188,600 in May 2020. PPP loan principal and interest (1% annual interest rate) may be forgiven, in whole or in part, if funds are used within a specified period for the intended purposes. The loan is considered to be a conditional contribution that has not been recognized as revenue because lender forgiveness has not yet been requested and received at June 30, 2020.

NOTE 3 – 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, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Short-term investments:				
Money market mutual fund	\$ 986,460			\$ 986,460
Long-term investments:				
Equity mutual funds:				
International	331,950			331,950
Large-cap blend	172,976			172,976
Large-cap growth	170,319			170,319
Small-cap growth	98,780			98,780
Small-cap blend	91,763			91,763
Exchange-traded domestic equity funds:				
Large-cap growth	333,846			333,846
Large-cap blend	267,197			267,197
Mid-cap growth	103,569			103,569
Mid-cap value	97,423			97,423
Fixed-income mutual funds:				
Government bond	486,583			486,583
Domestic bond	138,799			138,799
Alternative strategies mutual funds:				
Tactical allocation	53,219			53,219
Managed futures	52,934			52,934
Energy limited partnership	48,434			48,434
Real estate	45,380			45,380
Commodities broad basket	23,654			23,654
Exchange-traded domestic bond funds:				
Government bond	176,369			176,369
Exchange-traded international equity funds:				
International large blend	106,504			106,504
Money market mutual funds	83,976			83,976
Total assets measured at fair value	<u>\$ 3,870,135</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,870,135</u>

Assets measured at fair value at June 30, 2019 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Short-term investments:				
Certificates of deposit		\$ 1,519,773		\$ 1,519,773
U. S. Treasury securities		400,733		400,733
Long-term investments:				
Equity mutual funds:				
International	\$ 317,316			317,316
Large-cap blend	174,804			174,804
Large-cap growth	168,810			168,810
Small-cap growth	106,249			106,249
Small-cap blend	138,536			138,536
Exchange-traded domestic equity funds:				
Large-cap growth	341,219			341,219
Large-cap blend	212,978			212,978
Mid-cap value	95,280			95,280
Mid-cap growth	99,670			99,670
Fixed-income mutual funds:				
Government bond	482,801			482,801
Domestic bond	128,095			128,095
Alternative strategies mutual funds:				
Tactical allocation	68,360			68,360
Managed futures	70,165			70,165
Energy limited partnership	66,559			66,559
Real estate	41,015			41,015
Commodities broad basket	25,902			25,902
Exchange-traded domestic bond funds:				
Government bond	159,115			159,115
Exchange-traded international equity funds:				
International large blend	115,033			115,033
Money market mutual funds	38,157			38,157
Total assets measured at fair value	<u>\$ 2,850,064</u>	<u>\$ 1,920,506</u>	<u>\$ 0</u>	<u>\$ 4,770,570</u>

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

- *Mutual funds* are valued at the reported net asset value of shares held.
- *Exchange-traded funds* are valued at the closing price reported on the active market on which the individual funds are traded.
- *Certificates of deposit* and *U. S. Treasury securities* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes to calculate fair values.

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.

NOTE 4 – DEPRECIABLE PROPERTY

Depreciable property is comprised of the following:

	<u>2020</u>	<u>2019</u>
Buildings	\$ 584,548	\$ 577,914
Land and building improvements	926,167	863,321
Furniture, fixtures and equipment	223,815	217,817
Construction in progress	<u>2,418,656</u>	<u>134,690</u>
Total depreciable property, at cost	4,153,186	1,793,742
Accumulated depreciation	<u>(699,804)</u>	<u>(617,513)</u>
Depreciable property, net	<u>\$ 3,453,382</u>	<u>\$ 1,176,229</u>

NOTE 5 – NATURE SANCTUARIES SYSTEM

Nature sanctuaries as of June 30, 2020 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)	260	\$ 1,096,562
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
Houston Audubon Raptor and Education 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>3,478</u>	<u>\$ 3,999,235</u>

NOTE 6 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	<u>2020</u>	<u>2019</u>
Invested in depreciable property	\$ 3,453,382	\$ 1,176,229
Undesignated	1,366,003	1,616,744
Land held as nature sanctuaries	594,112	579,578
Board-designated for land and facilities stewardship endowment	<u>798,401</u>	<u>789,149</u>
Total net assets without donor restrictions	<u>\$ 6,211,898</u>	<u>\$ 4,161,700</u>

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Land acquisition and management	\$ 296,258	
High Island Field Station development	115,500	\$ 104,400
Houston Audubon Raptor and Education Center development	40,927	63,563
Smith Oaks skywalk, restrooms, and visitor pavilion	30,064	2,086,090
High Island Coastal Operations Center development	16,769	111,855
Other	<u>71,799</u>	<u>71,232</u>
Total subject to expenditure for specified purpose	<u>571,317</u>	<u>2,437,140</u>
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due		<u>100,000</u>
Endowments:		
Subject to spending policy and appropriation:		
Land and facilities stewardship endowment – general	407,106	281,841
Land and facilities stewardship endowment – Bolivar sanctuaries	303,057	299,545
Land purchase endowment	302,521	294,466
Callery Alexander and general endowment	<u>165,057</u>	<u>163,205</u>
Total endowments	<u>1,177,741</u>	<u>1,039,057</u>
Not subject to appropriation or expenditure:		
Land held as nature sanctuaries	<u>3,405,123</u>	<u>3,405,123</u>
Total net assets with donor restrictions	<u>\$ 5,154,181</u>	<u>\$ 6,981,320</u>

NOTE 8 – ENDOWMENT FUNDS

Endowment net asset composition as of June 30, 2020 is as follows:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS		TOTAL
		SUBJECT TO SPENDING POLICY AND APPROPRIATION	REQUIRED TO BE MAINTAINED IN PERPETUITY	
Donor-restricted endowment funds:				
Land and facilities stewardship		\$ 710,163		\$ 710,163
Land purchase		179,257	\$ 123,264	302,521
General		62,492	102,565	165,057
Board-designated for land and facilities stewardship	\$ 798,401			798,401
Endowment net assets	\$ 798,401	\$ 951,912	\$ 225,829	\$ 1,976,142

Endowment net asset composition as of June 30, 2019 is as follows:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS		TOTAL
		SUBJECT TO SPENDING POLICY AND APPROPRIATION	REQUIRED TO BE MAINTAINED IN PERPETUITY	
Donor-restricted endowment funds:				
Land and facilities stewardship		\$ 581,386		\$ 581,386
Land purchase		171,202	\$ 123,264	294,466
General		60,640	102,565	163,205
Board-designated for land and facilities stewardship	\$ 789,149			789,149
Endowment net assets	\$ 789,149	\$ 813,228	\$ 225,829	\$ 1,828,206

Changes in endowment net assets are as follows:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS		TOTAL
		SUBJECT TO SPENDING POLICY AND APPROPRIATION	REQUIRED TO BE MAINTAINED IN PERPETUITY	
Endowment net assets, June 30, 2018	\$ 750,965	\$ 770,249	\$ 225,829	\$ 1,747,043
Net investment return	38,184	42,979		81,163
Endowment net assets, June 30, 2019	789,149	813,228	225,829	1,828,206
Contributions		121,250		121,250
Net investment return	9,252	17,434		26,686
Endowment net assets, June 30, 2020	\$ 798,401	\$ 951,912	\$ 225,829	\$ 1,976,142

HAS has donor-restricted endowment funds, which are maintained in accordance with explicit donor stipulations, and board-designated endowment funds. 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 perpetual endowment as *net assets with donor restrictions* required to be maintained in perpetuity. The remaining portion of the donor-restricted endowment fund is classified as *net assets with donor restrictions* until those amounts are appropriated for expenditure in a manner consistent with the standards 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 include donor-imposed restrictions, 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).

The target spending amount for the land and facilities stewardship endowment shall be 5% of the average value in the fund as of the end of the previous twelve quarters. Distributions are determined by the Board of Directors. Distributions from the land purchase and general endowments are determined by the Board of Directors.

NOTE 9 – RETIREMENT PLAN

HAS sponsors a §401(k) plan covering employees age 21 and over 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 \$19,695 to this plan during 2020 and \$19,819 during 2019.

NOTE 10 – PANDEMIC AND SUBSEQUENT EVENTS

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of COVID-19 and a national emergency was declared in the United States. In fiscal year 2020, HAS temporarily closed some sanctuaries and cancelled or postponed in-person events and programs. Business disruption caused by the pandemic is expected to continue to reduce revenue. The extent of the impact of COVID-19 on HAS's future operational and financial performance will depend on developments such as the duration and spread of the outbreak, and the impact on HAS's donors, customers, employees, and vendors, all of which are uncertain and cannot be predicted. While HAS expects these events to negatively impact operating results, the financial impact cannot be reasonably estimated at this time.

Management has evaluated subsequent events through October 28, 2020, 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.
