

**The Houston Audubon Society, Inc.**

Financial Statements  
and Independent Auditors' Report  
for the years ended June 30, 2018 and 2017

# 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, 2018 and 2017 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.

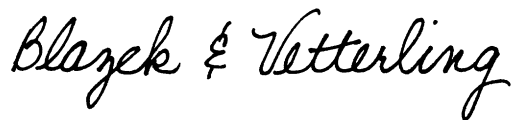
**Management's Responsibility for the Financial Statements** – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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, 2018 and 2017 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.



September 19, 2018

## The Houston Audubon Society, Inc.

Statements of Financial Position as of June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 469,088	\$ 462,037
Short-term investments (Note 3)	2,379,921	
Contributions receivable (Note 2)	458,964	96,995
Other current assets	54,763	48,437
Long-term investments (Note 3)	2,511,757	2,360,940
Cash surrender value of life insurance	190,930	184,591
Depreciable property, net (Note 4)	742,893	657,297
Nature sanctuaries (Note 5)	<u>3,934,924</u>	<u>3,934,924</u>
 TOTAL ASSETS	 <u>\$ 10,743,240</u>	 <u>\$ 7,745,221</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 41,089	\$ 40,152
Deferred revenue	<u>5,875</u>	<u>3,195</u>
Total liabilities	<u>46,964</u>	<u>43,347</u>
Net assets (Note 9):		
Unrestricted (Note 6)	3,729,232	3,444,314
Temporarily restricted (Note 7)	3,336,092	626,608
Permanently restricted (Note 8)	<u>3,630,952</u>	<u>3,630,952</u>
Total net assets	<u>10,696,276</u>	<u>7,701,874</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 10,743,240</u>	 <u>\$ 7,745,221</u>

*See accompanying notes to financial statements.*

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## The Houston Audubon Society, Inc.

Statement of Activities for the year ended June 30, 2018

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions ( <i>Note 2</i> )	\$ 520,783	\$ 3,300,306		\$ 3,821,089
Special events	421,332			421,332
Direct donor benefits	(63,601)			(63,601)
Admission and program fees	189,247			189,247
Merchandise sales	70,545			70,545
Investment return, net ( <i>Note 3</i> )	<u>121,323</u>	<u>54,445</u>		<u>175,768</u>
Total revenue	1,259,629	3,354,751		4,614,380
Net assets released from restrictions:				
Expenditures for program purposes	516,694	(516,694)		
Capital expenditures	<u>128,573</u>	<u>(128,573)</u>		
Total	<u>1,904,896</u>	<u>2,709,484</u>		<u>4,614,380</u>
EXPENSES:				
Program services:				
Sanctuaries and habitat conservation	760,364			760,364
Environmental education and outreach	<u>470,999</u>			<u>470,999</u>
Total program services	1,231,363			1,231,363
Management and general	184,743			184,743
Fundraising	<u>203,872</u>			<u>203,872</u>
Total expenses	<u>1,619,978</u>			<u>1,619,978</u>
CHANGES IN NET ASSETS	284,918	2,709,484		2,994,402
Net assets, beginning of year	<u>3,444,314</u>	<u>626,608</u>	<u>\$ 3,630,952</u>	<u>7,701,874</u>
Net assets, end of year	<u>\$ 3,729,232</u>	<u>\$ 3,336,092</u>	<u>\$ 3,630,952</u>	<u>\$ 10,696,276</u>

*See accompanying notes to financial statements.*

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## The Houston Audubon Society, Inc.

Statement of Activities for the year ended June 30, 2017

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY 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 3</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.*

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## The Houston Audubon Society, Inc.

### Statement of Functional Expenses for the year ended June 30, 2018

<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	\$ 300,998	\$ 280,905	\$ 581,903	\$ 138,868	\$ 161,144	\$ 881,915
Sanctuary and property maintenance	275,902	6,358	282,260	746	746	283,752
Professional fees	36,912	59,822	96,734	35,005	10,839	142,578
Depreciation	39,514	16,663	56,177	1,249	1,249	58,675
Insurance	28,860	11,457	40,317	3,019	1,168	44,504
Communications	5,592	34,686	40,278	1,659	1,659	43,596
Supplies	21,003	15,895	36,898	810	2,531	40,239
Printing, publications, and postage	1,009	8,567	9,576	535	9,000	19,111
Utilities	11,635	4,932	16,567	768	768	18,103
Cost of merchandise sold	15,188	2,816	18,004			18,004
Travel	9,087	3,976	13,063	370	569	14,002
Member and donor events		5,738	5,738		5,487	11,225
Educational classes and fieldtrips		7,195	7,195			7,195
Licenses, accreditations, and subscriptions	253		253		5,823	6,076
Conferences and professional development	3,710	859	4,569	43	80	4,692
Grants and awards	331	2,868	3,199	96	205	3,500
Other	10,370	8,262	18,632	1,575	2,604	22,811
Total expenses	<u>\$ 760,364</u>	<u>\$ 470,999</u>	<u>\$ 1,231,363</u>	<u>\$ 184,743</u>	<u>\$ 203,872</u>	<u>\$ 1,619,978</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
Sanctuary and property maintenance	52,528	5,580	58,108	451	451	59,010
Professional fees	41,279	19,982	61,261	35,234	11,853	108,348
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
Communications	5,625	38,967	44,592	1,734	2,042	48,368
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
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
Licenses, accreditations, and subscriptions	9,950		9,950		6,573	16,523
Conferences and professional development	1,011	1,173	2,184	122	40	2,346
Grants and awards	2,970	1,339	4,309	228	22	4,559
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.

### Statements of Cash Flows for the years ended June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 2,994,402	\$ 478,991
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	58,677	45,793
Net realized and unrealized gain on investments	(109,868)	(184,984)
Change in cash surrender value of life insurance	(6,339)	(6,272)
Changes in operating assets and liabilities:		
Contributions receivable	(361,969)	93,338
Other current assets	(6,326)	(10,819)
Accounts payable and accrued expenses	937	(2,848)
Deferred revenue	<u>2,680</u>	<u>1,820</u>
Net cash provided by operating activities	<u>2,572,194</u>	<u>415,019</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of short-term investments	(2,379,921)	
Purchases of investments	(1,813,872)	(644,592)
Sales of investments	1,780,203	238,822
Change in money market mutual funds held as investments	(7,280)	174,193
Purchases of depreciable property	<u>(144,273)</u>	<u>(127,401)</u>
Net cash used by investing activities	<u>(2,565,143)</u>	<u>(358,978)</u>
<b>NET CHANGE IN CASH</b>	<b>7,051</b>	<b>56,041</b>
Cash, beginning of year	<u>462,037</u>	<u>405,996</u>
Cash, end of year	<u>\$ 469,088</u>	<u>\$ 462,037</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contributions of marketable securities (sold upon receipt)	\$1,377,903	\$47,379

*See accompanying notes to financial statements.*

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## The Houston Audubon Society, Inc.

Notes to Financial Statements for the years ended June 30, 2018 and 2017

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### 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 5,000 members, coordinates over 1,000 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 fiscal year 2018, HAS was awarded accreditation by the Land Trust Accreditation Commission, demonstrating its commitment to a sound program of land conservation and stewardship. In addition, after receiving critical funding in fiscal year 2018, several capital projects were commenced to enhance and expand public access within key sanctuaries. Several of these projects were part of recovery efforts stemming from the impact of Hurricane Harvey in August 2017.

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 consist of certificates of deposit invested through a Certificate of Deposit Account Registry Service and U. S. Treasury securities that have a stated maturity date of 90 days or less from the balance sheet date. All other investments are considered long-term.

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.

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 the risk-free interest rates applicable to the years in which the promises are received.

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.

Approximately 1,000 volunteers have contributed over 16,000 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.

## NOTE 2 – CONTRIBUTIONS RECEIVABLE AND CONTRIBUTIONS

Contributions receivable at June 30, 2018 are expected to be collected as follows:

2019	\$ 358,964
2020	<u>100,000</u>
Total contributions receivable	<u>\$ 458,964</u>

*Concentration* – At June 30, 2018, 92% of contributions receivable is from two donors. In 2018, one donor contributed 62% of total contributions, including a one-time gift for a capital project.

### 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, 2018 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Short-term investments:				
Certificates of deposit		\$ 1,978,946		\$ 1,978,946
U. S. Treasury securities		400,975		400,975
Long-term investments:				
Equity mutual funds:				
Large-cap blend	\$ 336,844			336,844
International	186,047			186,047
Large-cap growth	137,131			137,131
Small-cap blend	78,444			78,444
Small-cap growth	65,116			65,116
Exchange-traded domestic equity funds:				
Large-cap blend	328,475			328,475
Mid-cap growth	114,691			114,691
Mid-cap value	113,887			113,887
Alternative strategies mutual funds:				
Multi-alternative	79,827			79,827
Real estate	71,494			71,494
Energy limited partnership	67,546			67,546
Commodities broad basket	54,439			54,439
Tactical allocation	42,162			42,162
Managed futures	36,674			36,674
Long-short equity	21,039			21,039
Fixed-income mutual funds:				
Government bond	168,189			168,189
Domestic bond	163,580			163,580
International bond	38,259			38,259
Exchange-traded domestic bond funds:				
Corporate bond	142,468			142,468
Government bond	106,131			106,131
Exchange-traded international equity funds:				
International large blend	125,401			125,401
Money market mutual funds	33,913			33,913
Total assets measured at fair value	<u>\$ 2,511,757</u>	<u>\$ 2,379,921</u>	<u>\$ 0</u>	<u>\$ 4,891,678</u>

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:				
Mid-cap growth	\$ 181,450			\$ 181,450
Mid-cap value	110,494			110,494
Large-cap growth	271,247			271,247
Large-cap value	243,572			243,572
Small-cap value	159,524			159,524
Small-cap growth	93,161			93,161
Alternative strategies mutual funds:				
Multi-alternative	68,792			68,792
Real estate	50,598			50,598
Energy limited partnership	74,188			74,188
Commodities broad basket	40,630			40,630
Tactical allocation	42,377			42,377
Managed futures	44,918			44,918
Bank loan	77,880			77,880
Preferred stock	63,204			63,204
Exchange-traded domestic bond funds:				
Intermediate government	155,119			155,119
Inflation-protected	128,715			128,715
High yield	52,898			52,898
Exchange-traded international equity funds:				
International blend	363,428			363,428
Fixed-income mutual funds:				
Domestic bond	112,112			112,112
Money market mutual funds	<u>26,633</u>			<u>26,633</u>
Total assets measured at fair value	<u>\$ 2,360,940</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,360,940</u>

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

- *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.
- *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.

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>2018</u>	<u>2017</u>
Realized and unrealized gain on investments	\$ 109,868	\$ 184,984
Interest and dividends	77,484	48,466
Oil and gas revenue	506	2,884
Change in cash surrender value of life insurance	6,339	6,272
Investment management fees	<u>(18,429)</u>	<u>(16,750)</u>
Investment return, net	<u>\$ 175,768</u>	<u>\$ 225,856</u>

#### NOTE 4 – DEPRECIABLE PROPERTY

Depreciable property is comprised of the following:

	<u>2018</u>	<u>2017</u>
Buildings	\$ 429,553	\$ 429,553
Land and building improvements	656,704	542,824
Furniture, fixtures and equipment	<u>217,817</u>	<u>214,817</u>
Total depreciable property, at cost	1,304,074	1,187,194
Accumulated depreciation	<u>(561,181)</u>	<u>(529,897)</u>
Depreciable property, net	<u>\$ 742,893</u>	<u>\$ 657,297</u>

#### NOTE 5 – NATURE SANCTUARIES

Nature sanctuaries as of June 30, 2018 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 6 – UNRESTRICTED NET ASSETS**

Unrestricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 1,705,573	\$ 1,947,066
Invested in depreciable property	742,893	657,297
Land held as nature sanctuaries	529,801	529,801
Board-designated for land and facilities stewardship endowment	750,965	
Board-designated for general endowment		256,827
Board-designated for property conservation defense		51,323
Board-designated for Edith L. Moore Nature Sanctuary cabin maintenance		<u>2,000</u>
Total unrestricted net assets	<u>\$ 3,729,232</u>	<u>\$ 3,444,314</u>

**NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Smith Oaks visitor center, skywalk, and bathrooms	\$ 2,178,154	
Land and facilities stewardship endowment gifts and accumulated earnings – Bolivar sanctuaries	285,051	
Land and facilities stewardship endowment gifts and accumulated earnings – general	272,595	
Restricted for future period	200,000	
Accumulated earnings on land purchase endowment	159,861	\$ 146,436
High Island Field Station development	104,400	20,000
Sims Bayou Urban Nature Center aviaries	60,000	
Accumulated earnings on endowment to support operations	52,742	46,847
Land purchase	9,678	7,428
Bolivar sanctuaries management		269,558
Bird-Friendly Communities initiative		50,000
General sanctuary support		50,000
Fondren Bridge rebuilding at Edith L. Moore Nature Sanctuary		17,500
Sims Bayou Urban Nature Center trail restoration		10,000
Other	<u>13,611</u>	<u>8,839</u>
Total temporarily restricted net assets	<u>\$ 3,336,092</u>	<u>\$ 626,608</u>

**NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consist of the following:

	<u>2018</u>	<u>2017</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>27,565</u>
Total permanently restricted net assets	<u>\$ 3,630,952</u>	<u>\$ 3,630,952</u>

## NOTE 9 – ENDOWMENT FUNDS

Endowment net asset composition as of June 30, 2018 is as follows:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds:				
Land and facilities stewardship		\$ 557,646		\$ 557,646
Land purchase		159,861	\$ 123,264	283,125
General		52,742	102,565	155,307
Board-designated for land and facilities stewardship	\$ 750,965			750,965
Endowment net assets	<u>\$ 750,965</u>	<u>\$ 770,249</u>	<u>\$ 225,829</u>	<u>\$ 1,747,043</u>

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:				
Land purchase		\$ 146,438	\$ 123,264	\$ 269,702
General		46,847	102,565	149,412
Board-designated for general endowment	\$ 256,827			256,827
Endowment net assets	<u>\$ 256,827</u>	<u>\$ 193,285</u>	<u>\$ 225,829</u>	<u>\$ 675,941</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, 2016	\$ 235,022	\$ 166,617	\$ 213,829	\$ 615,468
Contributions			12,000	12,000
Investment return:				
Interest and dividends	3,179	2,974		6,153
Net realized and unrealized gain	18,626	23,694		42,320
Net investment return	21,805	26,668		48,473
Endowment net assets, June 30, 2017	256,827	193,285	225,829	675,941
Board-designations and transfers	453,323	269,558		722,881
Contributions		269,115		269,115
Investment return:				
Interest and dividends	11,082	9,764		20,846
Net realized and unrealized gain	29,733	28,527		58,260
Net investment return	40,815	38,291		79,106
Endowment net assets, June 30, 2018	<u>\$ 750,965</u>	<u>\$ 770,249</u>	<u>\$ 225,829</u>	<u>\$ 1,747,043</u>



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 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

In fiscal year 2018, the Board of Directors established a land and facilities stewardship endowment to which it directed both existing and newly board-designated funds totaling \$710,150, including \$256,827 that were previously designated for general endowment. In addition, the Board of Directors transferred \$269,558 of prior years' donor-restricted funds for Bolivar sanctuary management to the endowment. Investment earnings were allocated to the endowment for the entire 2018 fiscal year.

#### 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, that are temporarily 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).

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 10 – RETIREMENT PLANS**

Effective January 2017, 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 \$20,757 to this plan during 2018 and \$9,747 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.

#### **NOTE 11 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 19, 2018, 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.

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