

The Houston Audubon Society

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2023 and 2022

The Houston Audubon Society

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Independent Auditors' Report

To the Board of Directors of
The Houston Audubon Society

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Houston Audubon Society, which comprise the statements of financial position as of June 30, 2023 and 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Houston Audubon Society as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Houston Audubon Society's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Houston Audubon Society's ability to continue as a going concern for a reasonable period of time.

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

Blazek & Vetterling

October 25, 2023

The Houston Audubon Society

Statements of Financial Position as of June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 83,640	\$ 264,798
Short-term investments <i>(Note 4)</i>	881,320	1,438,731
Contributions receivable	210,292	20,274
Program fees receivable	33,104	25,300
Right-of-use asset – finance <i>(Note 11)</i>	6,499	
Other assets	32,851	29,527
Long-term investments <i>(Note 4)</i>	3,416,492	3,197,705
Cash surrender value of life insurance	225,911	218,677
Depreciable property, net <i>(Note 5)</i>	3,974,926	3,489,001
Nature sanctuaries <i>(Note 6)</i>	<u>4,635,841</u>	<u>4,635,841</u>
TOTAL ASSETS	<u>\$ 13,500,876</u>	<u>\$ 13,319,854</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 54,926	\$ 49,446
Construction payable	15,417	175,944
Finance lease liability <i>(Note 11)</i>	6,786	
Deferred revenue	10,825	17,745
Refundable advances – special events	<u>35,500</u>	<u>30,000</u>
Total liabilities	<u>123,454</u>	<u>273,135</u>
Net assets <i>(Note 9)</i> :		
Without donor restrictions <i>(Note 7)</i>	8,268,029	7,513,906
With donor restrictions <i>(Note 8)</i>	<u>5,109,393</u>	<u>5,532,813</u>
Total net assets	<u>13,377,422</u>	<u>13,046,719</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,500,876</u>	<u>\$ 13,319,854</u>

See accompanying notes to financial statements.

The Houston Audubon Society

Statement of Activities for the year ended June 30, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Financial contributions	\$ 879,271	\$ 517,500	\$ 1,396,771
Nonfinancial contributions <i>(Note 10)</i>	15,165		15,165
Special events:			
Financial contributions	354,338		354,338
Nonfinancial contributions <i>(Note 10)</i>	25,442		25,442
Direct donor benefit costs	(85,382)		(85,382)
Admission and program fees	277,204		277,204
Merchandise sales	82,871		82,871
Net investment return	<u>189,718</u>	<u>79,009</u>	<u>268,727</u>
Total revenue	1,738,627	596,509	2,335,136
Net assets released from restrictions:			
Expenditures for program purposes	360,041	(360,041)	
Capital expenditures	<u>659,888</u>	<u>(659,888)</u>	
Total	<u>2,758,556</u>	<u>(423,420)</u>	<u>2,335,136</u>
EXPENSES:			
Program services:			
Environmental education and outreach	735,783		735,783
Sanctuaries and habitat conservation	<u>730,302</u>		<u>730,302</u>
Total program services	1,466,085		1,466,085
Management and general	294,476		294,476
Fundraising	<u>243,872</u>		<u>243,872</u>
Total expenses	<u>2,004,433</u>		<u>2,004,433</u>
CHANGES IN NET ASSETS	754,123	(423,420)	330,703
Net assets, beginning of year	<u>7,513,906</u>	<u>5,532,813</u>	<u>13,046,719</u>
Net assets, end of year	<u>\$ 8,268,029</u>	<u>\$ 5,109,393</u>	<u>\$ 13,377,422</u>

See accompanying notes to financial statements.

The Houston Audubon Society

Statement of Activities for the year ended June 30, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Financial contributions	\$ 616,110	\$ 351,864	\$ 967,974
Government – Paycheck Protection Program		382,142	382,142
Contributions of nature sanctuaries (Note 10)	3,183		3,183
Other nonfinancial contributions (Note 10)	2,083		2,083
Special events:			
Financial contributions	332,911		332,911
Nonfinancial contributions (Note 10)	17,705		17,705
Direct donor benefit costs	(70,109)		(70,109)
Admission and program fees	278,001		278,001
Merchandise sales	71,797		71,797
Net investment return	(299,016)	(167,243)	(466,259)
Loss on disposal of property	<u>(45,528)</u>	<u> </u>	<u>(45,528)</u>
Total revenue	907,137	566,763	1,473,900
Net assets released from restrictions:			
Expenditures for program purposes	713,845	(713,845)	
Capital expenditures	<u>79,985</u>	<u>(79,985)</u>	<u> </u>
Total	<u>1,700,967</u>	<u>(227,067)</u>	<u>1,473,900</u>
EXPENSES:			
Program services:			
Environmental education and outreach	546,571		546,571
Sanctuaries and habitat conservation	<u>637,186</u>		<u>637,186</u>
Total program services	1,183,757		1,183,757
Management and general	263,527		263,527
Fundraising	<u>237,484</u>		<u>237,484</u>
Total expenses	<u>1,684,768</u>		<u>1,684,768</u>
CHANGES IN NET ASSETS	16,199	(227,067)	(210,868)
Net assets, beginning of year	<u>7,497,707</u>	<u>5,759,880</u>	<u>13,257,587</u>
Net assets, end of year	<u>\$ 7,513,906</u>	<u>\$ 5,532,813</u>	<u>\$ 13,046,719</u>

See accompanying notes to financial statements.

The Houston Audubon Society

Statement of Functional Expenses for the year ended June 30, 2023

<u>EXPENSES</u>	<u>ENVIRONMENTAL EDUCATION AND OUTREACH</u>	<u>SANCTUARIES AND HABITAT CONSERVATION</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and benefits	\$ 517,836	\$ 281,008	\$ 798,844	\$ 186,675	\$ 201,314	\$ 1,186,833
Depreciation	21,371	164,604	185,975	2,174	2,174	190,323
Sanctuary and property maintenance	26,726	108,365	135,091	878	878	136,847
Professional fees	15,442	32,868	48,310	71,152	14,530	133,992
Insurance	23,709	50,469	74,178	4,561	1,834	80,573
Supplies	34,897	27,634	62,531	1,907	4,389	68,827
Communications	23,451	6,112	29,563	1,800	2,128	33,491
Printing, publications, and postage	8,076	6,291	14,367	3,700	9,296	27,363
Utilities	8,620	15,217	23,837	771	771	25,379
Travel	9,077	14,201	23,278	497	1,064	24,839
Cost of merchandise sold	19,180		19,180			19,180
Credit card fees				17,217		17,217
Property taxes		12,351	12,351			12,351
Educational classes and fieldtrips	7,644		7,644			7,644
Licenses, accreditations, and subscriptions	6,219	399	6,618	550	78	7,246
Grants and awards	4,444	437	4,881	301	787	5,969
Other	<u>9,091</u>	<u>10,346</u>	<u>19,437</u>	<u>2,293</u>	<u>4,629</u>	<u>26,359</u>
Total expenses	<u>\$ 735,783</u>	<u>\$ 730,302</u>	<u>\$ 1,466,085</u>	<u>\$ 294,476</u>	<u>\$ 243,872</u>	2,004,433
Direct donor benefit costs						<u>85,382</u>
Total						<u>\$ 2,089,815</u>

See accompanying notes to financial statements.

The Houston Audubon Society

Statement of Functional Expenses for the year ended June 30, 2022

<u>EXPENSES</u>	<u>ENVIRONMENTAL EDUCATION AND OUTREACH</u>	<u>SANCTUARIES AND HABITAT CONSERVATION</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and benefits	\$ 386,358	\$ 282,745	\$ 669,103	\$ 186,603	\$ 196,385	\$ 1,052,091
Depreciation	23,717	152,136	175,853	1,984	1,984	179,821
Sanctuary and property maintenance	15,644	52,749	68,393	918	918	70,229
Professional fees	14,573	19,256	33,829	41,093	12,853	87,775
Insurance	20,177	33,833	54,010	4,542	1,639	60,191
Supplies	19,537	29,224	48,761	1,679	3,976	54,416
Communications	17,844	6,507	24,351	1,324	1,620	27,295
Printing, publications, and postage	2,580	3,900	6,480	3,819	10,655	20,954
Utilities	6,381	15,466	21,847	693	693	23,233
Travel	6,834	7,410	14,244	830	1,658	16,732
Cost of merchandise sold	13,125		13,125			13,125
Credit card fees				16,428		16,428
Property taxes		11,425	11,425			11,425
Educational classes and fieldtrips	6,601		6,601			6,601
Licenses, accreditations, and subscriptions	4,430	13,107	17,537	376	78	17,991
Grants and awards	1,419	510	1,929			1,929
Other	<u>7,351</u>	<u>8,918</u>	<u>16,269</u>	<u>3,238</u>	<u>5,025</u>	<u>24,532</u>
Total expenses	<u>\$ 546,571</u>	<u>\$ 637,186</u>	<u>\$ 1,183,757</u>	<u>\$ 263,527</u>	<u>\$ 237,484</u>	1,684,768
Direct donor benefit costs						<u>70,109</u>
Total						<u>\$ 1,754,877</u>

See accompanying notes to financial statements.

The Houston Audubon Society

Statements of Cash Flows for the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 330,703	\$ (210,868)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(99,021)	599,153
Change in cash surrender value of life insurance	(7,234)	(7,125)
Depreciation	190,323	179,821
Amortization of right-of-use asset	2,845	
Loss on disposal of depreciable property		45,528
Contributions of nature sanctuaries		(3,183)
Changes in operating assets and liabilities:		
Contributions receivable	(190,018)	44,286
Program fees receivable	(7,804)	(8,389)
Other assets	(3,324)	(2,159)
Accounts payable and accrued expenses	5,480	7,782
Deferred revenue	(6,920)	5,725
Refundable advance – special events	5,500	
Refundable advance – Paycheck Protection Program		(377,366)
Net cash provided by operating activities	<u>220,530</u>	<u>273,205</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net sales (purchases) of short-term investments	557,411	(152,132)
Purchases of long-term investments	(968,299)	(1,164,778)
Sales of long-term investments	855,795	1,005,959
Change in money market mutual funds held as investments	(7,262)	35,372
Purchases of depreciable property	(836,775)	(137,938)
Involuntary conversion of depreciable property		3,200
Purchases of nature sanctuaries		(10,700)
Net cash used by investing activities	<u>(399,130)</u>	<u>(421,017)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital projects		84,362
Principal payments on finance lease	(2,558)	
Net cash provided (used) by financing activities	<u>(2,558)</u>	<u>84,362</u>
NET CHANGE IN CASH	(181,158)	(63,450)
Cash, beginning of year	<u>264,798</u>	<u>328,248</u>
Cash, end of year	<u>\$ 83,640</u>	<u>\$ 264,798</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contributions of marketable securities (sold upon receipt)	\$177,194	\$21,524

See accompanying notes to financial statements.

The Houston Audubon Society

Notes to Financial Statements for the years ended June 30, 2023 and 2022

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Houston Audubon Society (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. HAS’s stated mission is to advance the conservation of birds and their habitats in the Greater Houston Gulf Coast region. Land conservation, natural science education and conservation advocacy are the pillars guiding the organization’s work. HAS envisions a future where birds are thriving in healthy natural areas, people are inspired by the sense of wonder birds bring, and diverse communities are connecting through a shared appreciation of the avian world. Since 2017, HAS has been accredited by the Land Trust Accreditation Commission, demonstrating its commitment to a sound program of land conservation and stewardship.

HAS currently has approximately 4,300 members, coordinates over 600 volunteers, conducts over 500 nature-based education programs for youth and adults each year, and owns and manages 17 nature sanctuaries on the upper Texas coast. The 4,115 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 the Edith L. Moore Nature Sanctuary and native plant nursery located in Houston, Texas and world-renowned coastal sanctuaries located in High Island and the Bolivar Peninsula, Texas. In 2023, HAS celebrated the completion of the Morse Field Station in High Island, which provides meeting space and logistical support for all coastal operations including land management, research and monitoring, and spring migration activities. In addition, HAS completed two nature trail and boardwalk projects, both funded by the Recreational Trails Program administered by the Texas Parks and Wildlife Department at its Horseshoe Marsh and Winters Bayou sanctuaries. In 2022, HAS expanded cultivation of native plants for coastal habitat restoration through the addition of the Entergy Coastal Natives Nursery in High Island and launched a community-based educational outreach program in the Sunnyside neighborhood of Houston.

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, 2023 and 2022. 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, 2023, 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, and realized and unrealized gains and losses, net of external and direct internal investment expenses.

Depreciable property and right-of-use asset – finance having a cost of more than \$5,000 and an estimated life of more than one year are 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 25 years for land and building improvements and 5 years for furniture, fixtures and equipment. Assets held under finance leases are recorded at the present value of the lease payments at the inception of the lease, adjusted as appropriate, for certain other payments and allowances related to obtaining the lease and placing it into service.

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 the 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.

Nonfinancial 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.

Special events revenue is the total paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events 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 \$33,104, \$25,300 and \$16,911 of contract assets resulting from fees at June 30, 2023, 2022 and 2021, respectively. Liabilities resulting from program fees are \$10,775 at June 30, 2023, \$17,745 at June 30, 2022, and \$12,020 at June 30, 2021.

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, 2023, 2022, or 2021.

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 – ADOPTION OF NEW ACCOUNTING STANDARD

HAS adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee recognizes in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. The ASU also requires expanded disclosures related to the amount, timing and uncertainty of cash flows arising from leases. HAS adopted the new standard effective July 1, 2022 using the modified retrospective method. Therefore, comparative information for fiscal year 2022 has not been restated and continues to be reported under Accounting Standards Codification (ASC) 840. Adoption of this ASU had no impact on beginning net assets at July 1, 2022.

NOTE 3 – 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>2023</u>	<u>2022</u>
Financial assets:		
Cash	\$ 83,640	\$ 264,798
Short-term investments	881,320	1,438,731
Contributions receivable	210,292	20,274
Program fees receivable	33,104	25,300
Long-term investments	<u>3,416,492</u>	<u>3,197,705</u>
Total financial assets	4,624,848	4,946,808
Less financial assets not available for general expenditure:		
Endowment investments not expected to be appropriated in the next 12 months	(2,562,878)	(2,403,847)
Restricted by donors for capital projects and additions	<u>(200,859)</u>	<u>(728,745)</u>
Total financial assets available for general expenditure	<u>\$ 1,861,111</u>	<u>\$ 1,814,216</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, but does not consider capital expenditures to be general expenditures.

HAS regularly monitors liquidity required to meet its operating needs while striving to maximize the investment of available funds. To manage unanticipated liquidity needs, HAS has board-designated endowment investments of \$1,406,179 at June 30, 2023. Although HAS does not intend to spend from the board-designated investments, amounts from the board-designated investments could be made available, if necessary.

NOTE 4 – 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, 2023 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Short-term investments:				
Money market mutual funds	\$ 881,320			\$ 881,320
Long-term investments:				
Equity mutual funds:				
Large-cap	743,800			743,800
International	541,310			541,310
Small-cap	273,701			273,701
Fixed-income mutual funds:				
Government bond	628,160			628,160
Domestic bond	81,117			81,117
International bond	80,602			80,602
Exchange-traded domestic equity funds:				
Mid-cap	313,211			313,211
Index	214,553			214,553
Exchange-traded domestic bond funds:				
Government bond	315,792			315,792
Alternative strategies mutual funds:				
Multistrategy	66,644			66,644
Relative value arbitrage	65,967			65,967
Money market mutual funds	<u>91,635</u>			<u>91,635</u>
Total assets measured at fair value	<u>\$ 4,297,812</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,297,812</u>

Assets measured at fair value at June 30, 2022 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Short-term investments:				
Money market mutual funds	\$ 1,438,731			\$ 1,438,731
Long-term investments:				
Equity mutual funds:				
Large-cap	630,251			630,251
International	472,351			472,351
Small-cap	225,149			225,149
Fixed-income mutual funds:				
Government bond	577,751			577,751
Domestic bond	105,619			105,619
Exchange-traded domestic equity funds:				
Mid-cap	287,300			287,300
Index	237,850			237,850
Exchange-traded domestic bond funds:				
Government bond	268,944			268,944
Alternative strategies mutual funds:				
Multistrategy	75,769			75,769
Relative value arbitrage	74,575			74,575
Commodities	82,070			82,070
Real estate	75,703			75,703
Money market mutual funds	<u>84,373</u>			<u>84,373</u>
Total assets measured at fair value	<u>\$ 4,636,436</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,636,436</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.

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 5 – DEPRECIABLE PROPERTY

Depreciable property consists of the following:

	<u>2023</u>	<u>2022</u>
Buildings	\$ 1,878,096	\$ 998,284
Land and building improvements	3,011,237	2,970,501
Furniture, fixtures and equipment	268,941	253,132
Construction in progress	<u> </u>	<u>260,108</u>
Total depreciable property, at cost	5,158,274	4,482,025
Accumulated depreciation	<u>(1,183,348)</u>	<u>(993,024)</u>
Depreciable property, net	<u>\$ 3,974,926</u>	<u>\$ 3,489,001</u>

NOTE 6 – NATURE SANCTUARIES SYSTEM

Nature sanctuaries as of June 30, 2023 are comprised of the following:

	APPROXIMATE <u>ACREAGE</u>	CARRYING <u>VALUE</u>
High Island sanctuaries (Louis Smith Boy Scout Woods, Smith Oaks, Eubanks Woods and S.E. Gast Red Bay)	856	\$ 1,714,775
Bolivar Flats Shorebird Sanctuary	1,215	970,023
Horseshoe Marsh Bird Sanctuary	667	653,195
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	47	6,130
Garwood property	<u>2</u>	<u>0</u>
Total nature sanctuaries	<u>4,115</u>	<u>\$ 4,635,841</u>

NOTE 7 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	<u>2023</u>	<u>2022</u>
Invested in depreciable property	\$ 3,974,926	\$ 3,489,001
Undesignated	1,656,206	1,475,264
Land held as nature sanctuaries	1,230,718	1,230,718
Board-designated for land and facilities stewardship endowment	<u>1,406,179</u>	<u>1,318,923</u>
Total net assets without donor restrictions	<u>\$ 8,268,029</u>	<u>\$ 7,513,906</u>

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Smith Oaks habitat restoration and other High Island projects	\$ 110,406	\$ 39,856
Land acquisition and management	72,092	72,092
Outreach to underserved communities	27,106	4,255
Houston Audubon Raptor and Education Center development	25,579	19,927
Bolivar Flats vehicular barrier	18,611	20,000
Bolivar Peninsula land pre-acquisition costs	13,100	14,300
High Island Field Station development		636,653
Horseshoe Marsh nature trails		5,541
Other	<u>4,766</u>	<u>11,465</u>
Total subject to expenditure for specified purpose	<u>271,660</u>	<u>824,089</u>
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	<u>50,000</u>	
Endowments:		
Subject to spending policy and appropriation:		
Land and facilities stewardship endowment – general	487,685	457,423
Land and facilities stewardship endowment – Bolivar sanctuaries	345,421	323,987
Land purchase endowment	337,704	323,533
Callery Alexander and general endowment	<u>211,800</u>	<u>198,658</u>
Total endowments	<u>1,382,610</u>	<u>1,303,601</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>\$ 5,109,393</u>	<u>\$ 5,532,813</u>

NOTE 9 – ENDOWMENT FUNDS

Endowment net asset composition as of June 30, 2023 is as follows:

	<u>WITH DONOR RESTRICTIONS</u>		
	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>SUBJECT TO SPENDING POLICY AND APPROPRIATION</u>	
			<u>TOTAL</u>
Donor-restricted endowment funds:			
Land and facilities stewardship		\$ 810,106	\$ 23,000
Land purchase		214,340	123,364
General		86,235	125,565
Board-designated for land and facilities stewardship	<u>\$ 1,406,179</u>		<u>1,406,179</u>
Endowment net assets	<u>\$ 1,406,179</u>	<u>\$ 1,110,681</u>	<u>\$ 2,788,789</u>

Endowment net asset composition as of June 30, 2022 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		\$ 758,410	\$ 23,000	\$ 781,410
Land purchase		200,169	123,364	323,533
General		73,093	125,565	198,658
Board-designated for land and facilities stewardship	\$ 1,318,923			1,318,923
Endowment net assets	\$ 1,318,923	\$ 1,031,672	\$ 271,929	\$ 2,622,524

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, 2021	\$ 990,720	\$ 1,198,915	\$ 271,929	\$ 2,461,564
Contributions and transfers	500,000			500,000
Net investment return	(171,797)	(167,243)		(339,040)
Endowment net assets, June 30, 2022	1,318,923	1,031,672	271,929	2,622,524
Net investment return	87,256	79,009		166,265
Endowment net assets, June 30, 2023	\$ 1,406,179	\$ 1,110,681	\$ 271,929	\$ 2,788,789

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 endowment’s financial assets are invested for long-term appreciation and current income for the purpose of supporting HAS’s operations; therefore, current volatility in the markets is not expected to have a permanent impact to the financial assets in the long term.

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 from the land purchase and general endowments are determined by the Board of Directors.

To date, management has elected not to make distributions under these spending policies.

NOTE 10 – CONTRIBUTED NONFINANCIAL ASSETS AND VOLUNTEER HOURS

HAS receives various forms of gifts-in-kind (nonfinancial asset contributions), including contributions of nature sanctuaries, assets to be auctioned by HAS at its fundraising events, and professional services. HAS recognized the following as in-kind contributions:

<u>CONTRIBUTED NONFINANCIAL ASSETS</u>	<u>MONETIZED OR UTILIZED IN PROGRAMS/ ACTIVITIES</u>	<u>DONOR RESTRICTIONS</u>	<u>VALUATION TECHNIQUES AND INPUTS</u>	<u>FISCAL YEAR 2023</u>	<u>FISCAL YEAR 2022</u>
Donated auction items	Monetized at fundraising event	None	Valued using the lower of auction price received or estimated value.	\$25,442	\$17,705
Donated nature sanctuaries	Utilized for program services	None	Capitalized based on appraised values.		3,183
Legal, accounting, marketing, website and computer services	Utilized for program and supporting services	None	Fair value estimated based on comparable cost for similar services.	15,165	2,083
Total contributed nonfinancial assets				<u>\$40,607</u>	<u>\$22,971</u>

Many individuals volunteer their time to perform a variety of tasks that assist HAS in its mission of conservation, education and advocacy, such as spring migration canopy guides, helping with office work, and assistance with other projects. HAS received 12,054 volunteer hours from 612 volunteers with an estimated value of \$383,317 and 9,068 volunteer hours from 393 volunteers with an estimated value of

\$271,587 during the years ended June 30, 2023 and 2022, respectively, which were not recognized in these financial statements because the services do not meet the criteria for recognition under generally accepted accounting principles. The estimated value of volunteer time per hour was obtained from Independent Sector, a leadership network for nonprofit organizations, foundations and corporate giving programs.

NOTE 11 – FINANCE LEASE

HAS has a finance lease for office equipment from an unrelated party. A right-of-use asset is recognized at the present value of the lease payments at the inception of the lease adjusted, as appropriate, for certain other payments and allowances related to obtaining the lease and placing the asset in service.

The components of lease cost for the year ended June 30, 2023 are as follows:

Amortization of right-of-use assets	\$ 2,845
Interest on lease liability	<u>30</u>
Total lease cost	<u>\$ 2,875</u>

Lease costs recognized during the year ended June 30, 2022, prior to the adoption of the new accounting standard was approximately \$2,600.

Cash paid for amounts included in the measurement of the lease liability during the year ended June 30, 2023 was \$2,558.

The term and discount rate for the finance lease outstanding as of June 30, 2023:

Remaining lease term	31 months
Discount rate	.37%

Undiscounted cash flows related to the finance lease liability as of June 30, 2023 are as follows:

2024	\$ 2,558
2025	2,558
2026	<u>1,705</u>
Total undiscounted cash flows	6,821
Less present value discount	<u>(35)</u>
Total present value of lease liability	<u>\$ 6,786</u>

NOTE 12 – 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 \$20,117 to this plan during 2023 and \$21,076 during 2022.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 25, 2023, 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.