

The Houston Audubon Society, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2019 and 2018

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, 2019 and 2018 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, 2019 and 2018 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.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, Houston Audubon Society, Inc. adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended June 30, 2018, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

Blazek & Vetterling

October 16, 2019

The Houston Audubon Society, Inc.

Statements of Financial Position as of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 689,322	\$ 469,088
Short-term investments (Note 4)	1,920,506	2,379,921
Contributions receivable	273,569	458,964
Other assets	109,840	54,763
Long-term investments (Note 4)	2,850,064	2,511,757
Cash surrender value of life insurance	197,584	190,930
Depreciable property, net (Note 5)	1,176,229	742,893
Nature sanctuaries (Note 6)	<u>3,984,701</u>	<u>3,934,924</u>
TOTAL ASSETS	<u>\$ 11,201,815</u>	<u>\$ 10,743,240</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 54,950	\$ 41,089
Deferred revenue	<u>3,845</u>	<u>5,875</u>
Total liabilities	<u>58,795</u>	<u>46,964</u>
Net assets (Note 9):		
Without donor restrictions (Note 7)	4,161,700	3,729,232
With donor restrictions (Note 8)	<u>6,981,320</u>	<u>6,967,044</u>
Total net assets	<u>11,143,020</u>	<u>10,696,276</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,201,815</u>	<u>\$ 10,743,240</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 Activities for the year ended June 30, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 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
Net investment return	<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 (<i>Note 2</i>)	<u>3,444,314</u>	<u>4,257,560</u>	<u>7,701,874</u>
Net assets, end of year	<u>\$ 3,729,232</u>	<u>\$ 6,967,044</u>	<u>\$ 10,696,276</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
Insurance	31,138	12,159	43,297	3,044	1,226	47,567
Communications	6,972	36,215	43,187	1,514	1,861	46,562
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
Travel	7,996	5,255	13,251	297	791	14,339
Cost of merchandise sold	9,745	2,212	11,957			11,957
Grants and awards	2,319	8,723	11,042	306	94	11,442
Conferences and professional development	3,648	5,947	9,595		80	9,675
Educational classes and fieldtrips		8,471	8,471			8,471
Licenses, accreditations, and subscriptions	310	225	535	193	7,559	8,287
Member and donor events		2,056	2,056		6,097	8,153
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.

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
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
Sanctuary and property maintenance	275,902	6,358	282,260	746	746	283,752
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
Utilities	11,635	4,932	16,567	768	768	18,103
Printing, publications, and postage	1,009	8,567	9,576	535	9,000	19,111
Travel	9,087	3,976	13,063	370	569	14,002
Cost of merchandise sold	15,188	2,816	18,004			18,004
Grants and awards	331	2,868	3,199	96	205	3,500
Conferences and professional development	3,710	859	4,569	43	80	4,692
Educational classes and fieldtrips		7,195	7,195			7,195
Licenses, accreditations, and subscriptions	253		253		5,823	6,076
Member and donor events		5,738	5,738		5,487	11,225
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>	1,619,978
Direct donor benefits						<u>63,601</u>
Total						<u>\$ 1,683,579</u>

See accompanying notes to financial statements.

The Houston Audubon Society, Inc.

Statements of Cash Flows for the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 446,744	\$ 2,994,402
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	72,478	58,677
Net realized and unrealized gain on investments	(26,551)	(109,868)
Change in cash surrender value of life insurance	(6,654)	(6,339)
Changes in operating assets and liabilities:		
Contributions receivable	185,395	(361,969)
Other assets	(55,077)	(6,326)
Accounts payable and accrued expenses	13,861	937
Deferred revenue	<u>(2,030)</u>	<u>2,680</u>
Net cash provided by operating activities	<u>628,166</u>	<u>2,572,194</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales (purchases) of short-term investments	459,415	(2,379,921)
Purchases of long-term investments	(2,717,737)	(1,813,872)
Sales of long-term investments	2,410,225	1,780,203
Change in money market mutual funds held as investments	(4,244)	(7,280)
Purchases of sanctuary land	(49,777)	
Purchases of depreciable property	<u>(505,814)</u>	<u>(144,273)</u>
Net cash used by investing activities	<u>(407,932)</u>	<u>(2,565,143)</u>
NET CHANGE IN CASH	220,234	7,051
Cash, beginning of year	<u>469,088</u>	<u>462,037</u>
Cash, end of year	<u>\$ 689,322</u>	<u>\$ 469,088</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contributions of marketable securities (sold upon receipt)	\$59,905	\$1,377,903

See accompanying notes to financial statements.

The Houston Audubon Society, Inc.

Notes to Financial Statements for the years ended June 30, 2019 and 2018

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 4,000 members, coordinates over 600 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 expand public access within key sanctuaries, including a major visitor enhancement at Smith Oaks Sanctuary in High Island, which is expected to be completed in Spring 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 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.

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. At June 30, 2019, 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 at fair value when an unconditional commitment is received from the donor. 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 provided by donation.

In 2019, approximately 660 volunteers have contributed over 13,600 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 2018, approximately 1,000 volunteers contributed over 16,000 hours of time, many related to Hurricane Harvey recovery efforts.

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.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. 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 ACCOUNTING STANDARDS UPDATE 2016-14

HAS adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended June 30, 2019. This ASU has been applied on a retrospective basis to the financial statements for the year ended June 30, 2018, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in additional disclosures and new terminology regarding restricted net assets but had no impact on total net assets or total changes in net assets.

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, 2019 comprise the following:

Financial assets at June 30, 2019:

Cash	\$ 689,322
Short-term investments	1,920,506
Contributions receivable	273,569
Long-term investments	<u>2,850,064</u>
Total financial assets	<u>5,733,461</u>
Less financial assets not available for general expenditure:	
Endowment investments not expected to be appropriated in the next 12 months	(1,630,621)
Restricted by donors for capital projects and additions	<u>(2,237,978)</u>
Total financial assets available for general expenditure	<u>\$ 1,864,862</u>

Financial assets available for general expenditures 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.

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, 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:				
Large-cap blend	\$ 174,804			174,804
International	317,316			317,316
Large-cap growth	168,810			168,810
Small-cap blend	138,536			138,536
Small-cap growth	106,249			106,249
Exchange-traded domestic equity funds:				
Large-cap blend	212,978			212,978
Large-cap growth	341,219			341,219
Mid-cap growth	99,670			99,670
Mid-cap value	95,280			95,280
Fixed-income mutual funds:				
Government bond	482,801			482,801
Domestic bond	128,095			128,095
Alternative strategies mutual funds:				
Real estate	41,015			41,015
Energy limited partnership	66,559			66,559
Commodities broad basket	25,902			25,902
Tactical allocation	68,360			68,360
Managed futures	70,165			70,165
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	<u>38,157</u>			<u>38,157</u>
Total assets measured at fair value	<u>\$ 2,850,064</u>	<u>\$ 1,920,506</u>	<u>\$ 0</u>	<u>\$ 4,770,570</u>

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
Fixed-income mutual funds:				
Government bond	168,189			168,189
Domestic bond	163,580			163,580
International bond	38,259			38,259
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
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	<u>33,913</u>			<u>33,913</u>
Total assets measured at fair value	<u>\$ 2,511,757</u>	<u>\$ 2,379,921</u>	<u>\$ 0</u>	<u>\$ 4,891,678</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.

NOTE 5 – DEPRECIABLE PROPERTY

Depreciable property is comprised of the following:

	<u>2019</u>	<u>2018</u>
Buildings	\$ 577,914	\$ 429,553
Land and building improvements	998,011	656,704
Furniture, fixtures and equipment	<u>217,817</u>	<u>217,817</u>
Total depreciable property, at cost	1,793,742	1,304,074
Accumulated depreciation	<u>(617,513)</u>	<u>(561,181)</u>
Depreciable property, net	<u>\$ 1,176,229</u>	<u>\$ 742,893</u>

NOTE 6 – NATURE SANCTUARIES SYSTEM

Nature sanctuaries as of June 30, 2019 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)	259	\$ 1,082,028
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>3,477</u>	<u>\$ 3,984,701</u>

NOTE 7 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 1,616,744	\$ 1,705,573
Invested in depreciable property	1,176,229	742,893
Land held as nature sanctuaries	579,578	529,801
Board-designated for land and facilities stewardship endowment	<u>789,149</u>	<u>750,965</u>
Total net assets without donor restrictions	<u>\$ 4,161,700</u>	<u>\$ 3,729,232</u>

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Smith Oaks skywalk, restrooms, and visitor pavilion	\$ 2,086,090	\$ 2,178,154
High Island Coastal Operations Center development	111,855	
High Island Field Station development	104,400	104,400
Houston Audubon Raptor and Education Center development	63,563	60,000
Other	<u>71,232</u>	<u>23,289</u>
Total subject to expenditure for specified purpose	<u>2,437,140</u>	<u>2,365,843</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>	<u>200,000</u>
Endowments:		
Subject to spending policy and appropriation:		
Land and facilities stewardship endowment – Bolivar sanctuaries	299,545	285,051
Land purchase endowment	294,466	283,125
Land and facilities stewardship endowment – general	281,841	272,595
Callery Alexander and general endowment	<u>163,205</u>	<u>155,307</u>
Total endowments	<u>1,039,057</u>	<u>996,078</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>\$ 6,981,320</u>	<u>\$ 6,967,044</u>

NOTE 9 – ENDOWMENT FUNDS

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

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS		TOTAL
		ACCUMULATED NET INVESTMENT RETURN AND GIFTS	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

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

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS		TOTAL
		ACCUMULATED NET INVESTMENT RETURN AND GIFTS	REQUIRED TO BE MAINTAINED IN PERPETUITY	
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	\$ 750,965	\$ 770,249	\$ 225,829	\$ 1,747,043

Changes in endowment net assets are as follows:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS		TOTAL
		ACCUMULATED NET INVESTMENT RETURN AND GIFTS	REQUIRED TO BE MAINTAINED IN PERPETUITY	
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
Net investment return	40,815	38,291		79,106
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

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

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 previous 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 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 10 – 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 \$19,819 to this plan during 2019 and \$20,757 during 2018.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 16, 2019, 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.
