

**Galveston Bay Foundation, Inc.**

Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2016 and 2015

# Galveston Bay Foundation, Inc.

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## Independent Auditors' Report

To the Board of Directors of  
Galveston Bay Foundation, Inc.:

### Report on the Financial Statements

We have audited the accompanying financial statements of Galveston Bay Foundation, Inc., which comprise the statements of financial position as of December 31, 2016 and 2015 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Galveston Bay Foundation, Inc. as of December 31, 2016 and 2015 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.

## Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2017 on our consideration of Galveston Bay Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Galveston Bay Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Galveston Bay Foundation, Inc.'s internal control over financial reporting and compliance.

*Blazek & Vetterling*

July 20, 2017

## Galveston Bay Foundation, Inc.

Statements of Financial Position as of December 31, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash (Note 2)	\$ 610,717	\$ 1,402,029
Contracts receivable	421,962	543,087
Prepaid expenses and other receivables	42,212	82,636
Pledges receivable (Note 3)	<u>145,209</u>	<u>          </u>
Total current assets	1,220,100	2,027,752
Cash held for board-designated purposes (Notes 2 and 8)	245,586	223,086
Pledges receivable for capital campaign, net (Note 3)	971,330	518,065
Property, net (Note 4)	<u>8,009,399</u>	<u>1,503,302</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 10,446,415</u></b>	<b><u>\$ 4,272,205</u></b>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 103,980	\$ 439,358
Accrued liabilities	94,020	98,555
Accrued interest expense	88,375	7,915
Notes payable – current portion (Note 6)	<u>650,000</u>	<u>19,255</u>
Total current liabilities	936,375	565,083
Funds held for others	130,073	
Notes payable – long-term portion (Note 6)	<u>5,380,046</u>	<u>798,620</u>
Total liabilities	<u>6,446,494</u>	<u>1,363,703</u>
Net assets:		
Unrestricted (Note 8)	2,194,114	1,266,460
Temporarily restricted (Note 9)	1,739,707	1,575,942
Permanently restricted land	<u>66,100</u>	<u>66,100</u>
Total net assets	<u>3,999,921</u>	<u>2,908,502</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 10,446,415</u></b>	<b><u>\$ 4,272,205</u></b>

See accompanying notes to financial statements.

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## Galveston Bay Foundation, Inc.

Statement of Activities for the year ended December 31, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
<b>OPERATING REVENUE:</b>				
Contract revenue ( <i>Note 10</i> )	\$ 2,284,787			\$ 2,284,787
Donated conservation easements	2,448,574			2,448,574
Grants and contributions	1,356,173	\$ 675,742		2,031,915
Special events revenue	369,634			369,634
Costs of direct donor benefits	(64,894)			(64,894)
Easement consideration fees	22,500			22,500
Program fees and other income	<u>19,025</u>			<u>19,025</u>
Total operating revenue	6,435,799	675,742		7,111,541
Net assets released from restrictions:				
Program expenditures	999,493	(999,493)		
Capital campaign fundraising expenditures	<u>130,938</u>	<u>(130,938)</u>		
Total	<u>7,566,230</u>	<u>(454,689)</u>		<u>7,111,541</u>
<b>OPERATING EXPENSES:</b>				
Program services:				
Conservation	4,486,685			4,486,685
Education	727,919			727,919
Advocacy	410,157			410,157
Research	<u>86,921</u>			<u>86,921</u>
Total program services	5,711,682			5,711,682
Supporting services:				
Management and general	457,408			457,408
Fundraising	417,229			417,229
Capital campaign fundraising	<u>130,938</u>			<u>130,938</u>
Total operating expenses	<u>6,717,257</u>			<u>6,717,257</u>
CHANGES IN NET ASSETS FROM OPERATIONS	848,973	(454,689)		394,284
<b>OTHER CHANGES IN NET ASSETS:</b>				
Capital campaign contributions		697,135		697,135
Release from restriction for capital expenditures	<u>78,681</u>	<u>(78,681)</u>		
CHANGES IN NET ASSETS	927,654	163,765		1,091,419
Net assets, beginning of year	<u>1,266,460</u>	<u>1,575,942</u>	<u>\$ 66,100</u>	<u>2,908,502</u>
Net assets, end of year	<u>\$ 2,194,114</u>	<u>\$ 1,739,707</u>	<u>\$ 66,100</u>	<u>\$ 3,999,921</u>

*See accompanying notes to financial statements.*

## Galveston Bay Foundation, Inc.

Statement of Activities for the year ended December 31, 2015

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
OPERATING REVENUE:				
Contract revenue ( <i>Note 10</i> )	\$ 3,036,817			\$ 3,036,817
Donated conservation easements	87,750			87,750
Grants and contributions	651,700	\$ 1,310,219		1,961,919
Special events revenue	312,800			312,800
Costs of direct donor benefits	(78,345)			(78,345)
Easement consideration fees	40,781			40,781
Program fees and other income	<u>25,810</u>	<u>                    </u>		<u>25,810</u>
Total operating revenue	4,077,313	1,310,219		5,387,532
Net assets released from restrictions:				
Program expenditures	1,354,465	(1,354,465)		
Capital campaign fundraising expenditures	<u>65,117</u>	<u>(65,117)</u>		<u>                    </u>
Total	<u>5,496,895</u>	<u>(109,363)</u>		<u>5,387,532</u>
OPERATING EXPENSES:				
Program services:				
Conservation	3,831,959			3,831,959
Education	648,768			648,768
Advocacy	447,090			447,090
Research	<u>85,418</u>			<u>85,418</u>
Total program services	5,013,235			5,013,235
Supporting services:				
Management and general	340,519			340,519
Fundraising	427,799			427,799
Capital campaign fundraising	<u>65,117</u>			<u>65,117</u>
Total operating expenses	<u>5,846,670</u>			<u>5,846,670</u>
CHANGES IN NET ASSETS FROM OPERATIONS	(349,775)	(109,363)		(459,138)
OTHER CHANGES IN NET ASSETS:				
Capital campaign contributions	<u>                    </u>	<u>563,065</u>		<u>563,065</u>
CHANGES IN NET ASSETS	(349,775)	453,702		103,927
Net assets, beginning of year	<u>1,616,235</u>	<u>1,122,240</u>	<u>\$ 66,100</u>	<u>2,804,575</u>
Net assets, end of year	<u>\$ 1,266,460</u>	<u>\$ 1,575,942</u>	<u>\$ 66,100</u>	<u>\$ 2,908,502</u>

*See accompanying notes to financial statements.*

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## Galveston Bay Foundation, Inc.

### Statement of Functional Expenses for the year ended December 31, 2016

EXPENSES	CONSERVATION	EDUCATION	ADVOCACY	RESEARCH	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related expenses	\$ 353,879	\$ 338,315	\$ 239,037	\$ 45,856	\$ 977,087	\$ 241,289	\$ 295,781	\$ 1,514,157
Conservation easements	2,448,574				2,448,574			2,448,574
Contracted materials and services	1,343,330	60,667	94,911	8,990	1,507,898	15,897	1,405	1,525,200
Supplies and materials	85,599	53,888	14,427	3,479	157,393	10,771	31,225	199,389
Partner support and grants	121,800	4,545	15,000	14,298	155,643			155,643
Professional and technical services	23,943	1,256	342	72	25,613	292	116,126	142,031
Event fees and supplies	13,273	105,386	1,008	2,117	121,784	2,838	16,309	140,931
Occupancy	40,505	28,239	15,705	6,282	90,731	9,181	15,241	115,153
Interest expense						107,520		107,520
Travel, meals and entertainment	17,529	44,824	12,855	2,095	77,303	836	9,536	87,675
Printing and publications	8,016	25,462	3,284	423	37,185	432	18,904	56,521
Insurance	8,356	16,713	2,857	890	28,816	20,729	3,728	53,273
Legal and accounting fees	7,469				7,469	31,197		38,666
Membership dues and subscriptions	7,148	358	7,815		15,321	4,893	11,010	31,224
Depreciation	1,074	8,398			9,472	8,624		18,096
Licenses and permits	250	17,588			17,838			17,838
Postage and shipping	270	1,163	41	82	1,556	240	11,908	13,704
Advertising and development	1,815	1,004	2,507	57	5,383		4,733	10,116
Conferences and workshops	3,050	1,565	158	2,128	6,901	901	1,772	9,574
Other	805	18,548	210	152	19,715	1,768	10,489	31,972
Total operating expenses	<u>\$ 4,486,685</u>	<u>\$ 727,919</u>	<u>\$ 410,157</u>	<u>\$ 86,921</u>	<u>\$ 5,711,682</u>	<u>\$ 457,408</u>	<u>\$ 548,167</u>	6,717,257
Costs of direct donor benefits								<u>64,894</u>
Total expenses								<u>\$ 6,782,151</u>

*See accompanying notes to financial statements.*



## Galveston Bay Foundation, Inc.

### Statement of Functional Expenses for the year ended December 31, 2015

EXPENSES	CONSERVATION	EDUCATION	ADVOCACY	RESEARCH	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related expenses	\$ 342,633	\$ 317,509	\$ 243,720	\$ 45,946	\$ 949,808	\$ 128,127	\$ 288,787	\$ 1,366,722
Conservation easements	918,740				918,740			918,740
Contracted materials and services	2,335,854	62,433	94,561	16,576	2,509,424	7,115	62,379	2,578,918
Supplies and materials	17,663	12,868	42,114	11,547	84,192	78,748	29,804	192,744
Partner support and grants	56,757	5,300		2,200	64,257	100	250	64,607
Professional and technical services	3,200	115			3,315	10,598	10,768	24,681
Event fees and supplies	15,342	117,132	1,128	80	133,682	10,892	13,616	158,190
Occupancy	45,972	13,635	9,969	184	69,760	28,745	130	98,635
Travel, meals and entertainment	22,063	28,553	12,271	2,627	65,514		5,093	70,607
Printing and publications	3,449	21,652	5,954	397	31,452	244	27,453	59,149
Insurance	32,623	29,967	21,042	3,709	87,341	29,661	24,990	141,992
Legal and accounting fees	14,400				14,400	21,233		35,633
Membership dues and subscriptions	6,499	1,458	6,132		14,089	3,174	1,718	18,981
Depreciation	6,344	7,887			14,231	3,336		17,567
Licenses and permits	1,165	13,647			14,812	50		14,862
Postage and shipping	180	2,055	406	53	2,694		7,720	10,414
Advertising and development	813	3,070	6,911	20	10,814		1,718	12,532
Conferences and workshops	4,054	3,426	2,256	2,046	11,782	1,396	2,015	15,193
Other	4,208	8,061	626	33	12,928	17,100	16,475	46,503
Total operating expenses	<u>\$ 3,831,959</u>	<u>\$ 648,768</u>	<u>\$ 447,090</u>	<u>\$ 85,418</u>	<u>\$ 5,013,235</u>	<u>\$ 340,519</u>	<u>\$ 492,916</u>	5,846,670
Costs of direct donor benefits								<u>78,345</u>
Total expenses								<u>\$ 5,925,015</u>

*See accompanying notes to financial statements.*

## Galveston Bay Foundation, Inc.

Statements of Cash Flows for the years ended December 31, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 1,091,419	\$ 103,927
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Capital campaign contributions	(697,135)	(563,065)
Depreciation	18,096	17,567
Donated land held for conservation purposes	(226,500)	
Changes in operating assets and liabilities:		
Contracts receivable	121,125	(302,025)
Prepaid expenses and other receivables	40,424	(57,405)
Pledges receivable	(145,209)	
Accounts payable	(335,378)	332,044
Accrued liabilities	(4,535)	18,038
Accrued interest expense	80,460	
Funds held for others	<u>130,073</u>	<u>          </u>
Net cash provided (used) by operating activities	<u>72,840</u>	<u>(450,919)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net change in cash held for board-designated purposes	(22,500)	(21,598)
Purchase of property	<u>(6,297,693)</u>	<u>          </u>
Net cash used by investing activities	<u>(6,320,193)</u>	<u>(21,598)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from capital campaign contributions	243,870	45,000
Payments on notes payable	(33,009)	(32,125)
Proceeds from notes payable	<u>5,245,180</u>	<u>200,000</u>
Net cash provided by financing activities	<u>5,456,041</u>	<u>212,875</u>
<b>NET CHANGE IN CASH</b>	<b>(791,312)</b>	<b>(259,642)</b>
Cash, beginning of year	<u>1,402,029</u>	<u>1,661,671</u>
Cash, end of year	<u>\$ 610,717</u>	<u>\$ 1,402,029</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$19,145	\$18,424
Donated securities	\$21,000	

*See accompanying notes to financial statements.*

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## Galveston Bay Foundation, Inc.

Notes to Financial Statements for the years ended December 31, 2016 and 2015

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### NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Galveston Bay Foundation, Inc. (the Foundation) is a §501(c)(3) non-profit organization established in 1987 under the laws of the State of Texas. The mission of the Foundation is to preserve and enhance Galveston Bay as a healthy and productive place for generations to come. The Foundation provides services through the following programs:

*Conservation* programs work to preserve, protect, and restore important coastal habitats, such as marsh, oyster reef, coastal prairie, and others, that provide critical ecosystem services and have suffered loss or degradation. The Foundation works closely with numerous partners in land acquisition, land stewardship, habitat restoration, and habitat enhancement activities across Galveston Bay. Land conservation work focuses on acquisition and management of priority lands around the Galveston Bay area that are valuable for habitat or water quality purposes. The Foundation is a nationally accredited land trust and owns or holds conservation easements on over 8,000 acres of land around Galveston Bay to ensure it is conserved in perpetuity. Habitat restoration activities work to ensure healthy habitats for productive and sustainable populations of native species. Projects focus on shoreline protection; wetlands, oyster reef, and bird rookery restoration; and removal of marine debris. Important conservation projects in 2016 expanded the Foundation’s lands under conservation by nearly 356 acres, restored over 100 acres of marsh and oyster reef, protected over 200 feet of eroding shoreline, removed more than 5,000 pounds of debris from Galveston Bay, and enhanced public access amenities at several new nature preserves around Galveston Bay.

*Education* programs allow the Foundation to reach thousands of youth and adults each year with events and campaigns aimed at increasing the public’s awareness of the importance of Galveston Bay, as well as more structured programs that provide science-based environmental education focused on Galveston Bay. The goal of the programs is to develop a knowledgeable constituency, ranging from school children to public officials, which recognizes the positive quality-of-life benefits that a healthy Galveston Bay system provides for the Houston-Galveston region. Youth-focused programs include the classroom-based Bay Ambassadors program, the field-based Students in Action program, and the school year-long marsh restoration program, Get Hip to Habitat. Adult-focused programs such as the Pump Don’t Dump campaign, Cease the Grease campaign, and Seafood Consumption Advisory campaign aim to educate adults on various Galveston Bay issues of concern. The Foundation’s annual Bay Day Festival is a one-day celebration of Galveston Bay with hands-on, interactive exhibits, activities, and demonstrations that emphasize the value of Galveston Bay. Bike Around the Bay is an annual two-day bike ride that showcases the natural beauty of Galveston Bay while aiming to raise awareness and encourage area citizens to appreciate and visit Galveston Bay. In addition to these ongoing programs, events, and campaigns, in 2016, the Foundation began developing place-based education programming for its Trinity Bay Discovery Center in Beach City.

*Advocacy* programs allow the Foundation to serve as the watchdog for Galveston Bay. The overarching goal of the advocacy programs is to encourage and actively seek solutions to conflicts among the diverse users of Galveston Bay and balance the multiple uses of Galveston Bay so that the long-term interests of Galveston Bay itself are not compromised. With its partners, the Foundation has successfully supported passage of state and federal legislation on behalf of Galveston Bay, including the Texas Oil Spill Prevention and Response Act, the Texas Estuaries Act, the Texas Coastal Management Program, and the Federal Clean Waters and Estuary Restoration Act of 2000. The Foundation regularly reviews proposed projects and actively participates in the public review of those projects by attending public meetings and submitting written public comments. Most recently, the Foundation successfully advocated for the removal of the dioxin wastes at the San Jacinto River Waste Pits Superfund site and engaged in dialogue on other significant local issues, such as water conservation and adequate freshwater inflows for Galveston Bay, storm surge mitigation, seafood consumption safety, the closure of Rollover Pass, the Clean Waters Rule (Waters of the U. S.), and the allocation of RESTORE Act funds for Galveston Bay. In 2016, the Foundation, in partnership with the Houston Advanced Research Center, released the second annual Galveston Bay Report Card, with Galveston Bay maintaining an average grade of “C”.

*Research* programs focus on the monitoring some of Galveston Bay's most valuable coastal resources. Several programs utilize trained citizen scientists to augment professional monitoring data and aid in watershed planning. The Water Monitoring Program involves a group of trained volunteers who conduct monthly water quality sampling at specific locations around Galveston Bay, including a more specialized group who sample for Enterococcus bacteria. The Galveston Bay Dolphin Research and Conservation Program, a partnership with the Environmental Institute of Houston at the University of Houston – Clear Lake (EIH-UHCL), monitors the bottlenose dolphin population in Galveston Bay, conducts research on their ecology, health, and behavior, and studies human-dolphin interactions in Galveston Bay. The Foundation also advocates for the allocation of research dollars to the region to ensure the health of Galveston Bay and its users.

The Foundation receives significant support from federal, state, and local grants and contracts in support of its education, conservation, research, and advocacy work. As most grant funding comes from federal sources, the majority requires non-federal, voluntary matching funds at a ratio of at least 1:1. The Foundation matches federal grant funding with state, local, and private funds, in-kind contributions, and volunteer participation, often at a much higher ratio than required.

Federal income tax status – The Foundation 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)(1).

Operating measure – The operating activities of the Foundation exclude revenue and expenses related to donor-restricted contributions for long-term purposes, such as property acquisitions.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the pledges are received.

Allowance for uncollectible accounts – An allowance for contracts or pledges receivable is provided when it is believed accounts may not be collected in full. It is the Foundation's policy to write off receivables against the allowance when management determines the receivable will not be collected. The amount of bad debt expense or loss on pledges recognized each period and the resulting adequacy of the allowance at the end of each period are determined using an analysis of individual balances each period.

Property is recorded at cost or, in the case of donated property, at estimated fair market value at the time of the donation. Property, excluding land and works of art, is depreciated using the straight-line method over the estimated useful lives of the assets, generally from 3 to 20 years.

Net asset classification – Contributions, investment return, and 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 one contributed tract of land with a fair value of \$66,100 at the date of its contribution that is restricted for preservation in perpetuity. Any costs associated with maintaining the property have been provided by unrestricted or temporarily restricted funds and the costs have been classified as conservation expenses in the period expended.

Contract revenue is recognized as the services provided in the contract are performed.

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. The

Foundation recognizes gifts of fixed assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are classified as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the assets are placed in service.

In-kind contributions – Contributed materials, services and use of facilities are recognized as contributions at fair value when an unconditional commitment is received from the donor. The related expense is recognized as contributed materials, services and facilities are 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.

A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration, and fundraising 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. During the years ended December 31, 2016 and 2015, these volunteers donated 10,522 and 14,430 hours.

Special events – The Foundation 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 the Foundation.

Conservation easements – In conformity with the practice followed by many land trusts, conservation easements purchased or donated are not recorded as assets in the statement of financial position. The Foundation believes the conservation easements do not have a future value as the property interest held by the Foundation provides no affirmative rights beyond the obligation to monitor and enforce the terms of the easements. All easements acquired by purchase are recognized as conservation expense in the statement of activities. Costs incurred in obtaining easements are expensed as incurred.

Program fees are recognized as revenue when the services are provided.

Advertising costs – Advertising costs are expensed as incurred.

Functional allocation of expenses – The costs of providing the various programs and other activities are reported on a functional basis in the statement of functional expenses and statement of activities. Accordingly, certain costs have been allocated among the programs and support services benefited.

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

Recent financial accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, related to revenue recognition. The guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in generally accepted accounting principles. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The ASU also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The ASU provides alternative methods of initial adoption and is effective for annual periods beginning after December 15, 2018. Early adoption is permitted. The Foundation will evaluate the impact that this ASU will have on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are the first phase of changes aimed at

providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Management is evaluating the timing for adoption of this ASU and the impact on the presentation and disclosures of the financial statements.

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

## NOTE 2 – CASH

At December 31, 2016 and 2015, the Foundation had deposits of \$794,835 and \$1,538,510 in a cash management account with a securities brokerage firm. Those deposits were maintained in money market accounts at various banks not to exceed \$250,000. All other cash balances are maintained in deposit accounts with a local nationally chartered bank.

As required by an agreement with the Texas Commission on Environmental Quality (the Commission), the Foundation is required to maintain funds which are contributed by respondents in enforcement actions brought by the Commission in a separate interest-bearing account used exclusively for such funds. These funds total \$19,754 and \$62,081 at December 31, 2016 and 2015.

## NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2016</u>	<u>2015</u>
Pledges receivable	\$ 1,154,270	\$ 552,000
Discount to present value at 1.8%	(37,731)	(18,590)
Allowance for uncollectible accounts	<u>                    </u>	<u>(15,345)</u>
Pledges receivable, net	1,116,539	518,065
Less: Pledges receivable for operating purposes	<u>(145,209)</u>	<u>                    </u>
Pledges receivable for capital campaign, net	<u>\$ 971,330</u>	<u>\$ 518,065</u>

Pledges receivable at December 31, 2016 are expected to be collected as follows:

Less than one year	\$ 418,470
One to five years	<u>735,800</u>
Total pledges receivable	<u>\$ 1,154,270</u>

At December 31, 2016, approximately 55% of outstanding pledges are from two donors.

In 2013, the Foundation received a matching grant for land conservation projects in the amount of \$500,000. Of that amount, \$250,000 was received and recognized as revenue at the start of project; the remaining \$250,000 is conditional upon full use of the first payment. This condition was not met until January 2017, and therefore, no receivable has been recorded at December 31, 2016. The remaining \$250,000 will be recognized as revenue in January 2017.

In 2016, the Foundation received a conditional grant from a local corporation in the amount of \$400,000 towards the purchase of land for the new headquarters and nature center in Kemah, Texas. The corporation provided these funds to the Foundation in the form of a note payable, which will be forgiven in \$100,000 annual installments each year beginning July 1, 2017, if the Foundation raises \$100,000 in capital campaign contributions each year (see Note 6).

**NOTE 4 – PROPERTY**

Property owned and used by the Foundation consists of the following:

	<u>2016</u>	<u>2015</u>
Nondepreciable assets:		
Land held for future headquarters and nature center	\$ 5,490,466	
Land held for conservation purposes	2,147,091	\$ 1,274,885
Construction in progress	111,225	
Contributed artwork	9,400	9,400
Depreciable assets:		
Building	200,126	200,126
Furniture and equipment	<u>276,409</u>	<u>226,113</u>
Total property	8,234,717	1,710,524
Less: Accumulated depreciation	<u>(225,318)</u>	<u>(207,222)</u>
Property, net	<u>\$ 8,009,399</u>	<u>\$ 1,503,302</u>

Land held for conservation purposes includes 14 tracts of land totaling 3,475 acres at December 31, 2016 and 11 tracts of land totaling 3,335 acres at December 31, 2015.

In 2016, 102.4 acres were purchased in Brazoria County for \$645,000 with federal funds. Under the terms of this agreement, the federal agency maintains an interest in the property, and the Foundation must inform the pass-through agency before selling the land and must repay the grant if the amount is not reinvested in similar conservation land.

Land held for conservation purposes also includes 30.68 acres in Galveston County that is temporarily restricted in the amount of \$39,128. These acres were donated in 1991 with a donor and deed restriction for conservation. In addition, 449 acres in Galveston County are permanently restricted in the amount of \$66,100. This land was donated in 1998 with a donor and deed restriction for conservation and is permanently restricted as it is required to be held in perpetuity.

**NOTE 5 – CONSERVATION EASEMENTS**

In addition to the land held for conservation purposes disclosed in Note 4, the Foundation also secures conservation easements on properties it does not own. The Foundation holds conservation easements on 12 tracts of land totaling 4,567 acres at December 31, 2016 and on 10 tracts of land totaling 4,349 acres at December 31, 2015. The Foundation monitors these easements in the normal course of its operations and associated costs are expensed as incurred.

Conservation easement activity is as follows:

	<u>2016</u>	<u>2015</u>
Donated and transferred conservation easements:		
Coastal Heritage Preserve, 216 acres	\$ 2,433,574	
Sweetwater 8 mile, 1 acre	15,000	
Green’s Bayou, 675 acres		\$ 87,750
Purchased conservation easements:		
Gordy Marsh, 1,739 acres		<u>830,990</u>
Total conservation easements	<u>\$ 2,448,574</u>	<u>\$ 918,740</u>

**NOTE 6 – NOTES PAYABLE**

Notes payable consist of the following:

	<u>2016</u>	<u>2015</u>
Note payable to The Conservation Fund for \$4,360,129 to purchase a 30-acre tract of land for new headquarters and nature center; fixed interest rate of 2.7%; principal payment of \$350,000 was due on June 20, 2017. The remaining balance due in full on June 20, 2018; secured by a Deed of Trust on the land.	\$ 4,360,129	
Note payable to The Conservation Fund for \$650,000 to purchase a 17-acre tract of land and building for Trinity Bay nature center; fixed interest rate of 2.75%; principal and interest payment of \$50,000 due on the first and second anniversary of the note. The remaining balance due in full on the third anniversary of the note in August 2018; secured by a Deed of Trust on the property.	584,867	\$ 617,875
Unsecured note payable to Frost Bank for \$550,000 to purchase a 30-acre tract of land for new headquarters and nature center; variable interest rate equal to the prime rate as published by the Wall Street Journal (3.75% at December 31, 2016); interest payments due monthly and principal is due on maturity at June 15, 2019.	485,050	
Unsecured, non-interest bearing note payable to Kirby Corporation for \$400,000 to purchase a 30-acre tract of land for new headquarters and nature center; principal payments of \$100,000 due annually beginning July 1, 2017 if not forgiven as part of matching grant disclosed in Note 3.	400,000	
Note payable to The Conservation Fund for \$200,000 to purchase a 1,739-acre conservation easement; fixed interest rate of 2.80%; principal and accrued interest due at maturity on November 18, 2017; secured by a Deed of Trust on the easement.	<u>200,000</u>	<u>200,000</u>
Total notes payable	6,030,046	817,875
Less: Current portion of notes payable	<u>(650,000)</u>	<u>(19,255)</u>
Notes payable – long-term portion	<u>\$ 5,380,046</u>	<u>\$ 798,620</u>

Principal payments for notes payable at December 31, 2016 are due as follows:

2017	\$ 650,000
2018	4,694,996
2019	585,050
2020	<u>100,000</u>
Total	<u>\$ 6,030,046</u>



## NOTE 7 – COMMITMENTS

### *Lease commitments*

On June 1, 2016, the Foundation entered into a 40-month noncancelable operating lease agreement for office space. Future minimum lease payments are due as follows:

2017	\$ 48,127
2018	48,127
2019	<u>36,096</u>
Total	<u>\$ 132,350</u>

### *Conservation easements*

The Foundation is committed to monitoring its conservation easements to ensure that the conditions of the conservation easements are not violated. If any violation of these easements is deemed to have occurred, the Foundation is committed to going forward with all actions necessary to bring remedy.

## NOTE 8 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Property, net of depreciation and related debt	\$ 2,179,353	\$ 885,427
Board-designated for easement stewardships and defense	245,586	223,086
Undesignated	<u>(230,825)</u>	<u>157,947</u>
Total unrestricted net assets	<u>\$ 2,194,114</u>	<u>\$ 1,266,460</u>

The easement stewardship and defense funds were created to provide a long-term, ongoing source of income to cover the annual cost associated with monitoring and managing the Foundation's portfolio of conservation easements, and to be available to cover extraordinary expenses associated with managing and upholding or defending an easement should its terms of validity be at risk.

## NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Capital campaign	\$ 971,330	\$ 514,814
Conservation	316,923	844,609
Advocacy	157,774	48,909
Future operations	130,000	
Education	123,070	
Donated land restricted for conservation	39,123	39,128
Port of Houston Authority reserves		100,000
Other	<u>1,487</u>	<u>28,482</u>
Total temporarily restricted net assets	<u>\$ 1,739,707</u>	<u>\$ 1,575,942</u>

## NOTE 10 – CONTRACT REVENUE

The Foundation is party to contracts with federal, state, and local governmental agencies. Should these contracts not be renewed, a replacement for this source of support may not be forthcoming, and related expenses would not be incurred. Funding sources of significant government grants recognized include the following:

	<u>2016</u>	<u>2015</u>
Federal awards:		
United States Fish and Wildlife Service, Department of the Interior	\$ 1,662,607	\$ 879,383
National Oceanic and Atmospheric Administration, Department of Commerce	152,494	282,975
Office of Water, Environmental Protection Agency	127,727	126,270
United States Department of Agriculture	<u>5,775</u>	<u>94,380</u>
Total federal awards	1,948,603	1,383,008
Other grants:		
Houston Advanced Research Center	149,420	157,403
National Fish and Wildlife Foundation	116,677	972,054
National Resource Damage Assessment	40,433	49,606
Texas General Land Office	29,455	262,992
Texas Commission on Environmental Quality and other	199	179,048
Texas Parks and Wildlife Department	<u>          </u>	<u>32,706</u>
Total contract revenue	<u>\$ 2,284,787</u>	<u>\$ 3,036,817</u>

## NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 20, 2017, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

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