

Galveston Bay Foundation, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2017 and 2016

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, 2017 and 2016 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

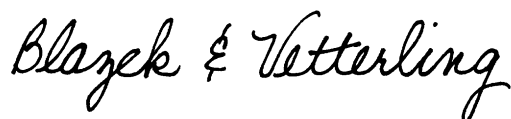
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, 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, 2017 and 2016 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.



June 27, 2018

Galveston Bay Foundation, Inc.

Statements of Financial Position as of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash (Note 2)	\$ 406,031	\$ 610,717
Contracts receivable	764,148	421,962
Prepaid expenses and other receivables	30,770	42,212
Pledges receivable (Note 3)	<u>160,000</u>	<u>145,209</u>
Total current assets	1,360,949	1,220,100
Cash held for board-designated purposes (Notes 2 and 8)	241,164	245,586
Cash restricted for capital campaign	1,000,000	
Pledges receivable for capital campaign, net (Note 3)	3,141,279	971,330
Property, net (Note 4)	<u>8,213,356</u>	<u>8,009,399</u>
TOTAL ASSETS	<u>\$ 13,956,748</u>	<u>\$ 10,446,415</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 156,939	\$ 188,730
Accrued interest expense	94,717	88,375
Deferred revenue	176,027	9,270
Notes payable – current portion (Note 6)	<u>1,684,867</u>	<u>650,000</u>
Total current liabilities	2,112,550	936,375
Funds held for others	130,000	130,073
Notes payable – long-term portion (Note 6)	<u>3,327,680</u>	<u>5,380,046</u>
Total liabilities	<u>5,570,230</u>	<u>6,446,494</u>
Net assets:		
Unrestricted (Note 8)	3,359,022	2,194,114
Temporarily restricted (Note 9)	4,961,396	1,739,707
Permanently restricted land	<u>66,100</u>	<u>66,100</u>
Total net assets	<u>8,386,518</u>	<u>3,999,921</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,956,748</u>	<u>\$ 10,446,415</u>

See accompanying notes to financial statements.

Galveston Bay Foundation, Inc.

Statement of Activities for the year ended December 31, 2017

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
OPERATING REVENUE:				
Contract revenue (<i>Note 10</i>)	\$ 1,119,117			\$ 1,119,117
Grants and contributions	1,424,137	\$ 992,882		2,417,019
Special events revenue	312,580			312,580
Costs of direct donor benefits	(66,492)			(66,492)
Program fees and other income	<u>29,744</u>			<u>29,744</u>
Total operating revenue	2,819,086	992,882		3,811,968
Net assets released from restrictions:				
Program expenditures	511,930	(511,930)		
Release of time	130,000	(130,000)		
Capital campaign fundraising and interest	<u>277,227</u>	<u>(277,227)</u>		
Total	<u>3,738,243</u>	<u>73,725</u>		<u>3,811,968</u>
OPERATING EXPENSES:				
Program services:				
Conservation	1,050,258			1,050,258
Education	729,124			729,124
Advocacy	449,555			449,555
Research	<u>176,518</u>			<u>176,518</u>
Total program services	2,405,455			2,405,455
Supporting services:				
Management and general	444,955			444,955
Fundraising	<u>657,975</u>			<u>657,975</u>
Total operating expenses	<u>3,508,385</u>			<u>3,508,385</u>
CHANGES IN NET ASSETS FROM OPERATIONS	229,858	73,725		303,583
OTHER CHANGES IN NET ASSETS:				
Capital campaign contributions		4,083,014		4,083,014
Release from restrictions for debt payments	<u>935,050</u>	<u>(935,050)</u>		
CHANGES IN NET ASSETS	1,164,908	3,221,689		4,386,597
Net assets, beginning of year	<u>2,194,114</u>	<u>1,739,707</u>	\$ 66,100	<u>3,999,921</u>
Net assets, end of year	<u>\$ 3,359,022</u>	<u>\$ 4,961,396</u>	<u>\$ 66,100</u>	<u>\$ 8,386,518</u>

See accompanying notes to financial statements.

Galveston Bay Foundation, Inc.

Statement of Activities for the year ended December 31, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Contract revenue (<i>Note 10</i>)	\$ 2,284,787			\$ 2,284,787
Donated conservation easements (<i>Note 5</i>)	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>
OPERATING EXPENSES:				
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	<u>548,167</u>			<u>548,167</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
OTHER CHANGES IN NET ASSETS:				
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>	\$ 66,100	<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 Functional Expenses for the year ended December 31, 2017

EXPENSES	CONSERVATION	EDUCATION	ADVOCACY	RESEARCH	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related expenses	\$ 361,400	\$ 353,911	\$ 232,558	\$ 51,440	\$ 999,309	\$ 231,450	\$ 338,761	\$ 1,569,520
Contracted materials and services	454,488	44,326	158,943	70,040	727,797	5,809	8,791	742,397
Supplies and materials	108,625	41,099	15,228	18,688	183,640	22,510	14,052	220,202
Professional and technical services	5,000	116			5,116	204	179,168	184,488
Interest expense						141,629		141,629
Event fees and supplies	14,202	94,667	1,552	128	110,549	364	12,477	123,390
Occupancy	26,930	27,525	10,289	5,444	70,188	18,015	16,167	104,370
Partner support and grants	28,658	31,680		25,736	86,074			86,074
Travel, meals and entertainment	13,410	35,708	10,901	1,227	61,246		5,657	66,903
Printing and publications	3,231	19,993	2,316	446	25,986	1,336	41,108	68,430
Advertising and development	6,004	35,141	8,489	69	49,703	376	3,582	53,661
Insurance	14,353	13,610	1,831	999	30,793	2,495	2,996	36,284
Membership dues and subscriptions	8,996	664	4,776		14,436	2,041	9,236	25,713
Depreciation	1,074	13,388			14,462	10,263		24,725
Conferences and workshops	3,025	2,412	2,633	2,075	10,145	1,932	1,680	13,757
Postage and shipping	71	1,593	15	131	1,810	263	7,549	9,622
Legal and accounting fees	451				451	4,648	1,049	6,148
Other	340	13,291	24	95	13,750	1,620	15,702	31,072
Total operating expenses	<u>\$ 1,050,258</u>	<u>\$ 729,124</u>	<u>\$ 449,555</u>	<u>\$ 176,518</u>	<u>\$ 2,405,455</u>	<u>\$ 444,955</u>	<u>\$ 657,975</u>	3,508,385
Costs of direct donor benefits								<u>66,492</u>
Total expenses								<u>\$ 3,574,877</u>

See accompanying notes to financial statements.

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
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
Professional and technical services	23,943	1,256	342	72	25,613	292	116,126	142,031
Interest expense						107,520		107,520
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
Partner support and grants	121,800	4,545	15,000	14,298	155,643			155,643
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
Advertising and development	1,815	1,004	2,507	57	5,383		4,733	10,116
Insurance	8,356	16,713	2,857	890	28,816	20,729	3,728	53,273
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
Conferences and workshops	3,050	1,565	158	2,128	6,901	901	1,772	9,574
Postage and shipping	270	1,163	41	82	1,556	240	11,908	13,704
Legal and accounting fees	7,469				7,469	31,197		38,666
Licenses and permits	250	17,588			17,838			17,838
Conservation easements	2,448,574				2,448,574			2,448,574
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.

Notes to Financial Statements for the years ended December 31, 2017 and 2016

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 Foundation is a local conservation organization working to preserve and protect Galveston Bay. Programs in land conservation, habitat restoration, environmental education and outreach, advocacy and research help ensure Galveston Bay remains a healthy and productive place for generations to come.

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 the Bay. The Foundation is an accredited land trust and protects natural areas by acquiring real estate and partnering with landowners to establish conservation easements on private lands. Currently, the Foundation 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 2017 restored over 140 acres of wetland and coastal prairie; constructed 660 feet of oyster bar breakwaters utilizing an estimated 88 tons of oyster shell recycled from local seafood restaurants; cleared trails and fence lines, treated invasive species, and planted 200 trees on local conservation properties; and removed over 60 tons of trash and marine debris and 329 abandoned crab traps from the Bay. Following Hurricane Harvey, the Foundation mobilized volunteers in removing 3.5 tons of storm debris from local conservation properties.

Education programs reach thousands of youth and adults each year. The goal of the program 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 such as 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” aim to cultivate life-long stewards of the Bay through environmental education experiences that nurture exploration and inquisition. The Foundation also provides training and curricular resources to local teachers or use in the classroom. Public outreach and education initiatives consist of campaigns and events aimed at increasing the public’s awareness of the importance of Galveston Bay. The “Pump Don’t Dump” campaign, “Cease the Grease” campaign, and “Seafood Consumption Advisory” campaign aim to educate segments of the population on various Bay issues of concern. The Foundation hosts annual events such as the “Bay Day Festival,” a one-day celebration of Galveston Bay with hands-on, interactive exhibits, activities, and demonstrations that emphasize the value of Galveston Bay, and “Bike Around the Bay,” 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 the Bay. In 2017, The Foundation introduced a new “Family Adventures on the Bay” program with 50 participants of all ages at The Foundation’s Trinity Bay Discovery Center.

Advocacy programs position the Foundation as the guardian of Galveston Bay. The goal of the Foundation’s advocacy efforts is to encourage and actively seek solutions to conflicts among the diverse users of the Bay. The Foundation attempts to balance the multiple uses of Galveston Bay so that the long-term interests of the Bay itself are not compromised. With its partners, the Foundation has successfully supported passage of state and federal legislation on behalf of the 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 the Bay, storm surge mitigation, seafood consumption safety, oyster regulations, the Clean Waters Rule (Waters of the U. S.), and the allocation of RESTORE Act funds for Galveston Bay. In 2017, the Foundation, in partnership with the Houston Advanced Research Center, released the 3rd annual Galveston Bay Report Card, with the Bay maintaining an average grade of “C”.

Research programs focus on 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 Foundation’s Water Monitoring Program mobilizes trained volunteers in conducting monthly water quality sampling at specific locations around Galveston Bay, including a more specialized group who sample for Enterococcus bacteria. In 2017, the Foundation monitored and published water quality impacts from Hurricane Harvey. 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. In 2017, our joint post-Hurricane Harvey dolphin research efforts were featured on the front page of the *Houston Chronicle*. 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 artwork, 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 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. Amounts received in advance are reported as deferred revenue.

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, 2017 and 2016, these volunteers donated approximately 10,100 and 10,500 hours.

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 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 Foundation is required to adopt this ASU for fiscal year 2018. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – CASH

At December 31, 2017 and 2016, the Foundation had deposits of \$1,585,251 and \$794,835 in a cash management account with a securities brokerage firm. Those deposits were maintained in interest-bearing deposit 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 \$15,776 and \$19,754 at December 31, 2017 and 2016.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2017</u>	<u>2016</u>
Pledges receivable	\$ 3,423,996	\$ 1,154,270
Discount to present value in ranges from 1.7% to 2.2%	<u>(122,717)</u>	<u>(37,731)</u>
Pledges receivable, net	3,301,279	1,116,539
Less: Pledges receivable for operating purposes	<u>(160,000)</u>	<u>(145,209)</u>
Pledges receivable for capital campaign, net	<u>\$ 3,141,279</u>	<u>\$ 971,330</u>

Pledges receivable at December 31, 2017 are expected to be collected as follows:

Less than one year	\$ 766,796
One to five years	<u>2,657,200</u>
Total pledges receivable	<u>\$ 3,423,996</u>

At December 31, 2017, approximately 73% of outstanding pledges are from two donors.

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>2017</u>	<u>2016</u>
Nondepreciable assets:		
Land held for future headquarters and nature center	\$ 5,490,466	\$ 5,490,466
Land held for conservation purposes	2,147,091	2,147,091
Construction in progress	328,218	111,225
Contributed artwork	9,400	9,400
Depreciable assets:		
Building	200,126	200,126
Furniture and equipment	<u>127,251</u>	<u>276,409</u>
Total property	8,302,552	8,234,717
Less: Accumulated depreciation	<u>(89,196)</u>	<u>(225,318)</u>
Property, net	<u>\$ 8,213,356</u>	<u>\$ 8,009,399</u>

Land held for conservation purposes includes 14 tracts of land totaling 3,475 acres at December 31, 2017 and 2016.

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, 2017 and 2016. The Foundation monitors these easements in the normal course of its operations and associated costs are expensed as incurred.

There were no new conservation easements in 2017.

New conservation easements in 2016 were as follows:

Donated and transferred conservation easements:		
Coastal Heritage Preserve, 216 acres		\$ 2,433,574
Sweetwater 8 mile, 1 acre		<u>15,000</u>
Total conservation easements		<u>\$ 2,448,574</u>

NOTE 6 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2017</u>	<u>2016</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 3.65%. Principal payments of \$1,000,000 plus accrued interest due each June 20 th until maturity. The remaining balance due in full on June 20, 2019; secured by a Deed of Trust on the land.	\$ 4,127,680	\$ 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%. 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	584,867
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.	300,000	400,000
Unsecured line of credit 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
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>
Total notes payable	5,012,547	6,030,046
Less: Current portion of notes payable	<u>(1,684,867)</u>	<u>(650,000)</u>
Notes payable – long-term portion	<u>\$ 3,327,680</u>	<u>\$ 5,380,046</u>

Principal payments for notes payable at December 31, 2017 are due as follows:

2018	\$ 1,684,867
2019	3,227,680
2020	<u>100,000</u>
Total	<u>\$ 5,012,547</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:

2018	\$ 48,127
2019	<u>36,096</u>
Total	<u>\$ 84,223</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>2017</u>	<u>2016</u>
Unrestricted property, net of depreciation and related debt	\$ 2,767,363	\$ 1,962,900
Board-designated for easement stewardships and defense	241,164	245,586
Undesignated	<u>350,495</u>	<u>(14,372)</u>
Total unrestricted net assets	<u>\$ 3,359,022</u>	<u>\$ 2,194,114</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>2017</u>	<u>2016</u>
Capital campaign	\$ 3,842,067	\$ 971,330
Conservation	655,023	316,923
Research	199,520	
Education	143,075	123,070
Advocacy	49,491	157,774
Donated land restricted for conservation	39,128	39,128
Future operations		130,000
Other	<u>33,092</u>	<u>1,482</u>
Total temporarily restricted net assets	<u>\$ 4,961,396</u>	<u>\$ 1,739,707</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>2017</u>	<u>2016</u>
Federal awards:		
Office of Water, Environmental Protection Agency	\$ 305,635	\$ 127,727
National Oceanic and Atmospheric Administration, Department of Commerce	166,454	152,494
United States Fish and Wildlife Service, Department of the Interior	89,604	1,662,607
United States Department of Agriculture	<u>15,220</u>	<u>5,775</u>
Total federal awards	576,913	1,948,603
Other grants:		
Houston Advanced Research Center	144,376	149,420
National Fish and Wildlife Foundation	137,895	116,677
National Resource Damage Assessment	111,199	40,433
Texas Parks and Wildlife Department	83,613	
Texas General Land Office	49,549	29,455
Other	<u>15,572</u>	<u>199</u>
Total contract revenue	<u>\$ 1,119,117</u>	<u>\$ 2,284,787</u>

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 27, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
