

Galveston Bay Foundation, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2018 and 2017

Galveston Bay Foundation, Inc.

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Galveston Bay Foundation, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Galveston Bay Foundation, Inc. as of December 31, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, Galveston Bay Foundation, 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 December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended December 31, 2017, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

Blazek & Vetterling

July 25, 2019

Galveston Bay Foundation, Inc.

Statements of Financial Position as of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash (Note 4)	\$ 115,131	\$ 406,031
Contract and other receivables	916,364	764,148
Prepaid expenses	20,158	30,770
Contributions receivable (Note 5)	271,974	160,000
Contributed use of property (Note 6)	<u>33,534</u>	<u> </u>
Total current assets	1,357,161	1,360,949
Cash held for board-designated reserves (Notes 4 and 10)	233,595	241,164
Cash restricted for capital campaign	338,281	1,000,000
Contributions receivable for capital campaign, net (Note 5)	2,966,060	3,141,279
Contributed use of property – long-term portion (Note 6)	83,835	
Property, net (Note 6)	<u>8,222,393</u>	<u>8,213,356</u>
TOTAL ASSETS	<u>\$ 13,201,325</u>	<u>\$ 13,956,748</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 158,608	\$ 156,939
Accrued interest expense	681	94,717
Deferred revenue	117,228	176,027
Notes payable – current portion (Note 8)	<u>2,389,436</u>	<u>1,684,867</u>
Total current liabilities	2,665,953	2,112,550
Funds held for others	130,260	130,000
Notes payable – long-term portion (Note 8)	<u>719,112</u>	<u>3,327,680</u>
Total liabilities	<u>3,515,325</u>	<u>5,570,230</u>
Net assets:		
Without donor restrictions (Note 10)	4,942,786	3,359,022
With donor restrictions (Note 11)	<u>4,743,214</u>	<u>5,027,496</u>
Total net assets	<u>9,686,000</u>	<u>8,386,518</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,201,325</u>	<u>\$ 13,956,748</u>

See accompanying notes to financial statements.

Galveston Bay Foundation, Inc.

Statement of Activities for the year ended December 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contract revenue (<i>Note 12</i>)	\$ 3,320,824		\$ 3,320,824
Grants and contributions	1,367,382	\$ 1,017,651	2,385,033
Special events	473,635		473,635
Costs of direct donor benefits	(155,582)		(155,582)
Program fees and other income	<u>34,861</u>	<u> </u>	<u>34,861</u>
Total operating revenue	5,041,120	1,017,651	6,058,771
Net assets released from restrictions:			
Program expenditures	1,071,381	(1,071,381)	
Use of contributed property	25,727	(25,727)	
Capital campaign expenditures	<u>268,698</u>	<u>(268,698)</u>	<u> </u>
Total	<u>6,406,926</u>	<u>(348,155)</u>	<u>6,058,771</u>
OPERATING EXPENSES:			
Program services:			
Conservation	3,684,290		3,684,290
Education	780,932		780,932
Advocacy	398,902		398,902
Research	<u>286,687</u>	<u> </u>	<u>286,687</u>
Total program services	5,150,811		5,150,811
Supporting services:			
Management and general	674,337		674,337
Fundraising	<u>691,018</u>	<u> </u>	<u>691,018</u>
Total operating expenses	<u>6,516,166</u>	<u> </u>	<u>6,516,166</u>
CHANGES IN NET ASSETS FROM OPERATIONS	(109,240)	(348,155)	(457,395)
OTHER CHANGES IN NET ASSETS:			
Capital campaign contributions		1,756,877	1,756,877
Release from restrictions for debt payments	<u>1,693,004</u>	<u>(1,693,004)</u>	<u> </u>
CHANGES IN NET ASSETS	1,583,764	(284,282)	1,299,482
Net assets, beginning of year	<u>3,359,022</u>	<u>5,027,496</u>	<u>8,386,518</u>
Net assets, end of year	<u>\$ 4,942,786</u>	<u>\$ 4,743,214</u>	<u>\$ 9,686,000</u>

See accompanying notes to financial statements.

Galveston Bay Foundation, Inc.

Statement of Activities for the year ended December 31, 2017

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contract revenue (<i>Note 12</i>)	\$ 1,119,117		\$ 1,119,117
Grants and contributions	1,424,137	\$ 992,882	2,417,019
Special events	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 (<i>Note 2</i>)	<u>2,194,114</u>	<u>1,805,807</u>	<u>3,999,921</u>
Net assets, end of year	<u>\$ 3,359,022</u>	<u>\$ 5,027,496</u>	<u>\$ 8,386,518</u>

See accompanying notes to financial statements.

Galveston Bay Foundation, Inc.

Statement of Functional Expenses for the year ended December 31, 2018

EXPENSES	CONSERVATION	EDUCATION	ADVOCACY	RESEARCH	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related expenses	\$ 396,932	\$ 373,373	\$ 235,861	\$ 88,189	\$ 1,094,355	\$ 436,734	\$ 288,409	\$ 1,819,498
Contracted materials and services	2,976,946	62,834	70,973	160,947	3,271,700	15,349	7,094	3,294,143
Event fees and supplies	11,993	149,630	3,611	342	165,576	443	23,709	189,728
Professional and technical services		8,765		3,146	11,911	360	174,295	186,566
Supplies and materials	71,586	48,152	4,739	16,668	141,145	12,936	3,587	157,668
Occupancy	60,381	25,680	14,367	7,552	107,980	17,904	28,815	154,699
Advertising	1,242	27,127	35,206	50	63,625	153	84,747	148,525
Interest expense						111,793		111,793
Partner support and grants	93,550			3,701	97,251			97,251
Legal and accounting services	7,104				7,104	69,160		76,264
Printing and publications	2,300	16,437	10,748	610	30,095		39,723	69,818
Travel, meals and entertainment	16,301	16,532	14,999	3,611	51,443	253	6,180	57,876
Membership dues and subscriptions	19,456	1,691	4,885		26,032	709	9,482	36,223
Insurance	15,142	10,464	936	520	27,062	5,211	1,181	33,454
Depreciation	4,099	14,472	642	356	19,569	867	809	21,245
Postage and shipping	3,198	304	10	150	3,662	444	13,865	17,971
Conferences and workshops	2,505	857	1,925	347	5,634	1,785	629	8,048
Other	1,555	24,614		498	26,667	236	8,493	35,396
Total expenses	<u>\$ 3,684,290</u>	<u>\$ 780,932</u>	<u>\$ 398,902</u>	<u>\$ 286,687</u>	<u>\$ 5,150,811</u>	<u>\$ 674,337</u>	<u>\$ 691,018</u>	6,516,166
Costs of direct donor benefits								<u>155,582</u>
Total								<u>\$ 6,671,748</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
Event fees and supplies	14,202	94,667	1,552	128	110,549	364	12,477	123,390
Professional and technical services	5,000	116			5,116	204	179,168	184,488
Supplies and materials	108,625	41,099	15,228	18,688	183,640	22,510	14,052	220,202
Occupancy	26,930	27,525	10,289	5,444	70,188	18,015	16,167	104,370
Advertising	6,004	35,141	8,489	69	49,703	376	3,582	53,661
Interest expense						141,629		141,629
Partner support and grants	28,658	31,680		25,736	86,074			86,074
Legal and accounting services	451				451	4,648	1,049	6,148
Printing and publications	3,231	19,993	2,316	446	25,986	1,336	41,108	68,430
Travel, meals and entertainment	13,410	35,708	10,901	1,227	61,246		5,657	66,903
Membership dues and subscriptions	8,996	664	4,776		14,436	2,041	9,236	25,713
Insurance	14,353	13,610	1,831	999	30,793	2,495	2,996	36,284
Depreciation	1,074	13,388			14,462	10,263		24,725
Postage and shipping	71	1,593	15	131	1,810	263	7,549	9,622
Conferences and workshops	3,025	2,412	2,633	2,075	10,145	1,932	1,680	13,757
Other	340	13,291	24	95	13,750	1,620	15,702	31,072
Total 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								<u>\$ 3,574,877</u>

See accompanying notes to financial statements.

Galveston Bay Foundation, Inc.

Statements of Cash Flows for the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,299,482	\$ 4,386,597
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Capital campaign contributions	(1,756,877)	(4,083,014)
Depreciation	21,245	24,725
Gain on sale of truck		(4,000)
Contributed use of property	(117,369)	
Changes in operating assets and liabilities:		
Contract and other receivables	(152,216)	(342,186)
Prepaid expenses	10,612	11,442
Contributions receivable (excluding capital campaign)	(111,974)	(14,791)
Accounts payable and other accrued liabilities	1,669	(31,791)
Accrued interest expense	(94,036)	6,342
Deferred revenue	(58,799)	166,757
Funds held for others	<u>260</u>	<u>(73)</u>
Net cash provided (used) by operating activities	<u>(958,003)</u>	<u>120,008</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of truck		4,000
Purchase of property	<u>(30,282)</u>	<u>(228,682)</u>
Net cash used by investing activities	<u>(30,282)</u>	<u>(224,682)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from capital campaign contributions	1,832,096	1,813,065
Payments on notes payable and line of credit	(2,423,111)	(917,499)
Proceeds from notes payable	<u>619,112</u>	<u> </u>
Net cash provided by financing activities	<u>28,097</u>	<u>895,566</u>
NET CHANGE IN CASH	(960,188)	790,892
Cash, beginning of year	<u>1,647,195</u>	<u>856,303</u>
Cash, end of year	<u>\$ 687,007</u>	<u>\$ 1,647,195</u>
<i>Reconciliation of cash balances:</i>		
Cash	\$ 115,131	\$ 406,031
Cash held for board-designated reserves	233,595	241,164
Cash restricted for capital campaign	<u>338,281</u>	<u>1,000,000</u>
Total cash	<u>\$ 687,007</u>	<u>\$ 1,647,195</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$117,778	\$135,287

See accompanying notes to financial statements.

Galveston Bay Foundation, Inc.

Notes to Financial Statements for the years ended December 31, 2018 and 2017

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Galveston Bay Foundation, Inc. (the Foundation) is a local conservation organization working to preserve and protect Galveston Bay. Programs in land conservation, habitat restoration, environmental education, 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 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. 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. The Foundation works to actively steward its conserved lands, and in 2018, employed three seasonal field technicians to treat invasive species, maintain trails, and perform other land maintenance tasks on its conservation properties. 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. In 2018, the Foundation protected over 1.5 miles of vulnerable shorelines and began re-establishing fringing marsh habitat along Moses Lake, Oyster Lake, and Trinity Bay. The Foundation’s oyster reef restoration program recycled 128 tons of oyster shell from six partner restaurants and used its stockpile of recycled oyster shell to construct 555 feet of oyster bar breakwaters in Beach City and Galveston and two reef mounds in Dickinson Bay. Volunteers participating in the Foundation’s popular community-based restoration programs removed 221 abandoned crab traps from Trinity and East Bays, picked up an estimated 7,520 pounds of trash and recyclables and six tires from the Armand Bayou watershed, and helped the Foundation celebrate 20 consecutive years of “Marsh Mania” community-based marsh restoration by planting 1.2 acres of intertidal marsh in Anahuac, Galveston, and Texas City.

Education and outreach 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 are offered both in the classroom and on Galveston Bay and aim to cultivate life-long stewards of Galveston Bay through environmental education experiences that nurture exploration and inquisition. In 2018, the Foundation engaged 2,648 students, over half of whom were considered low-income, in 77 youth education events, and provided curriculum, lessons, and training to 124 local teachers during professional development opportunities. The Foundation also debuted “The Pod,” a bottlenose dolphin activity trunk designed for use by 5th-12th grade teachers in their classrooms. Public outreach initiatives consist of campaigns and events aimed at increasing the public’s awareness of the importance of Galveston Bay. The “Pump Don’t Dump” and “Seafood Consumption Advisory” campaigns aim to educate segments of the population on various Galveston Bay issues of concern. In 2018, the Foundation distributed 296 rain barrels at six community workshops, creating the potential to conserve over 310,800 gallons of water per year; established two cooking oil recycling stations in Galveston Bay area communities; and distributed boat flags that allow local boaters to promote proper boater waste disposal practices within their marinas and to their peers. The Foundation also created a water quality outreach video to educate the public on the Foundation’s water quality findings and actions they can take to improve water quality and hosted the Houston Cities H2O Challenge, a friendly water conservation competition that engaged residents and businesses from 30 Houston-area cities, targeting both the English and Spanish-speaking markets, which resulted in 3.5 million gallons of potential annual water savings. The Foundation also hosted its annual education and outreach events including 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 Galveston Bay.

Advocacy programs position the Foundation as the guardian of Galveston Bay. The goal is to encourage and actively seek solutions to conflicts among the diverse users of Galveston Bay. The Foundation attempts to 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. In 2018, the Foundation engaged in dialogue with local staff of the United States and Texas representatives and senators, stakeholder groups, and the public on issues including the San Jacinto River Waste Pits, the Halls Bayou Sludge Management Facility (“West Bay McGinnes Pits”), Coastal Storm Surge Barrier, and seafood consumption safety monitoring and education. With the help of the Foundation’s Wetland Permit Review Committee – active for 29 consecutive years – the Foundation reviewed 36 applications for U.S. Army Corps of Engineers permits and provided a letter of concern or a letter of opposition on 12 of them. Throughout 2018, the Foundation collected over 100 reports of pollution around Galveston Bay via the Galveston Bay Action Network (GBAN) mobile app and forwarded those reports to one of 11 authorities in charge of response/enforcement. In partnership with the Houston Advanced Research Center, the Foundation released the 4th annual Galveston Bay Report Card, with Galveston Bay maintaining an average grade of “C” and debuted new programs around the Galveston Bay Report Card, namely the Report Card Champion Program and Bay Connect, aimed at enabling the public to take positive actions for Galveston Bay.

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 2018, the Foundation grew the Water Monitoring Team to 71 active volunteers at 64 locations and collected and analyzed 633 water quality samples and processed 488 bacteria samples. The Foundation also created a report highlighting water quality data findings and added bacteria data to the Swim Guide, a website and app that informs swimmers of most recent bacteria levels throughout the United States and internationally. In partnership with the Environmental Institute of Houston at the University of Houston – Clear Lake (EIH-UHCL), the Foundation conducted more than 30 boat-based surveys to monitor the bottlenose dolphin population in Galveston Bay. This resulted in the observation of over 150 dolphin sightings/groups with a total of more than 1,750 dolphins. The Foundation also trained 18 new citizen-science volunteers as dolphin research assistants and submitted the dolphin research program’s first publication to a scientific journal: “Short-term effects of Hurricane Harvey on bottlenose dolphins in the upper Galveston Bay estuary.” In addition to its own efforts, the Foundation also regularly advocates for the allocation of research monies 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.

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 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 contributions are received.

Allowance for uncollectible accounts – An allowance for contracts or contributions 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 contributions 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 reported at cost or, in the case of donated property, at estimated fair 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 – 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. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

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 or land 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, 2018 and 2017, these volunteers donated approximately 8,900 and 10,100 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 – 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 program or supporting activities are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation of building and improvements and occupancy costs are allocated based on square footage and employee estimated time and effort. Information technology costs are allocated based on estimates of time and cost specific technology utilized.

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 pronouncement – In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. The Foundation is required to apply the amendments in its December 31, 2019 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management has not determined the eventual method of adoption of the ASU or the impact on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATES 2016-14 AND 2016-18

The Foundation adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements for the year ended December 31, 2017, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2018 presentation but had no impact on total net assets or total changes in net assets for 2017.

During 2018, the Foundation also adopted ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires the statement of cash flows to explain the change in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Prior to adoption, board-designated cash and cash restricted for capital campaign were excluded from beginning and ending cash in the statement of cash flows. The statement of cash flows for the year ended December 31, 2017 was restated to reflect the retrospective adoption. This change had no impact on net assets or 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 December 31, 2018 comprise the following:

Financial assets at December 31, 2018:

Cash	\$ 687,007
Contracts and other receivables	916,364
Contributions receivable, net	<u>3,238,034</u>
Total financial assets	<u>4,841,405</u>
Less financial assets not available for general expenditure:	
Funds held for others	130,260
Board-designated cash reserves	233,595
Donor restricted for capital campaign	<u>3,304,442</u>
Total financial assets available for general expenditure	<u>\$ 1,173,108</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities to preserve and protect Galveston Bay, including land conservation, habitat restoration, environmental education, outreach, advocacy and research, as well as the conduct of services undertaken to support those activities, to be general expenditures.

As part of the Foundation’s liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Foundation has board-designated reserves of \$233,595 for conservation stewardship and legal defense needs. Additionally, the Foundation has a line of credit for \$550,000 to be drawn upon as needed.

The Foundation is conducting a capital campaign, *Charting the Course for Galveston Bay*, to raise \$20.6 million for construction of a new headquarters in Kemah, Texas. The Foundation has recognized approximately \$7.1 million in cash and contributions receivable through December 31, 2018. In addition, there is \$5 million in conditional promises to give not yet recorded. The debt related to the land purchased for the new headquarters is being funded by the capital campaign contributions. As part of the capital campaign, the Foundation has entered into a debt agreement that requires approximately \$2.3 million in principal payments be paid in 2019 (full repayment). Subsequent to December 31, 2018, management negotiated an extension on the full payment to August of 2019 and received payments on outstanding contributions receivable to repay the debt outstanding.

NOTE 4 – CASH

At December 31, 2018 and 2017, the Foundation had deposits of \$623,724 and \$1,585,251 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, however at times, deposits in a single banking institution did exceed \$250,000 and were over the Federal Deposit Insurance Corporation insurance limits. 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 \$11,214 and \$15,776 at December 31, 2018 and 2017.

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	<u>2018</u>	<u>2017</u>
Contributions receivable	\$ 3,292,114	\$ 3,423,996
Discount to present value ranging from 1.7% to 2.5%	<u>(54,080)</u>	<u>(122,717)</u>
Contributions receivable, net	3,238,034	3,301,279
Less: Contributions receivable for operating purposes	<u>(271,974)</u>	<u>(160,000)</u>
Contributions receivable for capital campaign, net	<u>\$ 2,966,060</u>	<u>\$ 3,141,279</u>

Contributions receivable at December 31, 2018 are expected to be collected as follows:

Less than one year	\$ 1,655,972
One to five years	<u>1,636,142</u>
Total contributions receivable	<u>\$ 3,292,114</u>

At December 31, 2018, approximately 73% of outstanding contributions receivable 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 8).

In addition, the Foundation received two conditional grants totaling \$5,000,000 for the construction of the new headquarters and nature center. These grants are conditional upon the start of construction of the new headquarters.

NOTE 6 – PROPERTY

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

	<u>2018</u>	<u>2017</u>
Nondepreciable assets:		
Land for headquarters and nature center	\$ 5,490,466	\$ 5,490,466
Land held for conservation purposes	2,157,091	2,147,091
Construction in progress	332,800	328,218
Contributed artwork	9,400	9,400
Depreciable assets:		
Building	200,126	200,126
Furniture and equipment	<u>142,951</u>	<u>127,251</u>
Total property	8,332,834	8,302,552
Less: Accumulated depreciation	<u>(110,441)</u>	<u>(89,196)</u>
Property, net	<u>\$ 8,222,393</u>	<u>\$ 8,213,356</u>

Land held for conservation purposes includes 14 tracts of land totaling 3,475 acres at December 31, 2018 and 2017.

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.

The Foundation entered into a 4-year lease agreement for the use of property for the oyster restoration project through June 30, 2023 at \$10 a year. The fair market value of the contributed use of the property is reported in the statement of financial position as contributed use of property and is amortized over the life of the lease. The amortization of the contributed use of this property is reported in conservation occupancy expense in the statement of functional expenses.

NOTE 7 – CONSERVATION EASEMENTS

In addition to the land held for conservation purposes disclosed in Note 6, 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, 2018 and 2017. 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 2018 or 2017.

NOTE 8 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2018</u>	<u>2017</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 the extended maturity date of August 30, 2019; secured by a Deed of Trust on the land.	\$ 2,289,436	\$ 4,127,680
Note payable to Frost Bank to refinance the loan from The Conservation Fund that purchased a 17-acre tract of land and building for Trinity Bay nature center; fixed interest rate of 4.75%; principal and accrued interest due at maturity on November 18, 2023; secured by a Deed of Trust on the property.	619,112	
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 5.	200,000	300,000
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.	<u> </u>	<u>584,867</u>
Total notes payable	3,108,548	5,012,547
Less: Current portion of notes payable	<u>(2,389,436)</u>	<u>(1,684,867)</u>
Notes payable – long-term portion	<u>\$ 719,112</u>	<u>\$ 3,327,680</u>

Principal payments for notes payable at December 31, 2018 are due as follows:

2019	\$ 2,389,436
2020	100,000
2023	<u>619,112</u>
Total	<u>\$ 3,108,548</u>

NOTE 9 – 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 of \$36,096 are due in 2019.

Construction commitments

At December 31, 2018, the Foundation has outstanding construction commitments of approximately \$709,000 for the construction of the new headquarters.

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 10 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2018</u>	<u>2017</u>
Unrestricted property, net of depreciation and related debt	\$ 4,781,045	\$ 2,767,363
Board-designated for easement stewardships and defense	233,595	241,164
Undesignated	<u>(71,854)</u>	<u>350,495</u>
Net assets without donor restrictions	<u>\$ 4,942,786</u>	<u>\$ 3,359,022</u>

The Board of Directors sets aside amounts received in transactions related to the transfer or purchase of conservation easements in an easement stewardship and defense fund. These funds were created to provide a long-term, ongoing source of income to cover the annual cost associated with monitoring, managing, and defending the Foundation’s portfolio of conservation easements. Any disbursements from the reserve funds must be approved by the Board of Directors.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
<i>Charting the Course for Galveston Bay</i> – capital campaign	\$ 3,637,242	\$ 3,842,067
Conservation	413,741	649,774
Education	109,359	143,075
Research	105,960	199,520
Advocacy	49,066	49,491
Other	<u> </u>	<u>33,092</u>
Total subject to expenditure for specified purpose	4,315,368	4,917,019
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	200,000	
Not subject to appropriation or expenditure:		
Contributed use of facilities	117,369	
Land restricted for conservation	105,228	105,228
Truck restricted for conservation	<u>5,249</u>	<u>5,249</u>
Total net assets with donor restrictions	<u>\$ 4,743,214</u>	<u>\$ 5,027,496</u>

NOTE 12 – 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>2018</u>	<u>2017</u>
Federal awards:		
Office of Water, Environmental Protection Agency	\$ 193,944	\$ 305,635
National Oceanic and Atmospheric Administration, Department of Commerce	228,376	166,454
United States Fish and Wildlife Service, Department of the Interior	255,374	89,604
United States Department of Agriculture	<u> </u>	<u>15,220</u>
Total federal awards	677,694	576,913
Other grants:		
National Fish and Wildlife Foundation	1,121,384	137,895
Texas General Land Office	749,304	49,549
Texas Parks and Wildlife Department	383,107	83,613
Restore America’s Estuaries	159,455	
Houston Advanced Research Center	96,311	144,376
Harris County	56,817	
National Resource Damage Assessment	53,319	111,199
Other	<u>23,433</u>	<u>15,572</u>
Total contract revenue	<u>\$ 3,320,824</u>	<u>\$ 1,119,117</u>

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 25, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than those disclosed in Note 3, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
