

Galveston Bay Foundation, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2015 and 2014

Galveston Bay Foundation, Inc.

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of December 31, 2015 and 2014	3
Statement of Activities for the year ended December 31, 2015	4
Statement of Activities for the year ended December 31, 2014	5
Statement of Functional Expenses for the year ended December 31, 2015	6
Statement of Functional Expenses for the year ended December 31, 2014	7
Statements of Cash Flows for the years ended December 31, 2015 and 2014	8
Notes to Financial Statements for the years ended December 31, 2015 and 2014	9

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, 2015 and 2014 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, 2015 and 2014 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, 2016 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 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 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, 2016

Galveston Bay Foundation, Inc.

Statements of Financial Position as of December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets:		
Cash (<i>Note 2</i>)	\$ 1,387,191	\$ 1,661,671
Contracts receivable	543,087	241,271
Prepaid expenses and other receivables	<u>82,636</u>	<u>25,022</u>
Total current assets	2,012,914	1,927,964
Cash held for board-designated purposes (<i>Notes 2 and 9</i>)	237,924	201,488
Pledges receivable for capital campaign, net (<i>Note 3</i>)	518,065	
Property, net (<i>Note 4</i>)	<u>1,503,302</u>	<u>1,520,869</u>
TOTAL ASSETS	<u>\$ 4,272,205</u>	<u>\$ 3,650,321</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 439,358	\$ 107,314
Accrued liabilities	106,470	88,432
Notes payable – current (<i>Note 6</i>)	<u>19,255</u>	<u>32,125</u>
Total current liabilities	565,083	227,871
Notes payable – long-term portion (<i>Note 6</i>)	<u>798,620</u>	<u>617,875</u>
Total liabilities	<u>1,363,703</u>	<u>845,746</u>
Net assets:		
Unrestricted (<i>Note 9</i>)	1,266,460	1,616,235
Temporarily restricted (<i>Note 10</i>)	1,575,942	1,122,240
Permanently restricted land	<u>66,100</u>	<u>66,100</u>
Total net assets	<u>2,908,502</u>	<u>2,804,575</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,272,205</u>	<u>\$ 3,650,321</u>

See accompanying notes to financial statements.

Galveston Bay Foundation, Inc.

Statement of Activities for the year ended December 31, 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Contract revenue (<i>Note 11</i>)	\$ 3,036,817			\$ 3,036,817
Grants and contributions	739,450	\$ 1,310,219		2,049,669
Special events revenue	312,800			312,800
Costs of direct donor benefits	(78,345)			(78,345)
Easement consideration	40,781			40,781
Program fees	24,322			24,322
Investment and other income	<u>1,488</u>	<u> </u>		<u>1,488</u>
Total operating revenue	4,077,313	1,310,219		5,387,532
Net assets released from restrictions:				
Program expenditures	<u>1,354,465</u>	<u>(1,354,465)</u>		<u> </u>
Total	<u>5,431,778</u>	<u>(44,246)</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	<u>427,799</u>			<u>427,799</u>
Total operating expenses	<u>5,781,553</u>			<u>5,781,553</u>
CHANGES IN NET ASSETS FROM OPERATIONS	(349,775)	(44,246)		(394,021)
OTHER CHANGES IN NET ASSETS:				
Capital campaign contributions		563,065		563,065
Capital campaign fundraising expenses	(65,117)			(65,117)
Release from restriction for capital campaign	<u>65,117</u>	<u>(65,117)</u>		<u> </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.

Galveston Bay Foundation, Inc.

Statement of Activities for the year ended December 31, 2014

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
OPERATING REVENUE:				
Contract revenue (<i>Note 11</i>)	\$ 2,228,941			\$ 2,228,941
Grants and contributions	545,323	\$ 1,425,882		1,971,205
Special events revenue	317,290			317,290
Costs of direct donor benefits	(48,098)			(48,098)
Easement consideration	188,400			188,400
Program fees	16,054			16,054
Investment and other income	<u>11,168</u>			<u>11,168</u>
Total operating revenue	3,259,078	1,425,882		4,684,960
Net assets released from restrictions:				
Program expenditures	<u>1,346,660</u>	<u>(1,346,660)</u>		
Total	<u>4,605,738</u>	<u>79,222</u>		<u>4,684,960</u>
OPERATING EXPENSES:				
Program services:				
Conservation	2,700,484			2,700,484
Education	711,423			711,423
Advocacy	407,117			407,117
Research	<u>39,145</u>			<u>39,145</u>
Total program services	3,858,169			3,858,169
Supporting services:				
Management and general	242,275			242,275
Fundraising	<u>383,059</u>			<u>383,059</u>
Total operating expenses	<u>4,483,503</u>			<u>4,483,503</u>
CHANGES IN NET ASSETS	122,235	79,222		201,457
Net assets, beginning of year	<u>1,494,000</u>	<u>1,043,018</u>	<u>\$ 66,100</u>	<u>2,603,118</u>
Net assets, end of year	<u>\$ 1,616,235</u>	<u>\$ 1,122,240</u>	<u>\$ 66,100</u>	<u>\$ 2,804,575</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	\$ 273,927	\$ 1,351,862
Contracted materials and services	2,335,854	62,433	94,561	16,576	2,509,424	7,115	12,215	2,528,754
Conservation easement consideration	918,740				918,740			918,740
Supplies and materials	17,663	12,868	42,114	11,547	84,192	78,748	29,804	192,744
Event fees and supplies	15,342	117,132	1,128	80	133,682	10,892	13,616	158,190
Insurance	32,623	29,967	21,042	3,709	87,341	29,661	24,990	141,992
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		5,028	70,542
Partner support and grants	56,757	5,300		2,200	64,257	100	250	64,607
Printing and publications	3,449	21,652	5,954	397	31,452	244	27,426	59,122
Legal and accounting fees	14,400				14,400	21,233		35,633
Professional and technical services	3,200	115			3,315	10,598	10,768	24,681
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
Conferences and workshops	4,054	3,426	2,256	2,046	11,782	1,396	2,015	15,193
Licenses and permits	1,165	13,647			14,812	50		14,862
Advertising and development	813	3,070	6,911	20	10,814		1,718	12,532
Postage and shipping	180	2,055	406	53	2,694		7,719	10,413
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>\$ 427,799</u>	5,781,553
Direct donor benefits								78,345
Capital campaign fundraising								<u>65,117</u>
Total expenses								<u>\$ 5,925,015</u>

See accompanying notes to financial statements.

Galveston Bay Foundation, Inc.

Statement of Functional Expenses for the year ended December 31, 2014

EXPENSES	CONSERVATION	EDUCATION	ADVOCACY	RESEARCH	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related expenses	\$ 255,894	\$ 302,347	\$ 242,451	\$ 20,128	\$ 820,820	\$ 143,655	\$ 208,775	\$ 1,173,250
Contracted materials and services	857,334	50,551	32,817	1,800	942,502	15,568	6,490	964,560
Conservation easement consideration	1,316,400				1,316,400			1,316,400
Supplies and materials	50,821	66,524	59,168	8,949	185,462	10,680	33,966	230,108
Event fees and supplies	11,907	102,509	3,793		118,209	11,730	25,261	155,200
Insurance	22,419	33,690	19,567	1,737	77,413	15,293	17,206	109,912
Occupancy	36,195	18,910	15,268	3,147	73,520	7,656	12,222	93,398
Travel, meals and entertainment	17,289	27,854	14,117	2,684	61,944		4,050	65,994
Partner support and grants	83,966				83,966		1,420	85,386
Printing and publications	2,128	38,368	9,116	320	49,932	25	16,648	66,605
Legal and accounting fees	5,995	577	307		6,879	16,090		22,969
Professional and technical services		670	2,411		3,081	3,826	31,230	38,137
Membership dues and subscriptions	4,335	385	1,244		5,964	3,973	949	10,886
Depreciation	6,353	3,996			10,349	4,862		15,211
Conferences and workshops	8,458	1,082	919		10,459	1,388	1,040	12,887
Licenses and permits		14,813			14,813	50		14,863
Advertising and development	893	11,280	795		12,968	58	3,988	17,014
Postage and shipping	117	4,558	279	7	4,961	772	4,878	10,611
Other	19,980	33,309	4,865	373	58,527	6,649	14,936	80,112
Total operating expenses	<u>\$ 2,700,484</u>	<u>\$ 711,423</u>	<u>\$ 407,117</u>	<u>\$ 39,145</u>	<u>\$ 3,858,169</u>	<u>\$ 242,275</u>	<u>\$ 383,059</u>	4,483,503
Direct donor benefits								<u>48,098</u>
Total expenses								<u>\$ 4,531,601</u>

See accompanying notes to financial statements.

Galveston Bay Foundation, Inc.

Statements of Cash Flows for the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 103,927	\$ 201,457
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Capital campaign contributions	(563,065)	
Depreciation	17,567	15,211
Changes in operating assets and liabilities:		
Contracts and other receivable	(302,025)	165,346
Prepaid expenses and other receivables	(57,405)	(19,746)
Accounts payable	332,044	51,836
Accrued liabilities	<u>18,038</u>	<u>31,283</u>
Net cash provided (used) by operating activities	<u>(450,919)</u>	<u>445,387</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in cash held for board-designated purposes	(36,436)	13,311
Purchase of property	<u> </u>	<u>(932,238)</u>
Net cash provided (used) by investing activities	<u>(36,436)</u>	<u>(918,927)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from capital campaign contributions	45,000	
Payments on notes payable	(32,125)	
Proceeds from notes payable	<u>200,000</u>	<u>650,000</u>
Net cash provided by financing activities	<u>212,875</u>	<u>650,000</u>
NET CHANGE IN CASH	(274,480)	176,460
Cash, beginning of year	<u>1,661,671</u>	<u>1,485,211</u>
Cash, end of year	<u>\$ 1,387,191</u>	<u>\$ 1,661,671</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$18,424	\$7,448

See accompanying notes to financial statements.

Galveston Bay Foundation, Inc.

Notes to Financial Statements for the years ended December 31, 2015 and 2014

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. It is managed by a Board of Directors whose members represent sport and commercial fishing groups, government agencies, recreational users, environmental groups, shipping, development, and business interests. The mission of the Foundation is to preserve, protect, and enhance the natural resources of the Galveston Bay estuarine system and its tributaries for present users and for posterity. Its programs strive to ensure that Galveston Bay remains a beautiful 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 have experienced loss or degradation. The Foundation works closely with numerous partners to enhance critical habitats across the bay. These habitats provide important ecosystem services such as filtering pollutants from runoff and improving water quality and clarity, stabilizing shorelines and providing flood control, creating a habitat for economically important finfish and shellfish, and providing rookery and foraging areas for birds. The Foundation’s nationally recognized, community-based marsh restoration program, called “Marsh Mania,” has involved over 7,500 citizen volunteers and restored more than 200 acres of marsh over the past 16 years. Important conservation projects in 2015, such as the acquisition of the conservation easements on Gordy Marsh and Greens Bayou, increased the Foundation’s land under conservation to 2,414 acres.

Education programs 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 entire Houston-Galveston region. Youth-focused programs include the curriculum-based “Bay Ambassadors” program, annual “Children’s Art Calendar,” and the school-based marsh grass nursery 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 water quality issues. The Foundation’s annual “Bay Day Festival” is a one-day celebration of the bay with highlights including 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 the bay.

Advocacy programs allow the Foundation to serve as the watchdog for Galveston Bay. The Foundation reviews numerous projects and actively participates in the public review of those projects by attending public meetings and submitting written public comments. The overarching goal of the advocacy programs is to encourage and actively seek solutions to conflicts among the diverse users of the bay and 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. Most recently, the Foundation advocated for adequate freshwater inflows for the bay, for water conservation to be a major component of the State Water Plan, for the proper cleanup of the San Jacinto River Waste Pits Superfund site, for reduction of bacteria levels in our upper Gulf Coast oyster waters, for the bay environment to be adequately addressed in any storm surge mitigation strategy, and for RESTORE Act funds to be utilized on Galveston Bay.

Research programs focus on the monitoring of near-shore water quality around Galveston Bay. Trained citizen scientists augment professional monitoring data and aid in watershed planning through the Foundation’s “Water Monitoring Team,” “Bacteria Sampling Program,” and the “College Research Experience.” 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. Most grant funding comes from federal sources and the majority require 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 donations and services, 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 revenues and expenses related to donor restricted contributions for long-term purposes such as property acquisitions and related fundraising costs.

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 accounts receivable 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. It is possible that management's estimates regarding the collectability of the balances will change in the near term resulting in a change in the carrying value of these receivables.

Property includes land, works of art, furniture and fixtures, office equipment and equipment for program services, which are either currently used or planned to be used for program services of the Foundation. Property is reported 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.

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 reported 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 2015 and 2014, these volunteers donated approximately 14,430 and 12,989 hours, respectively.

Contract receivables and revenue – Receivables consist of amounts due, both billed and unbilled, under reimbursable contracts with government agencies. Contract revenue is recognized as the Foundation incurs allowable costs under the contracts on a matching basis. No allowance for estimated uncollectible receivables was considered necessary at December 31, 2015 and 2014.

Program fees from the rain barrel workshop program are recognized as revenue when the services are provided.

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 – The Foundation receives gifts of conservation easements and grants toward the purchase of conservation easements, which represent numerous restrictions over the use and development of land not owned by the Foundation. The donated value of conservation easements are recorded, based on the estimated appraised value, as revenue when received and estimated conservation easement expense is recorded for an equal amount. Easements are not reported as assets because the Foundation does not believe the easements represent a future economic benefit.

Advertising costs are expensed as incurred.

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized 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 accounting pronouncement – In May 2014, the Financial Accounting Standards Board 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 standard 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, 2017. Early adoption is permitted. The Foundation will evaluate the impact that this ASU will have on the financial statements.

NOTE 2 – CASH

At December 31, 2015 and 2014, the Foundation had deposits of \$1,538,510 and \$1,824,590, respectively, in a cash management account with a securities brokerage firm. Those deposits were maintained in money market accounts. At December 31, 2015 and 2014, the Foundation also had deposits of \$24,524 and \$14,395, respectively, in a money market account with a nationally chartered bank. Cash balances exceed the federally insured limit per depositor per institution.

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 are held in a cash management account with a nationally chartered bank which totaled \$62,081 at December 31, 2015 and \$24,174 at December 31, 2014.

NOTE 3 – PLEDGES RECEIVABLE

During 2015, the Foundation initiated a capital campaign to raise money for the purchase of land and construction of new facilities that will showcase the Foundation’s programs and provide office space for the staff. Pledges receivable at December 31, 2015 related to the campaign consist of the following:

Pledges receivable	\$ 552,000
Discount to net present value at 1.76%	(18,590)
Allowance for doubtful accounts	<u>(15,345)</u>
Pledges receivable, net	<u>\$ 518,065</u>

Pledges receivable at December 31, 2015 are expected to be collected as follows:

Less than one year	\$ 116,850
One to five years	<u>435,150</u>
Total pledges receivable	<u>\$ 552,000</u>

At December 31, 2015, approximately 70% of outstanding pledges are from four donors.

NOTE 4 – PROPERTY

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

	<u>2015</u>	<u>2014</u>
Nondepreciable assets:		
Unrestricted land	\$ 1,169,657	\$ 1,169,657
Permanently restricted land	66,100	66,100
Temporarily restricted land	39,128	39,128
Contributed artwork	9,400	9,400
Depreciable assets:		
Building	200,126	200,126
Equipment for program services	158,453	158,453
Furniture and office equipment	41,412	41,412
Temporarily restricted equipment	<u>26,248</u>	<u>26,248</u>
Total property	1,710,524	1,710,524
Less: Accumulated depreciation	<u>(207,222)</u>	<u>(189,655)</u>
Property, net	<u>\$ 1,503,302</u>	<u>\$ 1,520,869</u>

In 1991, the Foundation received a donation of approximately 30.68 acres of land in Galveston County; the land was conveyed with a donor and deed restriction for conservation and is temporarily restricted as it must be used for the restricted purpose. In 1998, the Foundation received a donation of approximately 449 acres of land in Galveston County; the land was conveyed 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

Conservation easements represent rights to restrict the use, access, and development of certain properties. The Foundation holds conservation easements on 10 tracts of land totaling approximately 4,349 acres at December 31,

2015 and on 8 tracts of land totaling approximately 1,935 acres at December 31, 2014. Additionally, the Foundation holds title to 11 tracts of land, totaling approximately 3,335 acres at December 31, 2015 and 2014. 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>2015</u>	<u>2014</u>
Purchased conservation easements:		
Gordy Marsh, 1,739 acres	\$ 830,990	
Lone Pine Farms, 1,097 acres		\$ 1,316,400
Donated and transferred conservation easements:		
Green's Bayou, 675 acres	<u>87,750</u>	<u> </u>
Total conservation easement consideration	<u>\$ 918,740</u>	<u>\$ 1,316,400</u>

NOTE 6 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2015</u>	<u>2014</u>
Note payable to The Conservation Fund for \$650,000 to purchase a 17.23 acre tract of land and building for nature center; fixed interest rate of 2.75%; principal and interest of \$50,000 due on the first and second anniversary of the note with the remaining balance due in full on the third anniversary of the note; secured by a Deed of Trust on the property.	\$ 617,875	\$ 650,000
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> </u>
Total notes payable	<u>\$ 817,875</u>	<u>\$ 650,000</u>

Principal payments for notes payable at December 31, 2015 are due as follows:

2016	\$ 19,255
2017	<u>798,620</u>
Total	<u>\$ 817,875</u>

NOTE 7 – COMMITMENTS

Lease commitments

The Foundation leased office space under a noncancelable operating lease agreement through July 31, 2015, and continued month to month through June 1, 2016. On June 1, 2016, the Foundation entered into a 40-month noncancelable operating lease agreement for new office space. Future minimum lease payments are due as follows:

2016	\$ 8,021
2017	48,127
2018	48,127
2019	<u>36,096</u>
Total	<u>\$ 140,371</u>

Conservation easements

As of December 31, 2015, the Foundation holds 10 conservation easements covering approximately 4,349 acres. The Foundation is committed to monitoring these properties in order to ensure that the conditions of the conservation easements are not violated. In the event that any violation of these easements is deemed to have occurred, the Foundation is committed to going forward with any and all actions necessary to bring remedy.

The Foundation also owns 11 properties for conservation totaling approximately 3,335 acres. The Nature Conservancy was granted an easement on one of these properties.

NOTE 8 – CONTRIBUTED GOODS AND SERVICES

The Foundation received contributed goods and services as follows:

	<u>2015</u>	<u>2014</u>
Equipment, supplies, and rent for conservation	\$ 88,444	\$ 90,863
Supplies and legal fees for advocacy and outreach programs	44,535	33,387
Donated catering and prizes and professional services for fundraising	9,311	5,006
Equipment, supplies and advertising for educational projects	<u>5,250</u>	<u>49,309</u>
Total donated goods and services	<u>\$ 147,540</u>	<u>\$ 178,565</u>

NOTE 9 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2015</u>	<u>2014</u>
Property, net of depreciation and related debt	\$ 769,701	\$ 749,862
Board-designated	237,924	201,488
Undesignated	<u>258,835</u>	<u>664,885</u>
Total unrestricted net assets	<u>\$ 1,266,460</u>	<u>\$ 1,616,235</u>

Board-designated funds are to be used for matching federally funded oyster restoration programs, supporting the Bay Day education program, the Marsh Mania restoration program, the rain barrel workshop program, funding habitat management; and supporting, acquiring, monitoring, and enforcing conservation easements held by the Foundation. There are no legal restrictions on these funds, and therefore, management of the Foundation may use these funds at its discretion. (See Note 7 for Foundation commitments for maintaining conservation easements).

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Conservation	\$ 844,609	\$ 892,799
Capital Campaign	514,814	13,301
POHA reserves	100,000	100,000
Advocacy	48,909	50,221
Donated land restricted for conservation	39,128	39,128
Other	<u>28,482</u>	<u>26,791</u>
Total temporarily restricted net assets	<u>\$ 1,575,942</u>	<u>\$ 1,122,240</u>

NOTE 11 – 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>2015</u>	<u>2014</u>
Federal awards:		
United States Fish and Wildlife Service, Department of the Interior	\$ 879,383	\$ 1,840,757
National Oceanic and Atmospheric Administration, Department of Commerce	282,975	218,895
Office of Water, Environmental Protection Agency	126,270	124,310
U. S. Department of Agriculture	<u>94,380</u>	<u> </u>
Total federal awards	1,383,008	2,183,962
Other grants:		
National Fish and Wildlife Foundation	972,054	
Texas General Land Office	262,992	803
Texas Commission on Environmental Quality	179,048	
Houston Area Research Council	157,403	43,887
National Resource Damage Assessment	49,606	
Texas Parks and Wildlife Department	<u>32,706</u>	<u>289</u>
Total contract revenue	<u>\$ 3,036,817</u>	<u>\$ 2,228,941</u>

NOTE 12 – SUBSEQUENT EVENTS

In May 2016, the Foundation purchased 29.96 acres of bayfront property in Kemah, Texas, for \$5,450,161. The property will be used as the future headquarters and education center, as well as for conservation purposes. The Foundation entered into a note payable with The Conservation Fund for \$4,360,129 to purchase the property and also opened a new line of credit with a local bank for \$550,000, drawing down \$485,051 for the purchase of the property.

Management has evaluated subsequent events through July 20, 2016, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.