Coastal Prairie Conservancy

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2022 and 2021

Coastal Prairie Conservancy

Table of Contents

Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Coastal Prairie Conservancy:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Coastal Prairie Conservancy, which comprise the statements of financial position as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Coastal Prairie Conservancy as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Coastal Prairie Conservancy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Coastal Prairie Conservancy's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

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therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Coastal Prairie Conservancy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Coastal Prairie Conservancy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Blazek & Vetterling

July 11, 2023

Coastal Prairie Conservancy

Statements of Financial Position as of December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash	$ 3,517,027	$ 3,483,261
Prepaid expenses and receivables	7,698	36,485
Contributions receivable *(Note 4)*	119,637	105,124
Operating right-of-use assets, net *(Note 6)*	76,917	
Property, net *(Note 7)*	32,525,607	32,564,920
Investments *(Note 5)*	2,670,206	2,477,633
TOTAL ASSETS	$ 38,917,092	$ 38,667,423
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 48,342	$ 135,041
Accrued interest expense	68,799	86,721
Deferred revenue		198,475
Operating lease liabilities *(Note 6)*	76,917	
Note payable *(Note 8)*	5,000,772	5,731,857
Total liabilities	5,194,830	6,152,094
Commitments *(Note 7)*		
Net assets:		
Without donor restrictions *(Note 9)*	23,245,689	21,833,484
With donor restrictions *(Notes 10 and 11)*	10,476,573	10,681,845
Total net assets	33,722,262	32,515,329
TOTAL LIABILITIES AND NET ASSETS	$ 38,917,092	$ 38,667,423

See accompanying notes to financial statements.

Coastal Prairie Conservancy

Statement of Activities for the year ended December 31, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Public support:			
Contributions	$ 1,915,569	$ 439,526	$ 2,355,095
Government grants		286,906	286,906
Contributed conservation easements	690,000		690,000
Special events	263,029		263,029
Cost of direct donor benefits – special events	(59,745)		(59,745)
Sale of conversation easements	198,780		198,780
Cattle sales and other ranch income	240,202		240,202
Lease and other income	315,977		315,977
Net investment return	(105,044)	(352,637)	(457,681)
Total revenue	3,458,768	373,795	3,832,563
Net assets released from restrictions:			
Program expenditures	487,970	(487,970)	
Land acquisition	37,637	(37,637)	
Satisfaction of time restriction	53,460	(53,460)	
Total	4,037,835	(205,272)	3,832,563
EXPENSES:			
Program services:			
Land conservation	1,093,398		1,093,398
Land stewardship	539,813		539,813
Ranch programs	283,763		283,763
Public outreach	245,440		245,440
Total program services	2,162,414		2,162,414
Supporting services:			
Management and general	293,274		293,274
Fundraising	169,942		169,942
Total expenses	2,625,630		2,625,630
CHANGES IN NET ASSETS	1,412,205	(205,272)	1,206,933
Net assets, beginning of year	21,833,484	10,681,845	32,515,329
Net assets, end of year	$ 23,245,689	$ 10,476,573	$ 33,722,262

See accompanying notes to financial statements.

Coastal Prairie Conservancy

Statement of Activities for the year ended December 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Public support:			
Contributions	$ 550,440	$ 946,810	$ 1,497,250
Government grants		1,381,298	1,381,298
Contributed conservation easements	4,471,850		4,471,850
Special events	102,628		102,628
Sale of conversation easements	2,926,715		2,926,715
Cattle sales and other ranch income	280,402		280,402
Lease and other income	293,758		293,758
Stream mitigation income	86,447		86,447
Net investment return	60,823	269,663	330,486
Total revenue	8,773,063	2,597,771	11,370,834
Net assets released from restrictions:			
Program expenditures	690,978	(690,978)	
Land acquisition	869,146	(869,146)	
Satisfaction of time restriction	11,000	(11,000)	
Long-term management fund transfer *(Note 12)*	(112,976)	112,976	
Total	10,231,211	1,139,623	11,370,834
EXPENSES:			
Program services:			
Land conservation	4,976,537		4,976,537
Land stewardship	482,413		482,413
Ranch programs	291,428		291,428
Public outreach	196,055		196,055
Total program services	5,946,433		5,946,433
Supporting services:			
Management and general	265,045		265,045
Fundraising	108,943		108,943
Total expenses	6,320,421		6,320,421
CHANGES IN NET ASSETS	3,910,790	1,139,623	5,050,413
Net assets, beginning of year	17,922,694	9,542,222	27,464,916
Net assets, end of year	$ 21,833,484	$ 10,681,845	$ 32,515,329

See accompanying notes to financial statements.

Coastal Prairie Conservancy

Statement of Functional Expenses for the year ended December 31, 2022

	LAND CONSERVATION	LAND STEWARDSHIP	RANCH PROGRAMS	PUBLIC OUTREACH	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related expenses	$ 163,160	$ 152,649	$ 59,573	$ 163,996	$ 539,378	$ 126,001	$ 122,157	$ 787,536
Land easements purchased and donated	690,000				690,000			690,000
Professional fees	37,668	77,667	33,819	3,188	152,342	113,669	7,694	273,705
Depreciation		102,876	31,853		134,729	8,916		143,645
Supplies, materials, and postage	3,237	38,179	73,225	13,544	128,185	3,637	8,588	140,410
Interest	122,889				122,889			122,889
Contract restoration		94,832			94,832			94,832
Office space	15,879	13,808		15,879	45,566	11,737	11,737	69,040
Insurance	10,471	8,068	14,416	7,079	40,034	5,232	5,232	50,498
Contracted services	12,045		21,079	16,253	49,377			49,377
Equipment repair and maintenance	268	5,561	13,732		19,561	16,470	5,543	41,574
Permits and fees	18,135	493	11,016	31	29,675	3,850	6,767	40,292
Utilities	3,742	20,004	5,876	3,623	33,245	2,009	2,009	37,263
Travel and meetings	8,782	6,296	5,796	12,347	33,221	1,423	215	34,859
Property taxes	1,548	19,380	13,047		33,975			33,975
Other	5,574		331	9,500	15,405	330		15,735
Total expenses	$ 1,093,398	$ 539,813	$ 283,763	$ 245,440	$ 2,162,414	$ 293,274	$ 169,942	2,625,630
Cost of direct benefits provided to donors								59,745
Total								$ 2,685,375

See accompanying notes to financial statements.

Coastal Prairie Conservancy

Statement of Functional Expenses for the year ended December 31, 2021

	LAND CONSERVATION	LAND STEWARDSHIP	RANCH PROGRAMS	PUBLIC OUTREACH	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related expenses	$ 125,364	$ 104,787	$ 65,569	$ 146,728	$ 442,448	$ 122,282	$ 85,652	$ 650,382
Land easements purchased and donated	4,471,850				4,471,850			4,471,850
Professional fees	105,305	20,942	32,933	7,685	166,865	99,255	509	266,629
Depreciation		99,706	41,928		141,634	6,288		147,922
Supplies, materials, and postage	962	27,945	58,276	2,462	89,645	2,456	3,124	95,225
Interest	183,893				183,893			183,893
Contract restoration		165,025			165,025			165,025
Office space	14,259	11,667		16,204	42,130	13,610	9,074	64,814
Insurance	6,068	5,433	10,446	5,157	27,104	4,332	2,888	34,324
Contracted services	36,933		17,201	13,303	67,437	970		68,407
Equipment repair and maintenance		13,885	30,753		44,638	12,726	4,242	61,606
Permits and fees	26,865	3,314	11,258	710	42,147	934	2,376	45,457
Utilities	1,822	9,344	5,004	3,449	19,619	1,542	1,028	22,189
Travel and meetings	2,331	1,873	5,251	269	9,724	21	50	9,795
Property taxes	885	18,492	12,809	88	32,274			32,274
Other						629		629
Total expenses	$ 4,976,537	$ 482,413	$ 291,428	$ 196,055	$ 5,946,433	$ 265,045	$ 108,943	$ 6,320,421

See accompanying notes to financial statements.

Coastal Prairie Conservancy

Statements of Cash Flows for the years ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 1,206,933	$ 5,050,413
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for land acquisition	(195,000)	(1,045,017)
Contributions restricted for endowment		(463,750)
Depreciation	143,644	147,921
Gain on sale or disposal of property	(5,826)	(7,248)
Change in interest of pooled investments	352,637	(269,663)
Net realized and unrealized (gain) loss on investments	107,414	(57,164)
Changes in operating assets and liabilities:		
Prepaid expenses and receivables	28,787	625,499
Contributions receivable (other than for land acquisition)	(14,513)	39,600
Accounts payable and accrued expenses	(86,699)	4,099
Accrued interest expense	(17,922)	(52,854)
Paycheck Protection Program – refundable advance		(93,083)
Deferred revenue	(198,475)	198,475
Net cash provided by operating activities	1,320,980	4,077,228
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land and improvements	(69,378)	(1,665,765)
Purchases of cattle and equipment	(47,947)	(38,866)
Purchases of investments	(674,719)	(576,779)
Proceeds from sale of cattle and equipment	18,820	22,288
Net change in money market mutual funds held as investments	22,095	(53,344)
Net cash used by investing activities	(751,129)	(2,312,466)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of note payable	(731,085)	(2,302,191)
Proceeds from contributions restricted for land acquisition	195,000	1,045,017
Proceeds from contributions restricted for endowment		463,750
Net cash used by financing activities	(536,085)	(793,424)
NET CHANGE IN CASH	33,766	971,338
Cash, beginning of year	3,483,261	2,511,923
Cash, end of year	$ 3,517,027	$ 3,483,261

Supplemental disclosure of cash flow information:

Interest paid	$140,811	$236,740

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Coastal Prairie Conservancy (the Conservancy), formerly Katy Prairie Conservancy, is a Texas nonprofit corporation established to protect and enhance critical and sustainable portions of the Coastal Prairie and coastal prairie ecosystems. The coastal prairie lies in the Texas coastal plain and encompasses over a thousand square miles; the prairie is bounded by the Brazos River on the west, pine-hardwood forest on the north, and the City of Houston on the east. The ecosystem is comprised of a variety of habitats, including agricultural wetlands, depressional wetlands, riparian corridors, and coastal grasslands. The Conservancy works closely with farmers, ranchers, conservation entities, and experts in various fields to develop management plans that are ecologically responsible and environmentally sound for each of its properties, including developing sustainable grazing techniques that enhance water retention and minimize erosion in the Cypress Creek Watershed. The coastal prairie ecosystem also lies in the Texas coastal plain and includes the Coastal Prairie area (Fort Bend, Harris, and Waller counties), as well as six other counties (Austin, Brazoria, Colorado, Jackson, Matagorda, and Wharton). All nine counties are located within the Gulf Coast region and exhibit similar habitats.

Federal income tax status – The Conservancy 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).

Cash is held as demand deposits. Bank deposits exceed the federally insured limit per depositor per institution.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full.

Operating lease right-of-use assets – A right-of-use asset is recognized at the present value of the lease payments at inception of the lease. Lease expense is recognized on a straight-line basis. The Conservancy elected to not separate the lease components and the non-lease components for real estate leases. The Conservancy recognizes leases with a lease term of 12 months or less as expense on a straight-line basis over the lease term. The Conservancy elected to use the risk-free discount rate when the rate implicit in a lease is not readily determinable.

Property is reported at cost, if purchased, or at estimated fair value at the date of gift, if donated. The Conservancy's policy is to capitalize property acquisitions over $1,500. Land improvements are depreciated on a straight-line basis over 15 to 25 years. Depreciation of cattle and equipment is provided on an accelerated basis using lives of 5 to 7 years. Certain land is subject to conservation easements or other deed restrictions. Costs related to wetland mitigation and conservation maintenance are expensed as incurred.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses and changes in value of pooled investments, net of external and direct internal investment expenses.

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 unless the donor also has placed a time restriction on the use of the long-lived asset, in which case the release occurs over the term of the time restriction. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose. The Conservancy reports land purchased with federal funds, which require permanent easements as perpetual net assets.

Revenue recognition – Revenue is recognized in the amount of consideration that the Conservancy expects to be entitled to receive when performance obligations are satisfied either at a point in time or over time, which is generally one year or less. The Conservancy recognizes revenue and other income from a variety of sources, including hunting lease contracts, cattle sales, contracts for pipeline easements, and funding from the sale of stream and wetland mitigation credits. Restoration, enhancement projects, and hunting lease contracts are recognized over time based upon the completion of a project or for hunting leases as access to the land is provided to the lessee. The sale of stream mitigation credits and cattle are recognized at a point in time when the sale transaction is completed. Contract revenue for pipeline easements are recognized when the easement agreement is executed. Amounts that represent the Conservancy's right to consideration that is conditioned only upon the passage of time, are reported as receivables. Costs incurred related to revenue not yet recognized result in a contract asset. There are no contract assets for the last three fiscal years. Payments collected but not yet recognized as revenue result in a contract liability and 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 *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the Conservancy is entitled to receive or retain funding. Conditional contributions are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as refundable contributions.

At December 31, 2022, approximately 48% of contributions are from three donors. At December 31, 2021, approximately 29% of contributions is from one donor.

Nonfinancial contributions – Donated property, conservation easements, materials, and use of facilities are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The Conservancy received contributed conservation easements for $690,000 and $4,471,850 for the years ended December 31, 2022 and 2021, respectively. The donated easements were recognized at fair value as provided by an independent appraiser.

Conservation easements represent rights to restrict the use, access, and development of certain properties. 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 Conservancy believes the conservation easements do not have a future value as the property interest held by the Conservancy provides no affirmative rights beyond the obligation to monitor and enforce the terms of the easements (with the exception of potential proceeds in a condemnation action, for which proceeds must be used consistently with the original conservation purpose). Costs incurred in obtaining easements are expensed as incurred. Contributed easements and purchased easements acquired are recognized at the estimated fair value of the easement on the date of donation as conservation contributions and are expensed in the statement of activities.

Special events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events revenue is recognized when the event occurs. Direct donor benefit costs represent the cost of goods and services provided to attendees of the special events.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs and office space have been allocated between program, management and general, and fundraising on the basis of estimated time and effort expended.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – ADOPTION OF NEW ACCOUNTING STANDARDS

The Conservancy adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. The ASU also requires expanded disclosures related to the amount, timing and uncertainty of cash flows arising from leases. The Conservancy adopted the new standard effective January 1, 2022, using the modified retrospective method. Therefore, comparative information for fiscal year 2021 has not been restated and continues to be reported under Accounting Standards Codification (ASC) 840. There was no one-time cumulative effect adjustment that needed to be made to beginning net assets for the year ended December 31, 2022.

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 comprise the following:

	2022	2021
Financial assets:		
Cash	$ 3,517,027	$ 3,483,261
Other receivables	7,698	20,000
Contributions receivable	119,637	105,124
Investments	2,670,206	2,477,633
Total financial assets	6,314,568	6,086,018
Less financial assets not available for general expenditure:		
Endowment investments	(1,576,037)	(1,928,674)
Other donor-restricted assets subject to satisfaction of restriction and passage of time	(513,739)	(336,812)
Board-designated for conservation easement – stewardship and defense	(299,686)	(367,834)
Board-designated – operating reserve	(563,358)	(600,000)
Total financial assets available for general expenditure	$ 3,361,748	$ 2,852,698

As part of the Conservancy's liquidity management, its policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Conservancy considers all expenditures related to its ongoing activities to be general expenditures, including planned expenditures for property and debt retirement. The organization has a goal to maintain available financial assets totaling approximately $300,000 in cash and investments to meet 90 days of normal operating expenses.

The Conservancy's Board of Directors (the Board) has designated a portion of its resources without donor restrictions for specific purposes as board-designated. A portion of these funds are invested for long-term appreciation and current income, but remain available to be spent at the Board's discretion.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

At December 31, 2022, all contributions receivable are due to be collected within one year. At December 31, 2022, 79% of contributions receivable are from two donors. At December 31, 2021, 80% of contributions receivable are from three donors.

At December 31, 2022, approximately $2,158,000 in conditional government grant awards for land acquisition and conservation have not been recognized because qualifying expenditures have not yet been incurred.

The Conservancy is the lead partner of the Texas Coastal Prairie Initiative, a Regional Conservation Partnership Program of the Natural Resources Conservation Service (NRCS) that was awarded $7 million for the conservation of the coastal prairie within a 13-county area. Through this initiative, the Conservancy and its partners provide information and technical assistance to landowners and producers regarding funding available for conservation easements and habitat management practices that will enhance and protect the working coastal landscape. As a part of the award, landowners will receive financial assistance from NRCS for $4,690,000 in cost-share funding for conservation easements and $700,000 in reimbursement funding for eligible land management activities. The Conservancy will receive $490,000 for leading the partnership, engaging in landowner outreach, and monitoring outcomes, and will also receive $480,000 to reimburse partners that provide technical assistance directly to producers or landowners such as conservation planning, design, and implementation of beneficial habitat management activities. The remaining $640,000 will be utilized by NRCS to implement the program. In 2022, the Conservancy kicked off the program, including setting the conservation priorities, engaging in landowner outreach, and screening projects for Round 1 financial assistance. Eligible projects identified for Round 1 assistance include up to $1,762,000 for conservation easements and up to $310,130 for habitat management projects; those funds are expected to be obligated in 2023 and will be paid by NRCS to landowners in accordance with NRCS program requirements.

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consist of the following:

	2022	2021
Endowments	$ 1,576,037	$ 1,928,674
Board-designated – operating reserve	563,358	
Board-designated for conservation easement – stewardship	299,686	367,834
Donor-restricted for conservation easement – stewardship	231,125	181,125
Total investments	$ 2,670,206	$ 2,477,633

Fair Value

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability. Inputs are unobservable for the asset and include situations where there is little, if any, market activity for the investment. The underlying pooled investments are primarily invested in publicly traded securities valued by the investment custodian. The types of investments in Level 3 may include funds where the fair value for portfolio investments is estimated by the fund management using valuation methodologies that consider a range of factors including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, financial condition, and financing transactions subsequent to the acquisition of the investment.

Assets measured at fair value at December 31, 2022 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Interest in CNLM investments			$ 1,576,037	$ 1,576,037
Common stock	$ 515,197			515,197
Large cap exchanged-traded funds	324,617			324,617
Money market mutual funds	254,355			254,355
Total assets measured at fair value	$ 1,094,169	$ 0	$ 1,576,037	$ 2,670,206

Assets measured at fair value at December 31, 2021 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Interest in CNLM investments			$ 1,928,674	$ 1,928,674
Common stock	$ 91,191			91,191
Large cap exchanged-traded funds	181,318			181,318
Money market mutual funds	276,450			276,450
Total assets measured at fair value	$ 548,959	$ 0	$ 1,928,674	$ 2,477,633

Valuation methods used for assets measured at fair value are as follows:

- *Interest in the Center for Natural Land Management (CNLM) investments* is based on the percentage of the Conservancy's pooled shares held at CNLM applied to the total net asset value of the fund.
- *Mutual funds* are valued at the reported net asset value.
- *Exchange-traded funds* and *common stock* are valued at the closing price reported on the active market on which the individual securities are traded.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Conservancy believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Changes in the fair value of Level 3 assets are as follows:

Balance at January 1, 2021	$ 1,082,285
Purchases	576,726
Net investment gain	269,663
Balance at December 31, 2021	1,928,674
Net investment loss	(352,637)
Balance at December 31, 2022	$ 1,576,037

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 6 – OPERATING LEASES

The Conservancy leases office space under non-cancelable operating leases. Right-of-use assets are recognized at the present value of the lease payments at the inception of the lease adjusted, as appropriate, for certain other payments and allowances related to obtaining the lease and placing the asset in service. Operating lease right-of-use assets are amortized so that lease costs remain constant over the lease term.

During 2022, lease costs associated with operating leases was $42,100. Lease costs recognized during 2021, prior to the adoption of the new accounting standard was $41,021.

During the year ended December 31, 2022, cash paid for amounts included in the measurement of operating lease liabilities was $42,100.

As of December 31, 2022, the weighted-average remaining lease term for all operating leases is 26 months. The weighted-average discount rate associated with operating leases as of December 31, 2022 is 2.15%.

Undiscounted cash flows related to operating leases as of December 31, 2022 are as follows:

2023	$ 32,385
2024	39,762
2025	6,657
Total undiscounted cash flows	78,804
Less discount to present value	(1,887)
Total discount present value of lease liabilities	$ 76,917

NOTE 7 – PROPERTY

Property consists of the following:

	2022	2021
Land, undivided interest in Warren Ranch	$ 12,461,189	$ 12,461,189
Land	19,228,860	19,162,982
Land improvements	1,655,869	1,680,059
Cattle and equipment	377,597	378,614
Construction in progress – land improvements	139,159	135,659
Total	33,862,674	33,818,503
Accumulated depreciation	(1,337,067)	(1,253,583)
Property, net	$ 32,525,607	$ 32,564,920

Approximately 30,687 acres of land are protected by the Conservancy through fee acquisition, conservation easements, or public ownership. The Conservancy owns approximately 13,600 acres with the remaining acreage protected through conservation easements. Approximately 6,000 acres of the Conservancy's land is owned as a 71.23346% undivided interest in a working cattle ranch.

As of December 31, 2022, the Conservancy holds nineteen conservation easements covering approximately 17,089 acres. The Conservancy 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 Conservancy is committed to bringing any and all actions necessary to bring remedy.

Grants from federal agencies have funded a portion of the purchase price of various tracts of land. Under the terms of these agreements, the Conservancy must inform the federal agencies before selling the land and must repay the grants if the amounts are not reinvested in similar conservation land. The Conservancy's total land purchases with federal funds are reflected as perpetually-restricted net assets totaling approximately $8,000,000 at both December 31, 2022 and 2021.

NOTE 8 – NOTE PAYABLE

The Conservancy has a note payable agreement with a private foundation collateralized by land with annual interest (3.00% through June 1, 2021 and 2.25% thereafter) payments only until June 2029 when the principal becomes due. Repayment covenants require 75% of the future proceeds of land sales and mitigation revenue be used to repay the loan until $3 million in principal is repaid, at which time 50% of all proceeds must be paid to the private foundation until an additional $2 million in principal is repaid. After $5 million in principal is paid, the Conservancy will still be required to use 25% of all proceeds from mitigation revenue and any land sales until the full amount of the loan is paid. The outstanding balance at December 31, 2022 and 2021 is $5,000,772 and $5,731,856, respectively.

No principal payments are due in the next five years. Interest expense in 2022 and 2021 was approximately $123,000 and $184,000, respectively.

NOTE 9 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	2022	2021
Undesignated	$ 2,858,953	$ 2,033,730
Property, net of note payable and perpetually-restricted land	19,523,692	18,831,920
Board-designated for conservation easement – stewardship and defense	299,686	367,834
Board-designated – operating reserve	563,358	600,000
Total net assets without donor restrictions	$ 23,245,689	$ 21,833,484

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

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	2022	2021
Subject to expenditure for specified purpose:		
Land acquisition	$ 244,752	$ 86,172
Conservation easement stewardship	231,125	201,125
Land restoration	231,109	175,286
Public outreach and education	162,407	175,233
Research and planning		60,752
Total subject to expenditure for specified purpose	869,393	698,568
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	30,000	53,460
Endowment subject to spending policy and appropriation:		
Stream mitigation long-term management	1,576,037	1,928,674
Land purchased with federal funds requiring permanent easement	8,001,143	8,001,143
Total net assets with donor restrictions	$ 10,476,573	$ 10,681,845

NOTE 11 – ENDOWMENT FUNDS

The Conservancy entered into an agreement with CNLM to establish an endowment for funding the perpetual management and stewardship of Phase I of its stream mitigation bank, as well as sections F1, F2, and G of the permittee responsible mitigation projects on Warren Ranch. All amounts maintained at CNLM will be invested and held for the benefit of the management of the bank parcel on behalf of the Conservancy. Once the U. S. Army Corps of Engineers closes out the bank, the Conservancy will be responsible for the bank's long-term management and maintenance. At the time of closeout, the Conservancy may request disbursements on or within five calendar days after the start of each quarter from CNLM to monitor, maintain, and manage the stream mitigation bank. The Conservancy may withdraw up to 4.5% of the fair market value of the endowment fund each fiscal year. Additional disbursements above 4.5% of the fair market value of the endowment fund may be requested for capital and emergency expenses if approved in advance by the U. S. Army Corps of Engineers. These funds cannot be distributed to any other party without the express permission of the Conservancy. The investments held by CNLM are in pooled accounts and are invested for the benefit of the Conservancy at December 31, 2022.

Donor-restricted endowment funds are subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). The Board has interpreted TUPMIFA as allowing the Conservancy to appropriate for expenditure or accumulate as much of a fund as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund was established, subject to explicit donor stipulations. Donor-restricted endowment net assets are classified as *net assets with donor restrictions* until appropriated in accordance with spending policies and used for the stipulated purpose, if any. In the absence of explicit donor stipulations otherwise, the Conservancy classifies contributions to an endowment as *net assets with donor restrictions* required to be maintained in perpetuity. Contributions that donors have specified do not have to be maintained in perpetuity and unappropriated investment earnings on donor-restricted endowments are classified as *net assets with donor restrictions* available for distribution. The Board has interpreted TUPMIFA as not precluding the Conservancy from spending below the amount required to be maintained in perpetuity subject to prudent standards.

Changes in endowment net assets are as follows:

	WITH DONOR RESTRICTIONS		
	ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	TOTAL
Endowment net assets, December 31, 2020	$ 317,812	$ 764,473	$ 1,082,285
Contributions		463,750	463,750
Net investment return	269,663		269,663
Transfer from operations *(Note 12)*		112,976	112,976
Endowment net assets, December 31, 2021	587,475	1,341,199	1,928,674
Net investment return	(352,637)		(352,637)
Endowment net assets, December 31, 2022	$ 234,838	$ 1,341,199	$ 1,576,037

Investment Policy

The Conservancy has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. To satisfy its long-term rate-of-return objectives, the Conservancy relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Conservancy targets a diversified asset allocation through the Commonfund (CNLM pooled) that places emphasis on a blend of equity-based and fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 12 – STREAM MITIGATION TRANSACTIONS

The Conservancy has entered into a joint venture partnership to create a 500-acre stream mitigation umbrella bank on Warren Ranch. The bank will provide stream mitigation credits to be sold to entities whose projects require stream mitigation credits under Section 404 of the Clean Water Act. In connection with the stream mitigation bank, the Conservancy, as a part of the joint venture partnership, is responsible for the long-term stewardship of the stream bank area after the bank is completed and the regulatory agencies have determined that all objectives have been met and have approved the closeout of the bank.

In June 2015, the Conservancy entered into an agreement with its joint venture partner to create a perpetual long-term management fund (the fund) for the management and long-term stewardship and monitoring activities of the stream bank properties. The Conservancy will manage the fund and the income generated until the bank is closed out (in approximately 8 years), at which time the fund is owned by the Conservancy.

The Conservancy will use the investment return generated from the fund to maintain and manage the bank in perpetuity. In connection with the Phase I stewardship, the joint venture partner paid approximately $70,000 to the Long Term Management Fund and $364,000 to the perpetually-restricted Stewardship Endowment Fund. The Conservancy was required to fund approximately $5,000 to the Long Term Management Fund and $89,000 to the perpetually-restricted Stewardship Endowment Fund.

The joint venture partner has paid approximately $713,750 to the perpetually-restricted Stewardship Endowment Fund in connection with sections F1, F2, and G of the stream mitigation project (see Note 11). The Conservancy was required to fund $173,880 to the perpetually-restricted Stewardship Endowment Fund. The three phases were fully funded during 2021.

NOTE 13 – SUBSEQUENT EVENTS

In 2023, the Conservancy entered into an owner-financing agreement for $650,000 to permanently preserve 160 acres of coastal prairie on the Katy Prairie Preserve at an interest rate of 4%. Approximately $287,000 has already been repaid with the remainder due within 18 months.

Management has evaluated subsequent events through July 11, 2023, 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.
