Financial Statements and Independent Auditor's Report

Parks and Wildlife Foundation of Texas, Inc.

For the year ended December 31, 2017

LGT
LANE GORMAN TRUBITT, LLC
Accountants & Advisors

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PARKS AND WILDLIFE FOUNDATION OF TEXAS, INC.

DECEMBER 31, 2017 AND 2016

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Accountants & Advisors

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Report on the Financial Statements

We have audited the accompanying financial statements of Parks and Wildlife Foundation of Texas, Inc. (the "Foundation"), which comprise the statements of financial position as of December 31, 2017, and the related statements of activities and changes in net assets and 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.

Auditor's 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 the 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 auditor's 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 Foundation'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 Foundation'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 Parks and Wildlife Foundation of Texas, Inc. as of December 31, 2017, and the changes in its activities and net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Lane Gorman Trubitt, LLC

Dallas, Texas
July 26, 2018

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Parks and Wildlife Foundation of Texas, Inc.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017
(with comparative information as of December 31,2016)

ASSETS

	2017	2016
Cash and cash equivalents	$ 3,230,338	$ 3,724,081
Contributions receivable, net	5,535,712	9,716,128
Conservation loan receivable - programmatic investments	670,000	-
Prepaid expenses	155,224	77,448
Accrued investment income	59,424	52,828
Investments, at fair value	31,347,550	21,958,477
Assets held for others	385,994	488,571
Property and equipment, net	7,299,927	6,288,001
Land with contractual provisions - restricted as to use	38,131,146	36,737,634
Total assets	$ 86,815,315	$ 79,043,168

LIABILITIES AND NET ASSETS

	2017	2016
LIABILITIES		
Accounts payable and accrued liabilities	$ 78,264	$ 94,614
Refundable advances	1,500	4,375
Conservation loan payable	1,258,392	-
Grants payable	300,000	-
Amounts due to others	385,994	488,571
Total liabilities	2,024,150	587,560
NET ASSETS		
Unrestricted		
Undesignated	14,136,836	10,513,835
Land with contractual provisions - restricted as to use	38,131,146	36,737,634
Board designated endowment funds	2,302,608	2,046,220
Temporarily restricted	25,325,542	24,407,919
Permanently restricted	4,895,033	4,750,000
Total net assets	84,791,165	78,455,608
Total liabilities and net assets	$ 86,815,315	$ 79,043,168

The accompanying notes are an integral part of these financial statements.

Parks and Wildlife Foundation of Texas, Inc.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2017
(with summarized comparative information for the year ended December 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
Support and revenue					
Contributions	$ 3,095,964	$ 8,838,611	$ 145,033	$ 12,079,608	$ 16,614,984
Special event revenue, net of cost of direct benefits to donors of $252,185 at 2017 and $194,797 at 2016	235,415	-	-	235,415	226,953
Net investment income	1,731,253	1,791,029	-	3,522,282	1,619,161
Miscellaneous income	764,408	-	-	764,408	438,415
Net assets released from restrictions	9,712,017	(9,712,017)	-	-	-
Total support and revenue	15,539,057	917,623	145,033	16,601,713	18,899,513
Expenses					
Program expenses	4,615,821	-	-	4,615,821	4,146,222
Scholarships	8,250	-	-	8,250	13,750
Grants	5,320,676	-	-	5,320,676	1,808,317
Total program expenses	9,944,747	-	-	9,944,747	5,968,289
Supporting services:					
Management and general	186,259	-	-	186,259	167,991
Fundraising	135,150	-	-	135,150	97,991
Total supporting services	321,409	-	-	321,409	265,982
Total expenses	10,266,156	-	-	10,266,156	6,234,271
Change in net assets	5,272,901	917,623	145,033	6,335,557	12,665,242
Net assets at beginning of year	49,297,689	24,407,919	4,750,000	78,455,608	65,790,366
Net assets at end of year	$ 54,570,590	$ 25,325,542	$ 4,895,033	$ 84,791,165	$ 78,455,608

The accompanying notes are an integral part of these financial statements.

Parks and Wildlife Foundation of Texas, Inc.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017
(with comparative information as of December 31,2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 6,335,557	$ 12,665,242
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	89,014	45,772
Donated land	-	996,355
Vehicle donated to Foundation	(19,000)	
Land gifted to Foundation	(1,393,512)	-
Donated securities	(5,024,250)	-
Net realized and unrealized (gains) losses on investments	(2,875,307)	(1,233,345)
Change in operating assets and liabilities, net:		
Contributions receivable	4,035,383	2,508,323
Prepaid expenses	(77,776)	21,497
Accrued investment income	(6,596)	(17,837)
Accounts payable and accrued liabilities	(16,350)	28,843
Refundable advances	(2,875)	(16,355)
Grants payable	300,000	-
Net cash provided by operating activities	1,344,288	14,998,495
Cash flows from investing activities:		
Proceeds from sales of investments	50,874,734	18,395,933
Proceeds from sale of land	-	987,107
Purchases of investments	(52,364,250)	(21,891,546)
Purchases of property and equipment	(1,081,940)	(805,026)
Purchase of land with contractual provisions - restricted as to use	-	(10,454,960)
Net cash used in investing activities	(2,571,456)	(13,768,492)
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Permanently restricted investment in endowment	145,033	-
Proceeds from conservation loans	588,392	-
Net cash provided by financing activities	733,425	-
Increase (Decrease) in cash and cash equivalents	(493,743)	1,230,003
Cash and cash equivalents at beginning of year	3,724,081	2,494,078
Cash and cash equivalents at end of year	$ 3,230,338	$ 3,724,081
Noncash Activities		
Donated land	$ -	$ 996,355
Land and vehicle gifted to Foundation	$ 1,412,512	$ -
Donated stocks	$ 5,024,250	$ -
Conservation loan receivable - programmatic investments	$ 670,000	$ -
Conservation loan payable	$ 670,000	$ -

The accompanying notes are an integral part of these financial statements.

NATURE OF OPERATIONS

Parks and Wildlife Foundation of Texas, Inc. (the "Foundation") is a Texas not-for-profit corporation organized and operated for charitable purposes of conserving and protecting the natural and cultural resources of Texas. The Foundation solicits and accepts gifts, grants, and donations to fulfill its mission. The Foundation has been designated by the Texas Parks and Wildlife Department (the "Department"), an agency of the state of Texas, as the official not-for-profit partner of the Department. The Commission Chair of the Department appoints a majority of the Foundation Board of Trustees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied by the Foundation in the preparation of the accompanying financial statements is as follows.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, revenues are recognized when earned, and expenses are recognized when incurred.

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets – net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the Board of Trustees.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specified purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Donor-imposed restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restricted net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions are recognized as revenues in the period unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The Foundation reports gifts of property and equipment and land with contractual provisions 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 donated or acquired long-lived assets are placed in service.

Realized and unrealized gains (losses) and income on investments of endowment and similar funds are reported as follows:

- as increases (decreases) in permanently restricted net assets if the terms of the gift require that they be included in the principal of a permanent endowment fund;
- as increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on their uses or if the funds have not yet been appropriated for expenditure by the Foundation in the case of donor-imposed endowments and;
- as increases (decreases) in unrestricted net assets in all other cases.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and all highly-liquid investments purchased with an initial maturity of three months or less, excluding cash and cash equivalents in the investment portfolio. The Foundation maintains its cash and cash equivalents with JP Morgan Chase & Co. and Northern Trust, leading global financial services firm with A credit ratings by Moodys and Standard and Poors. At times, cash and cash equivalents may exceed federally insured limits. The Foundation has not incurred any losses in these accounts and does not believe that they are exposed to any significant credit risk on cash and cash equivalents.

Contributions Receivable

Contributions receivable are primarily due from organizations and individuals related to gift pledges. Corporate sponsorships are evaluated to determine if the sponsorship is considered to be an exchange transaction or a contribution. Sponsorships considered exchange transactions are recognized as revenue over the period services are provided. Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Receivables outstanding more than 90 days are generally considered past due. Management periodically reviews receivables and determines the allowance for doubtful accounts by evaluating individual receivables and considering a customer's financial condition, credit history, and current economic conditions. The allowance for doubtful accounts was $2,000 at December 31, 2017 and 2016.

Conservation Loans Receivable and Payable – Programmatic Investments

The Foundation established the Conservation Loan program in 2017 to provide cost-effective interim financing for land conservation projects that will be awarded grants from Deepwater Horizon-related fund sources. The Conservation Loan program enables critical, time-sensitive projects that do not align with the grant disbursement schedules of the settlement funding programs to move forward, reduces interest payment and related costs, and provides an economy of scale. The Conservation Loan program is funded through program-related investments from foundations and loans from individual philanthropists that are known to and qualified by the Foundation. These funds are recorded in the financials as conservation loans payable. Eligible loan recipients include established nonprofit land conservation organizations and land trusts with 501(c)(3) status. Loans given to recipients are recorded in the financials as conservation loans receivable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Conservation Loans Receivable and Payable – Programmatic Investments (Continued)

Conservation Loans Receivable – Programmatic investments are stated at the amount of unpaid principal, adjusted for an allowance for collectability, when deemed appropriate. The Foundation records an allowance when management determines that collectability is not probably. Management's estimate is based on review of the receivable comprising and the loans receivable – programmatic investments balance and considers known and inherent risks, the estimated fair value of the underlying collateral, and current economic condition. The Foundation does not consider an allowance necessary at December 31, 2017.

Investments

Investments are carried at fair value. Investment transactions are recorded on the trade date. Realized and unrealized gains and losses on investments are determined by comparison of the actual cost to the proceeds at the time of the disposition or market values as of the end of the financial statement period by using the specific identification method.

Investment income or loss (including realized and unrealized gains and losses on investments and interest and dividends less management fees) is included in the determination of change in net assets and is reported as revenues, gains, and support in the accompanying statements of activities and changes in net assets. Interest income is recognized on the accrual basis and dividends are recognized on the ex-dividend date.

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Management fees paid to various money managers are allocated between the investment accounts and assets held for others based on the relative fair values.

Fair Value Measurements

In determining fair value, the Foundation uses various valuation approaches. GAAP establishes a fair value hierarchy for inputs used in measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. GAAP emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

As a basis for considering market participant assumptions in fair value measurements, GAAP establishes a three-tier hierarchy to distinguish between various types of inputs used in determining the value of the Foundation's financial instruments.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. Valuations of these instruments do not require a high degree of judgment since the valuations are based on quoted prices in active markets.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying assumptions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Level 3: Unobservable inputs for the valuation of the asset or liability. These inputs require significant management judgment or estimation. These financial instruments have inputs that cannot be validated by readily determinable market data and generally involve considerable judgment by management.

Accordingly, the degree of judgment exercised by the Foundation in determining fair value is greatest for measurements categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement.

Assets Held for Others

The Foundation holds funds for a Texas nonprofit organization with similar charitable purpose but which the Foundation has no economic interest. These funds are reported as assets held for others. The Foundation records these assets at fair value and recognizes a corresponding liability of an equal amount in the accompanying statements of financial position.

Property and Equipment

Property and equipment are stated at cost or fair value at the date of the gift, if donated, less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the furniture and equipment of five - seven years. Minor replacements, repairs, and maintenance expenses are expensed as incurred while acquisitions of major additions and improvements are capitalized.

Land with Contractual Provisions – Restricted as to Use

During 2017, the Foundation received a donation of property. This property is restricted as to use and can only be sold to another agency or charity that will use the property for the restricted purpose.

During 2016, the Foundation purchased Track 3 of the Powderhorn ranch completing the three year purchase deal. It is restricted as to use and cannot be sold. The Foundation can keep it in perpetuity or donate it to the Texas Parks and Wildlife Department or another qualified conservation organization.

Endowments

Under GAAP, a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") shall classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets. The amount classified as permanently restricted shall be the amount of the fund (a) that must be retained permanently in accordance with explicit donor stipulations, or (b) that in the absence of such stipulations, the organization's governing board determines must be retained (preserved) permanently consistent with the relevant law. For each donor-restricted endowment fund for which the restriction exists until the donor-restricted assets are appropriated for expenditure, the Foundation classifies the portion of the fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure by the Board. The Foundation is subject to the version of UPMIFA enacted by the state of Texas and adopted by its Board of Trustees.

Grant Awards

Grants are recognized as expenses when they are approved by Management. Grants payable balance at December 31, 2017 and 2016, were $300,000 and $0, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code (the "Code"), except to the extent it has unrelated business income. In addition, the Foundation has been determined by the Internal Revenue Service ("IRS") not to be a private foundation within the meaning of Section 509(a) of the Code. For the years ended December 31, 2017 and 2016, the Foundation had no net unrelated business income. Accordingly, no provision for federal income tax has been provided in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Foundation's tax returns to determine whether the tax positions are more likely than not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expenses in the current year. A reconciliation is not provided herein, as the beginning and ending amounts of unrecognized benefits are zero, with no interim additions, reductions, or settlements. The Foundation is relying on its tax-exempt status and its adherence to all applicable laws and regulations to preserve that status. However, the conclusions regarding the uncertainty in income taxes will be subjective to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations, and interpretations thereof.

The Foundation's informational returns filed in the U.S. federal jurisdiction are generally subject to examination for three years after the later of the due date or date of filing. As a result, the Foundation is no longer subject to income tax examinations by tax authorities for years prior to 2014.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The objective of this ASU is to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit's liquidity, financial performance and cash flows. The key provisions include net asset classes, investment return, expenses, liquidity and availability of resources and the statement of cash flows. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. Foundation is currently assessing the impact this standard will have on its financial statements.

In February, 2016, the FASB issued ASU Update No. 2016-02, *Leases (Topic 842)*. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP - which requires only capital leases to be recognized on the statement of financial position - the new ASU will require both types of leases to be recognized on the statement of financial position. ASU 2016-02 is effective for the years beginning after January 1, 2020 and for all periods presented. Early application of the amendments in this ASU is permitted. Foundation is currently assessing the impact this standard will have on its financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In May 2014, the FASB issued ASU No. 2014-09, *Revenue recognition (Topic 606): Revenue from Contracts with Customers*. This ASU introduces a new five step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for fiscal years beginning after December 31, 2017, including interim periods within that reporting period. Foundation is currently assessing the impact this standard will have on its financial statements.

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-18, *Statement of Cash Flows (Topic 230): Disclosures for Restricted Cash*, which requires that, statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update are an improvement to GAAP because they provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU No. 2016-18 is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. The ASU is to be applied retrospectively in all periods presented in an entity's financial statements. Foundation is currently assessing the impact this standard will have on its financial statements.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share*, which removes the requirement to categorize, within the fair value hierarchy table, the investments for which fair value is measured using the net asset value per share practical expedient. Instead, an entity is required to include those investments as a reconciling item, so that the total fair value amount of investments in the disclosure is consistent with the fair value investment balance on the statement of financial position. In addition, the requirement to make certain disclosures for all investments eligible to be assessed at fair value with the net asset value per share practical expedient has been removed. Instead, such disclosures are restricted only to investments that the entity has elected to measure using the practical expedient. ASU No. 2015-07 is effective for reporting periods beginning after December 15, 2015 and early adoption is permitted. The ASU is to be applied retrospectively in all periods presented in an entity's financial statements. The Foundation adopted ASU No. 2015-07 as of January 1, 2017. As a result, those assets for which fair value is measured using the net asset practical expedient as of December 31, 2017 and 2016 are no longer categorized within the fair value hierarchy.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Topic 205-40): Disclosure of Uncertainties about an entity's Ability to Continue as a Going Concern*. The amendments in this update provide guidance about management's responsibility to evaluate whether there is substantial doubt about the Foundation's ability to continue as a going concern and provide related footnote disclosures. Substantial doubt about the Foundation's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the Foundation will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. When conditions are identified that raise substantial doubt, management should consider whether its plans that are intended to mitigate those relevant conditions or events will alleviate the substantial doubt. If conditions raise substantial doubt about the Foundation's ability to continue as a going concern, but the substantial doubt is alleviated as a result of management's plans, the Foundation should disclose the following: (1) principal conditions or events that raised substantial doubt about the Foundation's ability to continue as a going concern, (2) management's evaluation of the significance of those conditions in relation to the Foundation's ability to meet its obligations and (3) management's plans that alleviated substantial doubt about the Foundation's ability to continue as a going concern. If substantial doubt is not alleviated as a result of management's plans, the Foundation should include a statement in the footnotes indicating that there is substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments in this ASU are effective for the annual period ending after December 15, 2016 and for annual periods and interim periods thereafter. The Foundation's adoption of this standard as of January 1, 2017 did not have an impact on the Foundation's financial statements.

2. CONTRIBUTIONS RECEIVABLE

Contributions receivable to the Foundation are expected to be collected as follows in each of the fiscal years ending December 31:

2018	$ 2,724,116
2019	2,314,610
2020	512,110
Thereafter	12,109
	5,562,945
Allowance for uncollectible contributions	(2,000)
Discount to net present value	(25,233)
	$ 5,535,712

Contributions receivable are reflected at the present value of future cash flows using discount rates ranging from 1.76% to 2.20% for 2017 and ranging from 0.85% to 1.93% for 2016.

3. CONSERVATION LOAN RECEIVABLE – PROGRAMMATIC INVESTMENTS

The Foundation has one conservation loan receivable agreement at December 31, 2017. As of December 31, 2017, conservation loan receivable –programmatic investments is $670,000.

The loan agreement was entered into as of March 31, 2017, with a non-related party, with an initial face value of $670,000, to be used to fund the acquisition of a certain tract of land in connection with the permanent conservation of a national significant coastal ecosystem. The conservation loan receivable bears a 0% interest and matures on March 22, 2019. However, the borrower may prepay the principal balance of the loan in whole or in part without penalty. The loan payment is secured by the lien and security interest on the property. The entire loan balance was paid subsequent to year-end on March 20, 2018.

For the year ended December 31, 2017, total imputed interest was $26,800 and is recorded as investment income in the accompanying statement of activities and changes in net assets. The imputed interest rate was 4%.

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The following table summarizes the carrying amounts and estimated fair values by level, within the fair value hierarchy, of the Foundation's financial instruments measured at fair value in the statement of financial position as of December 31, 2017:

	Carrying Amount	Measured at Fair Value	Level 1	Level 2	Level 3
Investments:					
Cash & cash equivalents	$ 1,054,350	$ 1,054,350	$ 1,054,350	$ -	$ -
Fixed income securities:					
U.S. ETF	2,846,587	2,846,587	2,846,587	-	-
Equity securities:					
International ETF	6,311,163	6,311,163	6,311,163	-	-
U.S. ETF	9,496,947	9,496,947	9,496,947	-	-
Total investments in hierarchy	19,709,047	19,709,047	$ 19,709,047	$ -	$ -
U.S. Govt. Agencies (a)	4,497,527	4,497,527			
U.S. Corporate Bonds (a)	2,112,082	2,112,082			
Emerging Markets Common Stock (a)	1,507,663	1,507,663			
Equities - U.S. Common Stock (a)	1,194,613	1,194,613			
Real estate (a)	867,101	867,101			
Commodities (a)	1,459,517	1,459,517			
Total investments	$ 31,347,550	$ 31,347,550			

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

(a) These investments are valued using NAV as a practical expedient, and therefore have not been classified in the fair value hierarchy.

The following table summarizes the carrying amounts and estimated fair values by level, within the fair value hierarchy, of the Foundation's financial instruments measured at fair value in the statement of financial position as of December 31, 2016:

	Carrying Amount	Measured at Fair Value	Level 1	Level 2	Level 3
Investments:					
Cash and cash equivalents	$ 1,199,944	$ 1,199,944	$ 1,199,944	$ -	$ -
Fixed income securities:					
Short/intermediate term	5,446,482	5,446,482	-	5,446,482	-
Non-Invst Grd U.S. - High Yield	751,182	751,182	270,426	480,756	-
International	612,939	612,939	612,939	-	-
Equity securities:					
Domestic large cap	8,229,277	8,229,277	8,229,277	-	-
Domestic small/midcap	3,164,365	3,164,365	3,164,365	-	-
International - developed	1,913,945	1,913,945	1,913,945	-	-
International – emerging	640,343	640,343	640,343	-	-
Total investments	$ 21,958,477	$ 21,958,477	$ 16,031,239	$ 5,927,238	$ -

The following summarizes net investment income for the years ended December 31:

	2017	2016
Interest and dividend income (includes imputed interest)	$ 733,617	$ 446,202
Net realized & unrealized gain (loss) on investments	2,875,307	1,233,345
Investment fees and expenses	(86,642)	(60,386)
Net investment income (loss)	$ 3,522,282	$ 1,619,161

The following is a description of the valuation methodologies used to measure and disclose fair value of assets. There have been no changes in the methodologies used as of December 31, 2017:

Cash and cash equivalents are reflected in the accompanying financial statements at amounts which approximate fair value, primarily because of the short-term maturity of those instruments.

Fixed income securities are comprised of U.S. government debt, corporate bonds, and shares of exchange traded funds. The value of these securities is based on quoted market prices for the same or similar issues or by reference to published yield curves for debt of the same or similar remaining maturities.

Equity securities are comprised of stock ownership in publically traded companies or shares in exchange traded funds. The value of these securities is based on quoted market prices using pricing information from various sources including pricing vendors, investment managers, and market conditions.

The methods described above could produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

5. ASSETS HELD FOR OTHERS

The following table summarizes the carrying amounts and estimated fair values by level, within the fair value hierarchy, of assets held for others measured at fair value in the statement of financial position as of December 31, 2017:

	Carrying Amount	Measured at Fair Value	Level 1	Level 2	Level 3
Investments:					
Cash and cash equivalents	$ 37,743	$ 37,743	$ 37,743	$ -	$ -
Fixed income securities:					
U.S. ETF	23,326	23,326	23,326	-	-
Equity securities:					
International ETF	79,032	79,032	79,032	-	-
U.S. ETF	117,614	117,614	117,614	-	-
Total investments	257,715	257,715	$ 257,715	$ -	$ -
Equities – U.S. Common Stock (a)	14,921	14,921			
U.S. Government Agencies (a)	41,073	41,073			
U.S. Corporate Bonds (a)	25,029	25,029			
Emerging Mkts. Common Stock (a)	18,258	18,258			
Real estate (a)	10,906	10,906			
Commodities (a)	18,092	18,092			
Total investments	$ 385,994	$ 385,994			

(a) These investments are valued using NAV as a practical expedient, and therefore have not been classified in the fair value hierarchy.

The following table summarizes the carrying amounts and estimated fair values by level, within the fair value hierarchy, of assets held for others measured at fair value in the statement of financial position as of December 31, 2016:

	Carrying Amount	Measured at Fair Value	Level 1	Level 2	Level 3
Investments:					
Cash and cash equivalents	$ 192,938	$ 192,938	$ 192,938	$ -	$ -
Fixed income securities:					
Short/intermediate term	77,566	77,566	-	77,566	-
Non-Invst Grd U.S. - High Yield	10,698	10,698	3,851	6,847	-
International	8,729	8,729	8,729	-	-
Equity securities:					
Domestic large cap	117,198	117,198	117,198	-	-
Domestic small/midcap	45,065	45,065	45,065	-	-
International - developed	27,258	27,258	27,258	-	-
International – emerging	9,119	9,119	9,119	-	-
Total investments	$ 488,571	$ 488,571	$ 404,158	$ 84,413	$ -

See note 4 for a description of the valuation methodologies used to measure and disclose fair value of assets.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	Estimated Useful Life	2017	2016
Land and building	15 years	$ 7,123,378	$ 6,189,507
Furniture and equipment	5-12 years	41,918	41,918
Vehicle	5 years	91,519	33,681
Computer and software	3-7 years	43,112	22,895
		$ 7,299,927	$ 6,288,001

Depreciation expense was $89,014 and $45,772 for the years ended December 31, 2017, and 2016, respectively.

7. CONSERVATION LOANS PAYABLE

Conservation loan program was established to provide cost-effective interim financing for land conservation projects that will be awarded grants from Deepwater Horizon-related fund source. All loan agreements have a 0% interest rate and at any time, the Foundation may prepay the principal balance of the loan in whole or in part without penalty. There is no collateral on these loans unless otherwise noted below.

	Principal	Interest
On March 30, 2017, the Foundation secured a $670,000 loan agreement with 0% interest from Lyda Hill Holdings, Inc. to support Foundation Gulf Coast Conservation Revolving Loan Fund. The loan will provide interim financing to The Trust for Public Land (TPL) for its acquisition of a certain tract of land. The loan will be repaid through a grant to TPL from one of the funding agencies responsible for disbursing the Deepwater Horizon-related settlement funds. The loan is secured by the lien on the property. The outstanding balance at December 31, 2017	$ 638,036	$ 31,964
On June 5, 2017, the Foundation secured a $250,000 loan with 0% interest from Still Water Foundation to be repaid in full in June 4, 2019. The outstanding balance at December 31, 2017	236,532	13,468
On June 5, 2017, the Foundation secured a $200,000 loan with 0% interest from Shield-Ayers Foundation to be repaid in full on June 4, 2019. The outstanding balance at December 31, 2017	189,226	10,774
On December 1, 2017, the Foundation secured a $50,000 loan with 0% interest from Ippolito Charitable Foundation of Galveston to be repaid in full on November 30, 2020. The outstanding balance at December 31, 2017	44,598	5,402
On December 27, 2017, the Foundation secured a $150,000 loan with 0% interest from Cynthia and George Mitchell Foundation to be repaid in full in November 30, 2020. The outstanding balance at December 31, 2017	150,000	-
	$ 1,258,392	$ 61,608

In the accompanying statements of financial position, the principal due at December 31, 2017 is reduced by the net unamortized portion of the imputed interest.

For the year ended December 31, 2017, total interest of $28,440 was recognized as contribution revenue.

7. CONSERVATION LOANS PAYABLE (Continued)

Maturities of conservation loans payable are as follows December 31:

2018	$	670,000
2019		450,000
2020		200,000
		1,320,000
Less: Unamortized interest to be recorded as contribution revenue in future years		(61,608)
	$	1,258,392

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of funds which are available to support the following purposes at December 31:

	2017	2016
Powderhorn Ranch Long-term Habitat Management	$ 3,850,000	$ 3,850,000
Sea Center Texas	400,000	400,000
Marine Development Center	200,000	200,000
Perry R. Bass Marine Fisheries	200,000	200,000
Hollingsworth	100,000	100,000
Wildwood Tonyard Creek	107,533	-
Houston Conroe	37,500	-
	$ 4,895,033	$ 4,750,000

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of funds which are available to support the following purposes at December 31:

	2017	2016
Chairman Emeritus	$ 13,716,434	$ 13,406,717
Earnings on Donor Restricted Endowments	1,893,380	1,070,964
Parrie Haynes Ranch Mitigation	1,855,643	1,727,895
Texas Game Wardens	1,465,726	1,750,092
Powderhorn Ranch	1,207,096	2,348,954
Cedar Bayou	1,167,734	1,051,803
Cox Chairman Fund	906,969	906,969
Devils River Project	888,338	888,181
Other Temporarily Restricted Funds	824,394	363,875
Wildlife Management Areas	500,000	-
Restoration of Natural Resources	376,362	-
Rylander Estate	250,000	250,000
Monahans Sandhills State Park	240,855	240,855
Artificial Reef	23,187	373,202
Species Conservation	9,424	28,412
	$ 25,325,540	$ 24,407,919

10. BOARD DESIGNATED QUASI ENDOWMENT FUNDS (UNRESTRICTED)

Board designated quasi-endowment funds consist of funds which are available to support the following purposes at December 31:

	2017	2016
Mason Mountain – Wildlife Management Area support	$ 1,469,386	$ 1,303,001
Texas Freshwater Fisheries	833,222	743,219
	$ 2,302,608	$ 2,046,220

11. NET ASSETS RELEASED FROM RESTRICTIONS

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors are as follows for the years ended December 31:

	2017	2016
Purpose Restrictions Satisfied:		
Texas Game Wardens	$ 3,643,036	$ 140,084
Powderhorn Ranch	1,854,039	9,958,934
Sartwelle Property	876,516	-
Chairman Emeritus	600,120	-
Fin and Fur	411,217	-
Disaster Relief	392,630	14,810
Artificial Reef	350,015	591,798
Matagorda Bay	347,718	-
Texas State Parks & WMA’s	272,811	130,288
Monarch	224,535	119,553
Sea Center of Texas	103,542	72,101
Parrie Haynes Ranch	97,058	63,844
River Conservation	76,073	3,927
Scholarships & Internships	75,064	100,495
Follets Island	75,000	-
Other Purpose Restrictions Satisfied	312,644	759,015
	$ 9,712,017	$ 11,954,849

12. ENDOWMENTS

The Foundation’s endowments consist of ten individual endowment funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments are classified and reported based on the existence or absence of donor-imposed restrictions. Unrestricted endowment funds represent Board designated endowments.

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted UPMIFA, as adopted by the state of Texas as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor imposed stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

(1) The duration and preservation of the fund,
(2) The purposes of the Foundation and the donor restricted endowment fund,
(3) General economic conditions,
(4) The possible effect of inflation and deflation,
(5) The expected total return from income and the appreciation of investments,
(6) Other resources of the Foundation, and
(7) The investment policies of the Foundation.

12. ENDOWMENTS (Continued)

Interpretation of Relevant Law (Continued)

As a result of the inability to distribute corpus, the Board of Trustees has determined that all endowment contributions received should be recorded as permanently restricted contributions.

Endowment Net Asset Composition by Type of Fund as of December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-restricted endowment funds	$ 2,302,608	$ -	$ -	$ 2,302,608
Donor-designated endowment funds	-	1,893,380	4,895,033	6,788,413
Total funds	$ 2,302,608	$ 1,893,380	$ 4,895,033	$ 9,091,021

Changes in Endowment Net Assets for the year ended December 31, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 2,046,220	$ 1,070,964	$ 4,750,000	$ 7,867,184
Investment return:				
Investment income	48,235	140,670	-	188,905
Net appreciation (depreciation) (unrealized and realized)	241,243	717,663	-	958,906
Total investments return	289,478	858,333	-	1,147,811
Contributions	-	-	145,033	145,033
Administrative fees	(22,055)	(18,065)	-	(40,120)
Appropriation of endowment assets spent due to purpose restriction	(11,035)	(17,852)	-	(28,887)
Endowment net assets, end of year	$ 2,302,608	$ 1,893,380	$ 4,895,033	$ 9,091,021

Endowment Net Asset Composition by Type of Fund as of December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-restricted endowment funds	$ 2,046,220	$ -	$ -	$ 2,046,220
Donor-designated endowment funds	-	1,070,964	4,750,000	5,820,964
Total funds	$ 2,046,220	$ 1,070,964	$ 4,750,000	$ 7,867,184

Changes in Endowment Net Assets for the year ended December 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,985,844	$ 695,122	$ 1,322,238	$ 4,003,204
Investment return:				
Investment income	42,997	110,978	-	153,975
Net appreciation (depreciation) (unrealized and realized)	46,396	272,282	-	318,678
Total investments return	89,393	383,260	-	472,653
Contributions	-	-	3,427,762	3,427,762
Appropriation of endowment assets spent due to purpose restriction	(29,017)	(7,418)	-	(36,435)
Endowment net assets, end of year	$ 2,046,220	$ 1,070,964	$ 4,750,000	$ 7,867,184

12. ENDOWMENTS (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor under UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies of this nature at December 31, 2017 and 2016.

Return Objective and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to operations, programs and other specified purposes supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowments include those assets of donor restricted funds that the Foundation must hold in perpetuity or for donor specified periods as well as board designated funds.

Strategies Employed for Achieving Objectives

The Foundation's investment policies for endowment assets attempt to provide a predictable stream of income sufficient to support donor objectives and to preserve or increase the purchasing power of the assets supported by its endowments. The investment policy establishes an achievable return objective through diversification of asset classes. As identified in the investment policy, the investment committee will maintain reasonable diversification at all times within both equity and fixed income securities so as to provide for the investment objectives while avoiding undue risk concentration in any single asset class or investment category.

While there are no assurances that these objectives will be realized, guidelines for Endowment investments were developed using estimates of future gifts and expenditures by the Endowment and on projected investment returns by asset class. Endowment objectives were based on a ten-year investment horizon, so interim fluctuations should be viewed with appropriate perspective.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The spending policy calculates the amount of money that can be annually distributed from the various endowment funds. The current spending policy is generally to distribute 4% of the average market value over the previous 12 quarters. No distributions shall be made from any permanently restricted endowment investments if the distribution will reduce corpus.

13. CONCENTRATIONS, COMMITMENTS AND CONTINGENCIES

Eighty-one percent of the total pledges receivable in 2017 is due from one donor and seventy-six percent of the total pledges receivable in 2016 is due from one donor. Two donors represent approximately fifty-one percent of the total contributions received in 2017. One donor represents approximately seventy percent of the total contributions received in 2016. Seventy-seven percent of the total accounts payable in 2017 is due to two vendors at 2017. Twenty-two percent of the total accounts payable in 2016 is due to one vendor at 2016.

14. RELATED PARTY TRANSACTIONS

The Foundation has received contributions of approximately $227,185 in 2017 from members of the Board of Trustees and $86,400 in 2016 from members of the Board of Trustees.

The Foundation distributed grants, gifts of land, fixed assets and sponsored projects to the Department in the amount of approximately $5,067,187 and $2,934,000 for the years ended December 31, 2017 and 2016, respectively.

15. SIMPLE IRA PLAN

The Foundation sponsors a simple IRA plan. Employees may contribute up to $12,000 of their annual earnings to the plan; employees aged 50 or older may contribute an additional $2,500. The Foundation matches 3% of employee compensation for each participant. Participants are immediately 100% vested in employer contributions. Foundation contributions to the plan were $20,108 and $21,298 for the year ended December 31, 2017 and 2016, respectively.

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 26, 2018, the date the financial statements were available to be issued.