Katy Prairie Conservancy

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2020 and 2019

Katy Prairie Conservancy

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Independent Auditors' Report

To the Board of Directors of
Katy Prairie Conservancy:

We have audited the accompanying financial statements of Katy Prairie Conservancy, which comprise the statements of financial position as of December 31, 2020 and 2019 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Katy Prairie Conservancy as of December 31, 2020 and 2019 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.

Blazek & Vetterling

July 16, 2021

Katy Prairie Conservancy

Statements of Financial Position as of December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash	$ 2,511,923	$ 2,677,696
Stream mitigation and other receivables	661,984	9,751
Contributions receivable *(Note 3)*	144,724	209,785
Property, net *(Note 5)*	31,023,250	31,112,876
Investments *(Note 4)*	1,520,683	874,709
TOTAL ASSETS	$ 35,862,564	$ 34,884,817
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 130,942	$ 101,306
Accrued interest expense	139,575	141,421
Paycheck Protection Program – refundable advance *(Note 2)*	93,083	
Note payable *(Note 6)*	8,034,048	8,081,162
Total liabilities	8,397,648	8,323,889
Commitments *(Note 11)*		
Net assets:		
Without donor restrictions *(Note 7)*	17,922,694	17,285,974
With donor restrictions *(Notes 8 and 9)*	9,542,222	9,274,954
Total net assets	27,464,916	26,560,928
TOTAL LIABILITIES AND NET ASSETS	$ 35,862,564	$ 34,884,817

See accompanying notes to financial statements.

Katy Prairie Conservancy

Statement of Activities for the year ended December 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Public support:			
Contributions	$ 599,911	$ 820,348	$ 1,420,259
Contributed conservation easements	2,321,345		2,321,345
Contributions – special events	168,911		168,911
Cattle sales and other ranch income	300,244		300,244
Lease and other income	271,945		271,945
Stream mitigation	711,088		711,088
Net investment return	16,117	97,241	113,358
Total revenue	4,389,561	917,589	5,307,150
Net assets released from restrictions:			
Program expenditures	609,725	(609,725)	
Land acquisition	1,500	(1,500)	
Satisfaction of time restriction	100,000	(100,000)	
Long-term management fund transfer	(60,904)	60,904	
Total	5,039,882	267,268	5,307,150
EXPENSES:			
Program services:			
Land conservation	2,939,982		2,939,982
Land stewardship	521,616		521,616
Ranch programs	310,993		310,993
Public outreach	268,736		268,736
Total program services	4,041,327		4,041,327
Supporting services:			
Management and general	239,165		239,165
Fundraising	122,670		122,670
Total expenses	4,403,162		4,403,162
CHANGES IN NET ASSETS	636,720	267,268	903,988
Net assets, beginning of year	17,285,974	9,274,954	26,560,928
Net assets, end of year	$ 17,922,694	$ 9,542,222	$ 27,464,916

See accompanying notes to financial statements.

Katy Prairie Conservancy

Statement of Activities for the year ended December 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Public support:			
Contributions	$ 342,171	$ 602,675	$ 944,846
Contributed conservation easements	2,687,705		2,687,705
Special events	287,014		287,014
Direct donor benefit costs	(30,300)		(30,300)
Pipeline easement revenue	389,800		389,800
Cattle sales and other ranch income	378,644		378,644
Lease and other income	240,634		240,634
Net investment return	35,526	129,724	165,250
Total revenue	4,331,194	732,399	5,063,593
Net assets released from restrictions:			
Redesignation of donor restrictions	326,612	(326,612)	
Program expenditures	389,882	(389,882)	
Land acquisition	62,174	(62,174)	
Satisfaction of time restriction	100,000	(100,000)	
Total	5,209,862	(146,269)	5,063,593
EXPENSES:			
Program services:			
Land conservation	3,392,815		3,392,815
Land stewardship	432,145		432,145
Ranch programs	282,659		282,659
Public outreach	165,795		165,795
Total program services	4,273,414		4,273,414
Supporting services:			
Management and general	218,241		218,241
Fundraising	98,598		98,598
Total expenses	4,590,253		4,590,253
CHANGES IN NET ASSETS	619,609	(146,269)	473,340
Net assets, beginning of year	16,666,365	9,421,223	26,087,588
Net assets, end of year	$ 17,285,974	$ 9,274,954	$ 26,560,928

See accompanying notes to financial statements.

Katy Prairie Conservancy

Statement of Functional Expenses for the year ended December 31, 2020

	LAND CONSERVATION	LAND STEWARDSHIP	RANCH PROGRAMS	PUBLIC OUTREACH	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related expenses	$ 88,059	$ 148,585	$ 66,473	$ 185,885	$ 489,002	$ 100,937	$ 83,459	$ 673,398
Land easements purchased and donated	2,321,345				2,321,345			2,321,345
Professional fees	250,665	35,629	36,300	45,828	368,422	93,639	14,625	476,686
Interest	240,588				240,588			240,588
Contract restoration		163,532			163,532			163,532
Depreciation		92,259	52,433		144,692	6,296		150,988
Supplies, materials, and postage	753	17,933	65,243	2,226	86,155	2,591	2,477	91,223
Office space	9,744	15,591		20,137	45,472	11,044	8,445	64,961
Equipment repair and maintenance	200	8,211	30,083		38,494	14,799	4,240	57,533
Insurance	5,839	8,652	9,330	9,010	32,831	4,931	3,778	41,540
Property taxes		18,433	13,582	316	32,331			32,331
Permits and fees	13,765	589	9,633	391	24,378	3,003	3,841	31,222
Utilities	1,279	10,830	5,522	4,479	22,110	1,450	1,109	24,669
Contracted services			16,816	168	16,984			16,984
Travel and meetings	5,493	1,372	4,798	206	11,869	311		12,180
Other	2,252		780	90	3,122	164	696	3,982
Total expenses	$ 2,939,982	$ 521,616	$ 310,993	$ 268,736	$ 4,041,327	$ 239,165	$ 122,670	$ 4,403,162

See accompanying notes to financial statements.

Katy Prairie Conservancy

Statement of Functional Expenses for the year ended December 31, 2019

	LAND CONSERVATION	LAND STEWARDSHIP	RANCH PROGRAMS	PUBLIC OUTREACH	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related expenses	$ 111,725	$ 176,461	$ 14,046	$ 114,234	$ 416,466	$ 92,169	$ 66,911	$ 575,546
Land easements purchased and donated	2,690,541				2,690,541			2,690,541
Professional fees	269,325	13,803	38,349	7,246	328,723	86,791	6,705	422,219
Interest	257,367				257,367			257,367
Contract restoration	659	11,052			11,711			11,711
Depreciation		92,262	58,802		151,064	5,980		157,044
Supplies, materials, and postage	1,538	8,024	46,895	12,615	69,072	4,126	6,574	79,772
Office space	13,242	20,525	6,038	13,904	53,709	10,594	7,945	72,248
Equipment repair and maintenance	438	3,700	23,411		27,549	10,525	3,376	41,450
Insurance	4,473	6,934	12,289	4,697	28,393	3,579	2,684	34,656
Property taxes		23,015	10,875		33,890			33,890
Permits and fees	10,707	2,242	7,516	542	21,007	606	1,321	22,934
Utilities	2,260	10,479		3,469	16,208	1,808	1,357	19,373
Contracted services	10,000	61,200	58,002	2,518	131,720		1,251	132,971
Travel and meetings	12,540	2,448	4,725	6,195	25,908	1,973		27,881
Other	8,000		1,711	375	10,086	90	474	10,650
Total expenses	$ 3,392,815	$ 432,145	$ 282,659	$ 165,795	$ 4,273,414	$ 218,241	$ 98,598	$ 4,590,253

See accompanying notes to financial statements.

Katy Prairie Conservancy

Statements of Cash Flows for the years ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 903,988	$ 473,340
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for land acquisition	(51,500)	
Contributions restricted for endowment	(250,000)	
Depreciation	150,988	157,044
Gain on sale or disposal of property	4,479	(9,587)
Change in interest of pooled investments	(97,241)	(129,724)
Net realized and unrealized gain on investments	(18,191)	(32,705)
Changes in operating assets and liabilities:		
Receivables and other assets	(652,233)	(4,262)
Contributions receivable (other than for land acquisition)	65,061	19,149
Accounts payable and accrued expenses	29,636	(24,069)
Accrued interest expense	(1,846)	13,842
Refundable advance	93,083	
Net cash provided by operating activities	176,224	463,028
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land and improvements	(38,500)	(57,899)
Purchases of cattle and equipment	(51,257)	(39,739)
Purchases of investments	(310,903)	
Proceeds from sale of land	51,500	
Proceeds from sale of cattle and equipment	23,916	61,546
Net change in money market mutual funds held as investments	(219,639)	(2,786)
Net cash used by investing activities	(544,883)	(38,878)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of note payable	(47,114)	
Proceeds from contributions restricted for endowment	250,000	
Net cash provided by financing activities	202,886	
NET CHANGE IN CASH	(165,773)	424,150
Cash, beginning of year	2,677,696	2,253,546
Cash, end of year	$ 2,511,923	$ 2,677,696

Supplemental disclosure of cash flow information:

Interest paid	$244,283	$243,524

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Katy Prairie Conservancy (the Conservancy) is a Texas nonprofit corporation established to protect and enhance critical and sustainable portions of the Katy Prairie and coastal prairie ecosystems. The Katy 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 Katy 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 contributions revenue. An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full.

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, 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 accounts receivable. Costs incurred related to revenue not yet recognized result in a contract asset. Payments collected but not yet recognized as revenue result in a contract liability and are reported as deferred fees. There are no contract assets or liabilities related to these transactions.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from a 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, 2020, approximately 34% of contributions are from three donors. At December 31, 2019, approximately 50% of contributions are from two donors.

Non-cash 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.

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.

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.

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 – 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:

	2020	2019
Financial assets:		
Cash	$ 2,511,923	$ 2,677,696
Stream mitigation and other receivables	651,014	3,635
Contributions receivable	144,724	209,785
Investments	1,520,683	874,709
Total financial assets	4,828,344	3,765,825
Less financial assets not available for general expenditure:		
Endowment investments	(1,082,285)	(674,140)
Other donor-restricted assets subject to satisfaction of restriction and passage of time	(298,587)	(953,657)
Board-designated for conservation easement – stewardship and defense	(307,273)	(233,293)
Total financial assets available for general expenditure	$ 3,140,199	$ 1,904,735

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.

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and on March 13, 2020, a national emergency was declared in the United States. The extent of the impact of COVID-19 on the Conservancy's operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on donors, employees, and vendors all of which are uncertain and cannot be predicted. While the Conservancy expects this event to potentially impact operating results, any negative financial impact cannot be reasonably estimated at this time.

The Conservancy received a Paycheck Protection Program (PPP) loan of approximately $93,000 in April 2020 through the Small Business Administration. At December 31, 2020, the PPP loan is reported as a conditional contribution or a refundable advance. The Conservancy received notice of forgiveness in 2021 and will recognize these proceeds as a government grant contribution in fiscal year 2021. In February 2021, the Conservancy was approved for a second PPP loan of approximately $101,000. Management expects the loan to be forgiven as the funds are used for payment of eligible costs. Any amounts not forgiven bear interest at 1% and are due in 2026.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

At December 31, 2020, all contributions receivable are due to be collected within one year. At December 31, 2020, 75% of contributions receivable are from three donors. At December 31, 2019, 67% of contributions receivable are from two donors.

At December 31, 2020, approximately $1,162,000 in conditional government grant awards for land acquisition and conservation have not been recognized as the conditions have not been met.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments at December 31 consist of the following:

	2020	2019
Endowments	$ 1,082,285	$ 674,140
Board-designated for conservation easement – stewardship	307,273	135,569
Donor-restricted for conservation easement – stewardship	131,125	65,000
Total investments	$ 1,520,683	$ 874,709

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 types of investments in Level 3 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, 2020 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Interest in CNLM investments			$ 1,082,285	$ 1,082,285
Money market mutual funds	$ 223,106			223,106
Large cap exchanged-traded funds	145,282			145,282
Common stock	70,010			70,010
Total assets measured at fair value	$ 438,398	$ 0	$ 1,082,285	$ 1,520,683

Assets measured at fair value at December 31, 2019 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Interest in CNLM investments			$ 674,140	$ 674,140
Money market mutual funds	$ 3,469			3,469
Large cap exchanged-traded funds	134,813			134,813
Common stock	62,287			62,287
Total assets measured at fair value	$ 200,569	$ 0	$ 674,140	$ 874,709

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, 2019	$ 544,416
Change in interest of pooled investments	129,724
Balance at December 31, 2019	674,140
Purchases	310,904
Change in interest of pooled investments	97,241
Balance at December 31, 2020	$ 1,082,285

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 5 – PROPERTY

Property consists of the following:

	2020	2019
Land, undivided interest in Warren Ranch	$ 12,461,189	$ 12,461,189
Land	17,547,820	17,547,820
Land improvements	1,633,150	1,590,956
Construction in progress – land improvements	135,659	135,659
Cattle and equipment	398,341	413,615
Total	32,176,159	32,149,239
Accumulated depreciation	(1,152,909)	(1,036,363)
Property, net	$ 31,023,250	$ 31,112,876

Approximately 24,448 acres of land are protected by the Katy Prairie Conservancy through fee acquisition, conservation easements, or public ownership. The Conservancy owns approximately 13,430 acres with the remaining acreage protected through conservation easements. Approximately 6,000 acres of the Conservancy's land are owned as a 71.23346% undivided interest in a working cattle ranch.

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 grant if the amount is not reinvested in similar conservation land. The Conservancy's total land purchases with federal funds are reflected as perpetually-restricted net assets totaling $7,176,143 at both December 31, 2020 and 2019.

NOTE 6 – NOTE PAYABLE

The Conservancy has a note payable agreement with a private foundation collateralized by land with annual interest (3%) 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 the $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, 2020 and 2019 is $8,034,048 and $8,081,162, respectively.

No principal payments are due in the next five years. Interest expense in 2020 and 2019 was $240,588 and $257,367, respectively.

NOTE 7 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	2020	2019
Undesignated	$ 1,802,156	$ 1,197,110
Property, net of note payable and perpetually-restricted land	15,813,265	15,855,571
Board-designated for conservation easement – stewardship and defense	307,273	233,293
Total net assets without donor restrictions	$ 17,922,694	$ 17,285,974

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 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	2020	2019
Subject to expenditure for specified purpose:		
Land acquisition	$ 735,301	$ 685,301
Land restoration	268,617	164,874
Public outreach and education	76,999	257,619
Research and planning	60,752	85,752
Easement stewardship	131,125	131,125
Total subject to expenditure for specified purpose	1,272,794	1,324,671
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	11,000	100,000
Endowment subject to spending policy and appropriation:		
Stream mitigation long-term management	1,082,285	674,140
Land purchased with federal funds which require permanent easement	7,176,143	7,176,143
Total net assets with donor restrictions	$ 9,542,222	$ 9,274,954

NOTE 9 – ENDOWMENT FUNDS

The Conservancy entered into an agreement with the CNLM to establish an endowment for funding the perpetual management and stewardship of Phase I of its stream mitigation bank, as well as 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 the CNLM are in pooled accounts and are invested for the benefit of the Conservancy at December 31, 2020.

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, 2018	$ 90,847	$ 453,569	$ 544,416
Change in interest in pooled investments	129,724		129,724
Endowment net assets, December 31, 2019	220,571	453,569	674,140
Contributions		250,000	250,000
Change in interest in pooled investments	97,241		97,241
Transfer from operations *(Note 10)*		60,904	60,904
Endowment net assets, December 31, 2020	$ 317,812	$ 764,473	$ 1,082,285

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 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 10 – STREAM MITIGATION TRANSACTIONS

The Conservancy has entered into a joint venture partnership to create a 500-acre stream mitigation umbrella bank on the 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 (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 KPC.

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.

Under the agreement there are four remaining phases; each phase requiring a final property analysis record and a Management and Funding Agreement approved before being funded. In addition, under the agreement, the Conservancy would be required to fund approximately 20% of future funding agreements.

As of December 31, 2020, the joint venture partner paid approximately $250,000 to the perpetually-restricted Stewardship Endowment Fund in connection with sections F1, F2, and G of the stream mitigation project. The Conservancy was required to fund $60,904 to the perpetually-restricted Stewardship Endowment Fund. These three phases are expected to be fully funded by December 15, 2021. No amounts related to the last phase have been funded by either party as of December 31, 2020.

NOTE 11 – COMMITMENTS

Leases

The Conservancy leases office space under an operating lease. Future minimum commitments under the lease are as follows:

2021	$ 41,021
2022	42,101
Total	$ 83,122

Lease expense was approximately $65,000 and $66,200 in 2020 and 2019, respectively.

Easements

As of December 31, 2020, the Conservancy holds sixteen conservation easements covering approximately 11,018 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.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 16, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than the ongoing pandemic described in Note 2, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.