Bayou Preservation Association, Inc.

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

Independent Auditors' Report

To the Board of Directors of
Bayou Preservation Association, Inc.:

We have audited the accompanying financial statements of Bayou Preservation Association, Inc., which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and of cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit 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 Bayou Preservation Association, Inc. as of December 31, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Financial Statements for the Year Ended December 31, 2016

The financial statements for the year ended December 31, 2016 were reviewed by us, and our report thereon, dated June 26, 2017, stated that we were not aware of any material modifications that should be made to the financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

Blazek & Vetterling

July 10, 2018

Bayou Preservation Association, Inc.

Statements of Financial Position as of December 31, 2017 and 2016

	AUDITED 2017	REVIEWED 2016
ASSETS		
Cash	$ 232,170	$ 109,740
Pledges receivable	10,000	
Accounts receivable and other assets	7,981	21,526
Endowment investments *(Notes 2 and 3)*	255,685	235,750
Property, net *(Note 4)*	19,415	1,451
TOTAL ASSETS	$ 525,251	$ 368,467
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 10,401	$ 6,064
Net assets:		
Unrestricted	221,639	80,136
Temporarily restricted *(Notes 5 and 6)*	293,211	282,267
Total net assets	514,850	362,403
TOTAL LIABILITIES AND NET ASSETS	$ 525,251	$ 368,467

See accompanying notes to financial statements.

Bayou Preservation Association, Inc.

Statement of Activities for the year ended December 31, 2017 (Audited)

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions and grants	$ 282,612	$ 42,241	$ 324,853
Special events	207,379		207,379
Cost of donor benefits	(36,836)		(36,836)
Program fees	8,379		8,379
Investment return *(Note 2)*	10	19,935	19,945
Total revenue	461,544	62,176	523,720
Net assets released from restrictions:			
Expenditure for program purposes	51,232	(51,232)	
Total	512,776	10,944	523,720
EXPENSES:			
Preservation of bayous programs	200,625		200,625
Management and general	122,464		122,464
Fundraising	48,184		48,184
Total expenses	371,273		371,273
CHANGES IN NET ASSETS	141,503	10,944	152,447
Net assets, beginning of year	80,136	282,267	362,403
Net assets, end of year	$ 221,639	$ 293,211	$ 514,850

See accompanying notes to financial statements.

Bayou Preservation Association, Inc.

Statement of Activities for the year ended December 31, 2016 (Reviewed)

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions and grants	$ 179,538	$ 58,467	$ 238,005
Special events	261,379		261,379
Cost of donor benefits	(77,827)		(77,827)
Program fees	32,651		32,651
Investment return *(Note 2)*	581	15,206	15,787
Total revenue	396,322	73,673	469,995
Net assets released from restrictions:			
Expenditure for program purposes	100,101	(100,101)	
Total	496,423	(26,428)	469,995
EXPENSES:			
Preservation of bayous programs	369,341		369,341
Management and general	139,201		139,201
Fundraising	75,271		75,271
Total expenses	583,813		583,813
CHANGES IN NET ASSETS	(87,390)	(26,428)	(113,818)
Net assets, beginning of year	167,526	308,695	476,221
Net assets, end of year	$ 80,136	$ 282,267	$ 362,403

See accompanying notes to financial statements.

Bayou Preservation Association, Inc.

Statements of Cash Flows for the years ended December 31, 2017 and 2016

	AUDITED 2017	REVIEWED 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 152,447	$ (113,818)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	10,859	2,668
Donated property	(28,823)	
Net realized and unrealized gain on investments	(8,815)	(3,631)
Changes in operating assets and liabilities:		
Pledges receivable	(10,000)	6,000
Accounts receivable and other assets	13,545	4,428
Accounts payable and accrued expenses	4,337	(4,888)
Net cash provided (used) by operating activities	133,550	(109,241)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(150)	71,835
Sales of investments and certificate of deposit		15,600
Net change in cash and money market mutual funds	(10,970)	25,776
Purchases of property		(599)
Net cash provided (used) by investing activities	(11,120)	112,612
NET CHANGE IN CASH	122,430	3,371
Cash, beginning of year	109,740	106,369
Cash, end of year	$ 232,170	$ 109,740

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Bayou Preservation Association, Inc. (the Association) is a Texas nonprofit corporation founded in 1966 to inform the public about the environmental values of riparian lands along the bayous in Houston, Texas and surrounding areas. Its mission is to celebrate, protect, and restore the natural richness of all their bayous and streams.

Federal income tax status – The Association 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)(2).

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted, if material, to estimate the present value of future cash flows. At December 31, 2017, all pledges receivable are expected to be collected within one year.

Investments are reported at fair value. Investment return is reported in the statement of activities as a change in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as a change in temporarily restricted net assets.

Property is reported at cost if purchased or at fair value at the date of gift if donated. Additions valued at $1,000 or more are capitalized. Depreciation is provided using the straight-line method over estimated useful lives of 3 to 10 years.

Net asset classification – Contributions, investment return, and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions and investment return restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Contributions and grants are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted revenue. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Program fees from the Association's symposium event and paddle trails event are recognized as revenue when the event occurs.

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 reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncements – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The Association is required to adopt this ASU for fiscal year 2018. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2019. The Association is required to adopt this ASU for fiscal year 2020. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. The Association is required to adopt this ASU for fiscal year 2019 using an appropriate retrospective method. The Association has not yet determined the impact of adopting this ASU on its financial statements.

NOTE 2 – ENDOWMENT INVESTMENTS

Endowment investments consist of the following:

	2017	2016
Multi-asset mutual funds	$ 242,062	$ 233,097
Money market mutual funds	12,747	1,775
Cash	876	878
Total endowment investments	$ 255,685	$ 235,750

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.

Investment return includes earnings on cash and consists of the following:

	2017	2016
Interest and dividend income	$ 11,130	$ 12,156
Realized and unrealized gain on investments	8,815	3,631
Total investment return	$ 19,945	$ 15,787

NOTE 3 – FAIR VALUE MEASUREMENTS

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.

Assets measured at fair value at December 31, 2017 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Endowment investments:				
Multi-asset mutual funds	$ 242,062			$ 242,062
Money market mutual funds	12,747			12,747
Total assets measured at fair value	$ 254,809	$ 0	$ 0	$ 254,809

Assets measured at fair value at December 31, 2016 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Endowment investments:				
Multi-asset mutual funds	$ 233,097			$ 233,097
Money market mutual funds	1,775			1,775
Total assets measured at fair value	$ 234,872	$ 0	$ 0	$ 234,872

Mutual funds are valued at the reported net asset value. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 4 – PROPERTY

Property consists of the following:

	2017	2016
Furniture and equipment, at cost	$ 51,609	$ 22,786
Accumulated depreciation	(32,194)	(21,335)
Property, net	$ 19,415	$ 1,451

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Endowment and accumulated earnings	$ 255,685	$ 235,750
Various programs	37,526	46,517
Total temporarily restricted net assets	$ 293,211	$ 282,267

NOTE 6 – ENDOWMENT FUND

The Association has an endowment fund (the Endowment Fund), which is maintained in accordance with donor stipulations. The Endowment Fund is restricted for projects of the Association for the purposes of education, public relations, website, marketing, and the Symposium. Investment return and an amount equal to the greater of 10% of the original gift or $40,000 can be appropriated for expenditure annually by the affirmative vote of a majority of the members of the Board of Directors. An amount up to $100,000 annually may be appropriated for expenditure by the affirmative vote of two-thirds of the members of the Board of Directors for non-recurring individual projects for the specified purposes. Investment return not appropriated in the year earned may be appropriated in a subsequent year subject to the direction of the Board of Directors. The original value of gifts donated to the endowment is reported as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Directors.

Changes in endowment net assets are as follows:

	TEMPORARILY RESTRICTED
Endowment net assets, December 31, 2015	$ 273,495
Appropriation for expenditure	(52,951)
Investment return:	
Interest and dividends	11,575
Net realized and unrealized gain	3,631
Total investment return	15,206
Endowment net assets, December 31, 2016	235,750
Investment return:	
Interest and dividends	11,120
Net realized and unrealized gain	8,815
Total investment return	19,935
Endowment net assets, December 31, 2017	$ 255,685

Endowment assets are invested as disclosed in Note 3. The Association is in the process of establishing investment policies, including return objectives and risk parameters, how return objectives relate to the Association's endowment spending policies, and the strategies employed for achieving the return objectives.

NOTE 7 – LEASE COMMITMENTS

In May 2018, the Association entered into lease agreement to lease office space under operating leases. Future minimum commitments under these leases are as follows:

2018	$ 35,401
2019	41,015
2020	41,015
2021	41,015
2022	41,015
2023	20,508
Total	$ 219,969

Lease expense was approximately $38,900 and $37,400 in 2017 and 2016, respectively.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Association paid approximately $11,500 and $32,400 in 2017 and 2016, respectively, for technical professional services to a company whose vice president is a board member of the Association.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 10, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events, except as disclosed in Note 7, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.