

**Bayou Preservation Association, Inc.**

Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2018 and 2017

# Bayou Preservation Association, Inc.

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## 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 statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and of cash flows for the years then ended, the related statement of functional expenses for the year ended December 31, 2018, 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 Bayou Preservation Association, Inc. as of December 31, 2018 and 2017 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.

### **Adoption of New Accounting Standard**

As discussed in Note 2 to the financial statements, Bayou Preservation Association, Inc. adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended December 31, 2017 except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

*Blazek & Vetterling*

July 18, 2019

## Bayou Preservation Association, Inc.

Statements of Financial Position as of December 31, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 281,184	\$ 232,170
Contributions receivable		10,000
Prepaid and other assets	10,357	7,981
Endowment investments ( <i>Notes 4 and 5</i> )	246,658	255,685
Property, net ( <i>Note 6</i> )	<u>10,889</u>	<u>19,415</u>
TOTAL ASSETS	<u>\$ 549,088</u>	<u>\$ 525,251</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 5,503</u>	<u>\$ 10,401</u>
Net assets:		
Without donor restrictions	244,706	221,639
With donor restrictions ( <i>Notes 7 and 8</i> )	<u>298,879</u>	<u>293,211</u>
Total net assets	<u>543,585</u>	<u>514,850</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 549,088</u>	<u>\$ 525,251</u>

*See accompanying notes to financial statements.*

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## Bayou Preservation Association, Inc.

Statement of Activities for the year ended December 31, 2018

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions and grants	\$ 230,562	\$ 36,000	\$ 266,562
Special events	103,799		103,799
Direct donor benefit costs	(26,078)		(26,078)
Program fees	29,155		29,155
Net investment return	9	(9,027)	(9,018)
Total revenue	337,447	26,973	364,420
Net assets released from restrictions:			
Expenditure for program purposes	21,305	(21,305)	
Total	358,752	5,668	364,420
EXPENSES:			
Preservation of bayous programs	132,724		132,724
Management and general	144,945		144,945
Fundraising	58,016		58,016
Total expenses	335,685		335,685
CHANGES IN NET ASSETS	23,067	5,668	28,735
Net assets, beginning of year	221,639	293,211	514,850
Net assets, end of year	\$ 244,706	\$ 298,879	\$ 543,585

*See accompanying notes to financial statements.*

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## Bayou Preservation Association, Inc.

Statement of Activities for the year ended December 31, 2017

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions and grants	\$ 282,612	\$ 42,241	\$ 324,853
Special events	207,379		207,379
Direct donor benefit costs	(36,836)		(36,836)
Program fees	8,379		8,379
Net investment return	<u>10</u>	<u>19,935</u>	<u>19,945</u>
Total revenue	461,544	62,176	523,720
Net assets released from restrictions:			
Expenditure for program purposes	<u>51,232</u>	<u>(51,232)</u>	<u>          </u>
Total	<u>512,776</u>	<u>10,944</u>	<u>523,720</u>
EXPENSES:			
Preservation of bayous programs	200,625		200,625
Management and general	122,464		122,464
Fundraising	<u>48,184</u>		<u>48,184</u>
Total expenses	<u>371,273</u>		<u>371,273</u>
CHANGES IN NET ASSETS	141,503	10,944	152,447
Net assets, beginning of year ( <i>Note 2</i> )	<u>80,136</u>	<u>282,267</u>	<u>362,403</u>
Net assets, end of year	<u>\$ 221,639</u>	<u>\$ 293,211</u>	<u>\$ 514,850</u>

*See accompanying notes to financial statements.*

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## Bayou Preservation Association, Inc.

### Statement of Functional Expenses for the year ended December 31, 2018

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	PRESERVATION OF BAYOUS PROGRAMS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Payroll and related expenses	\$ 21,422	\$ 70,856	\$ 5,803	\$ 98,081
Professional fees	14,995	28,060	38,655	81,710
Contract labor	45,696	1,031		46,727
Occupancy	12,957	25,553	2,129	40,639
Office supplies and expenses	9,085	2,829	2,535	14,449
Travel	10,272	441		10,713
Depreciation	5,114	5,012		10,126
Communications	5,769	1,762	1,018	8,549
Printing and postage	236	934	6,301	7,471
Insurance	4,046	279		4,325
Dues and subscriptions	1,000	450	1,575	3,025
Other	<u>2,132</u>	<u>7,738</u>		<u>9,870</u>
Total expenses	<u>\$ 132,724</u>	<u>\$ 144,945</u>	<u>\$ 58,016</u>	335,685
Direct donor benefit costs				<u>26,078</u>
Total				<u>\$ 361,763</u>

*See accompanying notes to financial statements.*

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## Bayou Preservation Association, Inc.

### Statements of Cash Flows for the years ended December 31, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 28,735	\$ 152,447
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	10,126	10,859
Donated property		(28,823)
Net realized and unrealized (gain) loss on investments	20,554	(8,815)
Changes in operating assets and liabilities:		
Contributions receivable	10,000	(10,000)
Prepaid and other assets	(2,376)	13,545
Accounts payable and accrued expenses	<u>(4,898)</u>	<u>4,337</u>
Net cash provided by operating activities	<u>62,141</u>	<u>133,550</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments		(150)
Net change in cash and money market mutual funds	(11,527)	(10,970)
Purchases of property	<u>(1,600)</u>	<u>          </u>
Net cash used by investing activities	<u>(13,127)</u>	<u>(11,120)</u>
NET CHANGE IN CASH	49,014	122,430
Cash, beginning of year	<u>232,170</u>	<u>109,740</u>
Cash, end of year	<u>\$ 281,184</u>	<u>\$ 232,170</u>

*See accompanying notes to financial statements.*

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## Bayou Preservation Association, Inc.

Notes to Financial Statements for the years ended December 31, 2018 and 2017

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### 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 bayous and streams in the Bayou Preservation area.

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).

Cash – 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 more than one year are discounted, if material, to estimate the present value of future cash flows.

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. Investment return is reported in the statement of activities as an increase in *net assets without donor restrictions* unless the use of the income is limited by donor-imposed restrictions. Net investment return whose use is restricted by the donor is reported as a change in *net assets with donor restrictions* until expended in accordance with donor-imposed restrictions.

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 5 years.

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. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

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.

Special events revenue is recognized when the event occurs. Amounts received for future events are reported in the statement of financial position as deferred revenue. Direct donor benefits represent the cost of goods or services provided to attendees of special events.

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

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. 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 one or more program or supporting activities are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Occupancy costs are allocated based on estimated time and effort expended by the employees. Depreciation is allocated based on usage of related facilities.

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 June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. The Association is required to adopt this ASU in fiscal year 2019. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management does not expect adoption of the ASU to have a significant impact on 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.

## NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

The Association adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements for the year ended December 31, 2017, except that information regarding liquidity and availability of resources and presentation of expenses by both nature and function has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2018 presentation but had no impact on total net assets or total changes in net assets for 2017.

## NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 comprise the following:

Financial assets at December 31, 2018:	
Cash	\$ 281,184
Endowment investments	<u>246,658</u>
Total financial assets	527,842
Less financial assets not available for general expenditure:	
Endowment investments net of 2019 appropriation of \$16,300	<u>(230,358)</u>
Total financial assets available for general expenditure	<u>\$ 297,484</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Association considers all expenditures related to its ongoing activities of its preservation of bayous programs, as well as the conduct of services undertaken to support those activities, to be general expenditures. The Association expects to fund general expenditures in excess of financial assets available to meet cash needs with future contributions and program fees.

## NOTE 4 – ENDOWMENT INVESTMENTS

Endowment investments consist of the following:

	<u>2018</u>	<u>2017</u>
Multi-asset mutual funds	\$ 221,508	\$ 242,062
Money market mutual funds	24,154	12,747
Cash	<u>996</u>	<u>876</u>
Total endowment investments	<u>\$ 246,658</u>	<u>\$ 255,685</u>

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 – 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, 2018 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Endowment investments:				
Multi-asset mutual funds	\$ 221,508			\$ 221,508
Money market mutual funds	<u>24,154</u>			<u>24,154</u>
Total assets measured at fair value	<u>\$ 245,662</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 245,662</u>

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

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

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 6 – PROPERTY

Property consists of the following:

	<u>2018</u>	<u>2017</u>
Furniture and equipment, at cost	\$ 53,209	\$ 51,609
Accumulated depreciation	<u>(42,320)</u>	<u>(32,194)</u>
Property, net	<u>\$ 10,889</u>	<u>\$ 19,415</u>

## NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
Various programs	\$ 52,221	\$ 37,526
Endowment:		
Endowment and accumulated earnings	<u>246,658</u>	<u>255,685</u>
Total net assets with donor restrictions	<u>\$ 298,879</u>	<u>\$ 293,211</u>

## NOTE 8 – 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 discretion of the Board of Directors. The original value of gifts donated to the endowment is reported as *net assets with donor restrictions* subject to spending policy and appropriation until those amounts are appropriated for expenditure by the Board of Directors.

Changes in endowment net assets are as follows:

	<u>WITH DONOR RESTRICTIONS</u>
Endowment net assets, December 31, 2016	\$ 235,750
Net investment return	<u>19,935</u>
Endowment net assets, December 31, 2017	255,685
Net investment return	<u>(9,027)</u>
Endowment net assets, December 31, 2018	<u>\$ 246,658</u>

Endowment assets are invested as disclosed in Note 4. 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 9 – LEASE COMMITMENTS

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

2019	\$ 41,015
2020	41,015
2021	41,015
2022	41,015
2023	<u>20,508</u>
Total	<u>\$ 184,568</u>

Lease expense was approximately \$35,500 and \$38,900 in 2018 and 2017, respectively.

## NOTE 10 – RELATED PARTY TRANSACTIONS

The Association paid approximately \$11,500 in 2017 for technical professional services to a company whose vice president is a member of the Board of Directors of the Association. There was no such transaction in 2018.

## NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 18, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

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